



FINANCIAL REPORT 2013





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November 7, 2013

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 WWU 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 misstatement.

The Washington State Auditors' Office has issued an unqualified (clean) opinion on the Western Washington University financial statement for the year ended June 30, 2013. 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 statement. 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 2013 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

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OVERVIEW

The following discussion and analysis provides an overview of the financial position and activities of Western Washington University (WWU) for the years ended June 30, 2013 and 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section.

WWU is one of six public, four-year institutions of higher education in the state of Washington. WWU is governed by a Board of eight Trustees, which has broad responsibilities to supervise, coordinate, manage and regulate WWU as provided by State law. Trustees are appointed by the Governor for a term of six years, except a student Trustee who is appointed to a one-year term.

As a comprehensive regional university, WWU offers undergraduate and graduate degrees in over 160 academic programs in its eight colleges. WWU is the highest-ranking public, master's-granting university in the Pacific Northwest, according to the 2013 U.S. News & World Report college rankings. U.S. News and World Report also placed Western on the 2013 list of Highly Ranked Universities that Operate Most Efficiently.

WWU 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. WWU is the second largest employer in Whatcom County.

Using the Financial Statement

WWU's financial report includes the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the Notes to the Financial Statement. The Statement of Net Position provides information about WWU at a moment in time, the June 30 fiscal year end. The Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows provide information about WWU's activities and operations during the fiscal year. The financial statement, in conjunction with the Notes to the Financial Statement, provides a comprehensive way to assess WWU's financial health.

WWU's 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. WWU's component unit, the Western Washington University Foundation (Foundation) is a separate legal entity and reports its financial results under Financial Accounting Standards Board (FASB) principles. The Foundation's financial statements are reported separately within this report.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2013

WWU's overall financial position continued to improve in fiscal 2013, although at a slower pace than in recent fiscal years.

Significant actions which occurred during the fiscal year include:

- Tuition and fees increased 14% in 2013 over 2012
- State appropriation decreased for fourth year straight, by 7% in 2013 over 2012
- Faculty salaries increased 4.25%, first increase since 2008
- Refunded Housing & Dining Bonds with net present value savings of \$871 thousand
- Increased Scholarships by \$1.5 million

Statement of Net Position

The Statement of Net Position presents the financial condition of WWU at the end of the last three fiscal years and report all assets and liabilities of WWU.

A summarized comparison of WWU's assets, liabilities and net position as of June 30, 2013, 2012 and 2011, follows:

	2013	2012	2011
	<i>(Dollars in thousands)</i>		
Assets			
Current assets	\$70,480	\$77,396	\$61,660
Noncurrent assets	60,448	47,515	52,958
Capital assets, net	441,496	442,253	435,638
Total assets	572,424	567,164	550,256
Deferred outflows	1,798	1,644	1,317
Liabilities			
Current Liabilities	31,450	30,634	31,323
Noncurrent Liabilities	84,919	85,777	83,337
Total liabilities	116,369	116,411	114,660
Total net position	\$457,853	\$452,397	\$436,913

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 \$6.9 million decrease (-8.9%) in current assets in fiscal 2013 is primarily due to decreases in cash and cash equivalents and funds held with the State Treasurer offset by an increase in accounts receivable, net. The \$5.5 million decrease (-13.4%) in cash and cash equivalents is a result of changing investment strategy to a larger allocation of longer duration fixed income investments. The \$5.6 million decrease (-64.2%) in the funds with the State Treasurer is attributable to spending fiscal 2012 Certification of Participation (COP) proceeds for an energy savings capital project, along with an increase in spending Permanent funds for building maintenance and classroom and lab upgrades. The offsetting \$2.5 million (51.4%) increase in accounts receivable, net is due to timing of tuition due dates between fiscal year end 2013 and fiscal year end 2012. The \$15.7 million (25.5%) 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 \$2.7 million in unspent Certificate of Participation (COP) funding to be used to fund an energy savings capital project during fiscal 2013. The increase in short-term investments is due to maturing investments at fiscal year-end.

Noncurrent assets (excluding capital assets) increased during fiscal 2013 by \$12.9 million (27.2%) primarily due to a \$14.3 million increase (42.9%) in investments, as the investment strategy shifted the allocation to longer-term investments. Noncurrent assets (excluding capital assets) decreased \$5.4 million (-10.3%) 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 and the recording of a pledged gift from the Western Washington University Foundation (the Foundation). 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. During the annual fiscal 2013 financial statement audit of the Foundation, a component unit of WWU, it was discovered that an unconditional pledged gift of \$1.0 million that occurred in April 2012 was not recognized by the Foundation in fiscal 2012 and as such was not recorded with WWU during fiscal 2012. The purpose of the pledged gift is to provide resources for the design and construction of the Multipurpose Field project. Payments to WWU are scheduled over 8 years. The pledged gift is recorded at its noncurrent net present value of \$864,314 and \$909,216 for fiscals 2013 and 2012, respectively with the discount amortized over the life of the pledge. These resources are recorded as restricted net position.

Deferred outflows

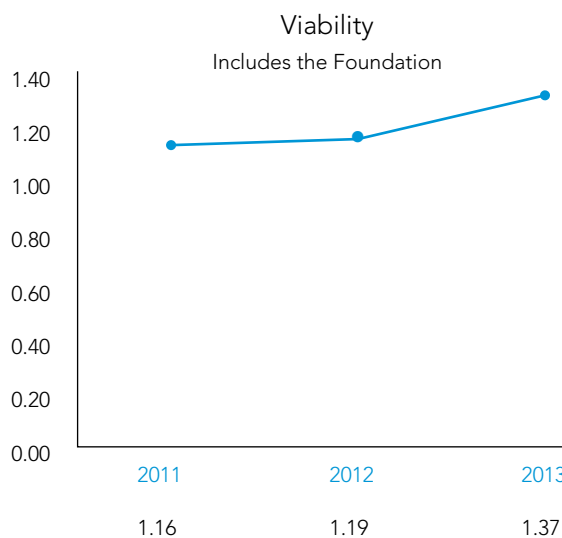
Deferred outflows increased during fiscal 2013 by \$154 thousand to \$1.8 million primarily due to the change in the loss on defeasance created by the advanced refunding of the Housing & Dining series 2003 Revenue and Refunding bonds. The \$1.8 million of total loss on defeasance is amortized over the life of the bonds as a component of interest expense. When comparing fiscal 2012 to fiscal 2011, deferred outflows increased \$327 thousand due to the current refunding in fiscal 2012 of the Wade King Recreation Center's series 2002 Revenue Bonds.

Liabilities

The excess of current assets over current liabilities of \$39.0 million in fiscal 2013 and \$46.7 million in fiscal 2012 reflects the continuing ability of WWU to meet its short-term obligations with liquid or easily liquidated assets. Current liabilities typically fluctuate depending on the timing of Accounts Payable payments and the receipt of deposits and revenue that is applicable to the next fiscal year. Current liabilities increased \$815 thousand (2.7%) when comparing fiscal 2013 to fiscal 2012 primarily due to a \$1.1 million (11.2%) increase in unearned revenue and deposits payable, offset by a \$477 thousand (-4.8%) decrease in accounts payable and accrued liabilities. 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%). Unearned revenues increased \$835 thousand (12.8%) and \$308 thousand (4.9%) in fiscals 2013 and 2012, respectively. These unearned revenue increases are largely attributable to a 16.0% summer session undergraduate tuition increase, a 13.4% increase in Extended Education programs and the implementation of a specialized grant module in WWU's financial system which allows for more accurate recording of unearned grant revenue. During fiscal 2013, the current portion of bonds and notes payable increased \$207 thousand (6.4%) due to the addition of a Certificate of Participation (COP) for the purchase of new computer hardware as well as scheduled principal payments. During fiscal 2013, the Housing and Dining System advanced refunded the existing Series 2003 Revenue and Refunding bonds with Series 2012 Refunding Bonds. This bond series did not have a principal payment during fiscal 2013. During fiscal 2012, 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 COP to fund an energy savings capital project. In April 2012, WWU 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 until fiscal 2015 as part of the debt service savings.

Long-term liabilities decreased \$858 thousand when comparing fiscal 2013 to fiscal 2012 primarily due to scheduled principal payments and amortizations in the amount of \$2.9 million offset by an increase of \$2.1 million (40.7%) in the unfunded long-term net pension obligation to certain state employees based on the estimated State Actuarial valuation of the plan. Long-term liabilities increased \$2.4 million (2.9%) 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. The net increase in bonds and notes payable includes the addition of a \$3.0 million State COP 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.

The Viability ratio measures one of the most basic determinants of clear financial health – the availability of expendable net position to cover debt should WWU need to settle its obligations as of the balance sheet date. A positive ratio indicates to what degree net position is available to cover long-term debt. A ratio of 1:1 or greater indicates sufficient expendable net position to satisfy debt obligations.



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 – WWU'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 WWU 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.

WWU's net position as of June 30, 2013, 2012 and 2011 are summarized as follows:

	2013	2012	2011
	<i>(Dollars in thousands)</i>		
Net Position			
Net investment in capital assets	\$363,010	\$361,803	\$357,815
Restricted:			
Nonexpendable	4,629	4,629	4,629
Expendable	28,701	30,419	24,391
Unrestricted	61,513	55,546	50,078
Total net position	<u>\$457,853</u>	<u>\$452,397</u>	<u>\$436,913</u>

Net investment in capital assets increased \$1.2 million (0.3%) during fiscal 2013 primarily due to an increase in capital assets of \$23.5 million offset by a net increase of \$21.7 million in depreciation and a decrease of \$2.9 million in long-term debt. 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.

Highlights of fiscal 2013 capital asset activities:

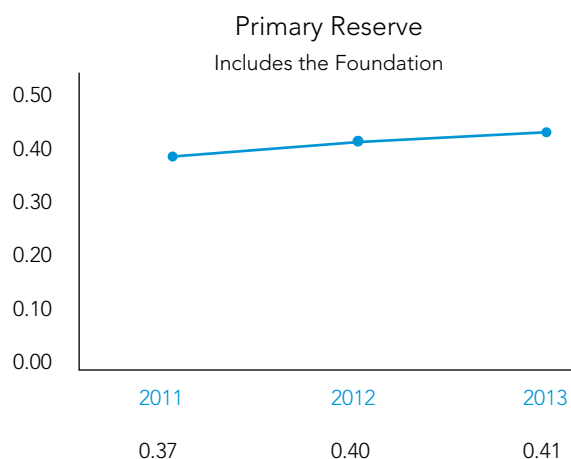
- Construction in process increased \$12.0 million primarily due to \$4.3 million spent on the Carver Gym renovation design, \$3.3 million spent on classroom and laboratory upgrades, \$2.8 million spent on Fraser Hall lecture rooms and \$2.8 million spent on the ESCO project.
- Capital improvements to buildings increased \$6.3 million primarily due to completed renovations to the Ridgeway Beta residence hall.
- Capital equipment purchases increased \$4.1 million largely due to WIFI equipment upgrades in the residence halls.
- Long-term debt used to purchase capital assets decreased \$2.9 million due to principal payments and amortizations.
- Capital assets were reduced by \$2.6 million due to certain items (including library publications and capital master plan) that did not meet Western's criteria for capitalization and as such were expensed.

Restricted nonexpendable includes donations and matching State contributions for the purpose of establishing distinguished professorships and graduate fellowships. When comparing fiscal 2013 to fiscal 2012 and fiscal 2012 to fiscal 2011, there were no changes to restricted nonexpendable net position as no new additions to endowments were received.

Restricted expendable net position decreased 1.7 million (-5.6%) during fiscal 2013 primarily due to increased spending of the Permanent Fund (Funds with the State Treasurer) on classroom and laboratory upgrades along with renovations to campus buildings. Restricted expendable increased \$6.0 million (24.7%) 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 WWU to fund a capital energy savings project. In addition, the Foundation made a \$1.0 million multi-year unconditional pledged gift, which is recorded at its net present value of \$959,216. This fiscal 2012 pledge was discovered during the Foundation's fiscal 2013 financial statement audit.

Unrestricted net position increased \$6.0 million (10.7%) in fiscal 2013 primarily due to increases in tuition and fees. 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.

The Primary Reserve ratio measures the financial strength of WWU by comparing expendable net position to total expenses. A ratio of .40 or better is advisable to give the institution the flexibility to transform the enterprise. This represents WWU's ability to carry on a reasonable level of activities and manage modest unforeseen adverse financial events. It is important to note that if a catastrophic event were to happen, the normal revenue cycles would be interrupted and this reserve would be depleted at a much faster rate due to the need to address the event expenses at levels above the normal operating expense.



Capital Assets and Related Debt

During fiscal 2013 and fiscal 2012, \$18.3 million and \$16.7 million (excluding library materials and equipment) respectively, were expended on capital improvements compared to \$35.8 million in fiscal 2011. Of the \$18.3 million in capital improvements during fiscal 2013, \$4.3 million on the design of Carver Gym renovations, \$3.3 million was expended on classroom and laboratory upgrades \$3.2 million was spent on academic building renewals, \$2.8 million on energy savings and \$4.0 million on Housing & Dining residence facilities. In addition to the \$18.3 million, the dining contract with Aramark provides a financial commitment up to \$7.3 million in dining area improvements. During fiscals 2013 and 2012, the financial commitments were valued at \$535 thousand and \$4.3 million in capitalized improvements, respectively.

Specific projects completed or underway in fiscal 2013 include:

Carver Gymnasium Renovations 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 student activities and conferences will also be service in the refurbished 2,600 seat event space. State funding for this project was not achieved for the 2013-2015 biennium. Funding is anticipated during the 2015-2017 biennium.

Multipurpose Field The estimated \$6.3 million project will create a fully lighted and fenced artificial turf play field that is sized for regulation soccer and will serve as the new home of WWU's NCAA Division II men's and women's soccer teams. It also will be an important resource for WWU's recreation programs and intramurals by servicing the growing needs of the intramural and sport club system. This project is partially funded by \$1.1 million acquired through the fiscal 2012 Wade King Recreation Center bond refunding along with a \$1.0 million unconditional pledged gift from the Foundation.

Classroom & Laboratory Upgrades WWU has maintained a continuous renovation program over many years to upgrade General University classrooms and general use lab spaces. The estimated \$4.9 million program is vital to the function of the campus and has ensured that General University learning space is up-to-date, offers a high level of relevant technology and is adaptable to accommodate various learning modalities. This project is funded using Permanent Funds and state capital appropriations.

Energy Services Performance Contract (ESCO) The estimated \$3.2 million project was initiated in order to advance the University's sustainability goals and reduce its carbon footprint. The project implemented 38 separate facility improvement measures in various academic and auxiliary buildings identified by an energy audit of WWU's campus. The project includes lighting controls and energy efficient lamps. Also, additional insulation in attic spaces, upgrades to existing heating, ventilating and air conditioning (HVAC) equipment controls and water conservation measures in 23 academic buildings, Wade King Student Recreation Center and four residence halls. WWU secured funding using a \$3.0 million Certificate of Participation.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position present WWU'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 WWU's revenues, expenses and changes in net position for the years ended June 30, 2013, 2012 and 2011 follows:

	2013	2012	2011
	<i>(Dollars in thousands)</i>		
Operating revenues	\$196,940	\$182,100	\$167,904
Operating expenses	255,965	235,518	244,230
Operating loss	(59,025)	(53,418)	(76,326)
State appropriations revenue	40,052	43,083	63,761
Other nonoperating revenues	16,460	14,468	16,355
Nonoperating expenses	(3,653)	(4,277)	(4,061)
(Loss) income before other revenues	(6,166)	(144)	(271)
Other revenues	11,622	15,628	27,395
Increase in net position	5,456	15,484	27,124
Net position, beginning of year	452,397	436,913	409,789
Net position, end of year	\$457,853	\$452,397	\$436,913

Primary Funding Sources

WWU 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 \$11.2 million (11.2%) and \$11.5 million (13.0%) in fiscal 2013 and fiscal 2012, respectively. During fiscal 2013, WWU provided \$25.8 million in financial aid in the form of scholarship allowances that offset tuition and fees, compared to \$20.7 million in fiscal 2012 and \$18.4 million in fiscal 2011.

The Washington State Legislature provides the Board of Trustees with tuition setting authority for all student categories at WWU: resident undergraduate, non-resident undergraduate, resident graduate, and non-resident graduate. Tuition increased 16.0% during fiscals 2013 and 2012 and 14.0% during fiscal 2011 with enrollment decreasing slightly to an average annual headcount of 13,470 in fiscal 2013 compared to 13,513 in fiscal 2012 and 13,521 students in fiscal 2011.

During fiscal 2013, state appropriations used for operations declined \$3.0 million (-7.0%) compared to a decline of \$20.7 million (-32.4%) in fiscal 2012. The decrease during fiscal 2013 is due to a slight reduction in state funding as the previous budget challenges leveled off. 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 WWU, along with an \$8.3 million reduction in capital appropriations used for operations as these capital expenditures are below WWU's capitalization threshold.

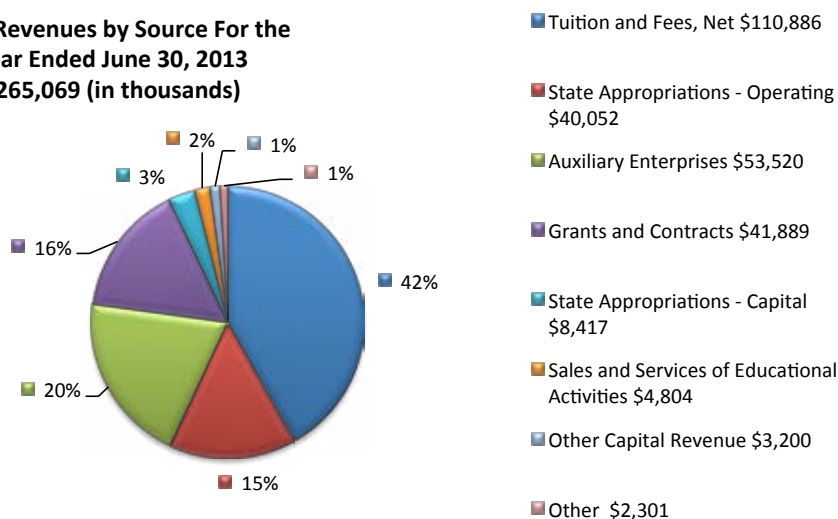
Capital appropriations are recognized as revenue when expenditures are incurred on capital projects and WWU is entitled to receive the cash. Capital appropriations increased slightly by \$1.5 million during fiscal 2013 although no new major capital projects were underway. Capital appropriations decreased \$17.3 million (-71.5%) when comparing fiscal 2012 to fiscal 2011 as previously existing capital major projects had been completed.

Other capital revenue is the revenue earned from the State of Washington Normal School Permanent Fund and capital gifts/contributions received. The decrease of \$4.6 million (-58.9%) during fiscal 2013 is attributable to the reduced Aramark capital contribution. Aramark has agreed to provide up to \$7.3 million in funding for renovations and improvements to several dining areas at WWU. The majority of the improvements are reported as capitalized assets on the Statement of Net Position. 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.

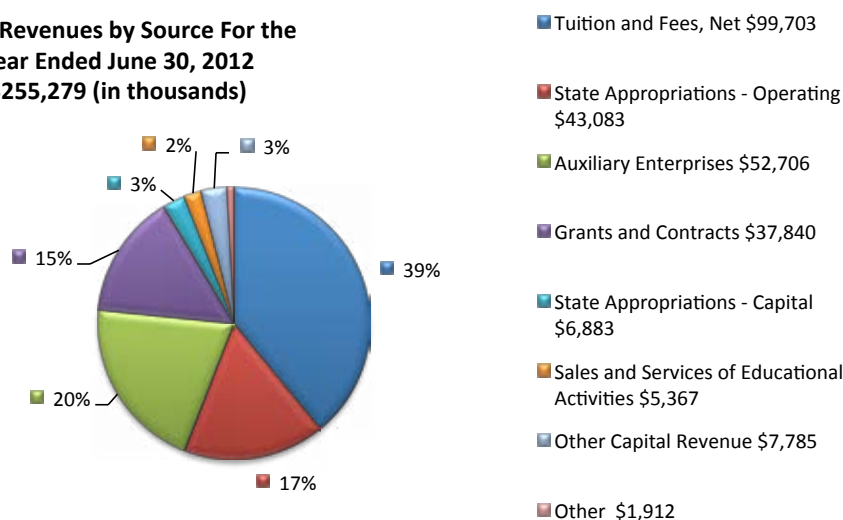
In April 2012, WWU received a \$1.0 million unconditional pledged gift from the Foundation for the purpose of design and construction of the Multipurpose Field project. The pledged gift is scheduled to have 8 annual payments. This gift is recorded at its present value, with the discount amortized over the term of the pledged period using the straight line method. During the fiscal 2013 financial statement audit of the Foundation, it was discovered that this unconditional pledged gift was not recognized by the Foundation and as such was not recorded with WWU during fiscal 2012 when it occurred. During fiscal 2013, WWU recorded the non-operating pledged revenue to fiscal 2012. The first installment payment of \$50 thousand did not materialize during fiscal 2013 and will be paid in fiscal 2014.

The following graphs illustrate revenues by source for the years ended June 30, 2013 and 2012:

Total Revenues by Source For the Year Ended June 30, 2013
\$265,069 (in thousands)



Total Revenues by Source For the Year Ended June 30, 2012
\$255,279 (in thousands)



WWU's operating expenses increased \$19.4 million (8.2%) during fiscal 2013 and decreased \$8.7 million (-3.6%) when comparing fiscal 2012 to fiscal 2011. The fiscal 2013 increase is primarily due to salary and supplies increases. A portion of the fiscal 2012 reduction can be attributed to decreased salary and wages and benefits expense.

Salary and wages and benefits expenses increased \$7.7 million (5.0%) when comparing fiscal 2013 to fiscal 2012 primarily due to a negotiated increase in faculty salaries of \$4.2 million combined with a \$2.3 million increase in the amortization of the supplemental pension liability. When comparing fiscal 2012 to fiscal 2011, salaries and wages decreased \$3.5 million primarily due to the elimination of positions through attrition and layoffs.

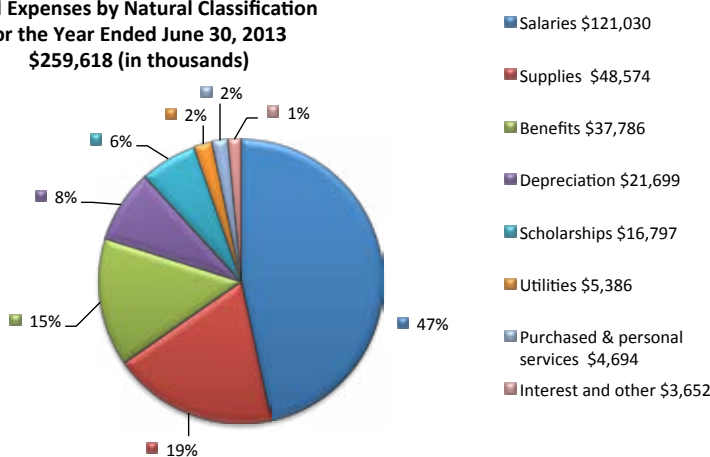
Scholarships and fellowships increased in fiscal 2013 \$1.5 million (9.9%) due to increases in financial aid payments made directly to students. Scholarships and fellowships decreased in fiscal 2012 by \$2.5 million (-14.2%) when compared to fiscal 2011 due to decreases in financial aid payments made directly to students for non-institutional expenses.

Supplies and materials increased \$9.2 million (23.3%) primarily due to a \$3.1 million increase in non-capitalized repairs and maintenance to campus buildings and facilities and \$2.6 million expensed for library purchases and other items that were originally included in fiscal 2012 as a capital asset but were later deemed to not meet the capitalization threshold. Supplies and materials decreased \$4.5 million (-10.3%) when comparing fiscal 2012 to fiscal 2011 due to a reduction in non-capitalized office furnishing purchases with the completion of Miller Hall.

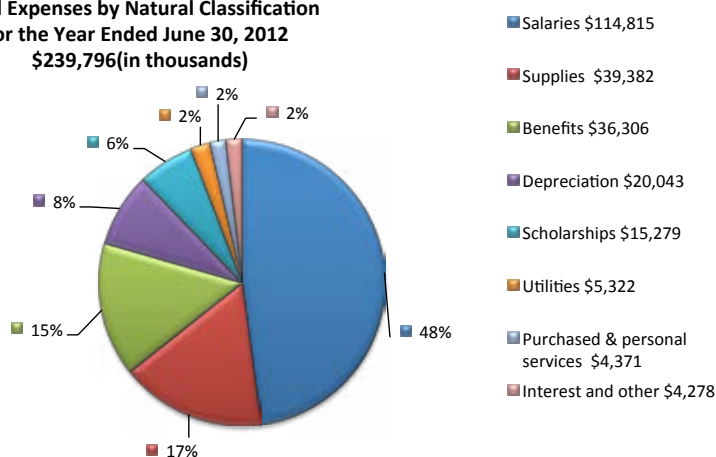
Depreciation expense increased \$1.7 million (8.3%) during fiscal 2013 and \$2.0 million (10.9%) during fiscal 2012 as additional capital assets were completed and depreciated.

The following graphs illustrate expenses by natural classification for the years ended June 30, 2013 and 2012:

Total Expenses by Natural Classification for the Year Ended June 30, 2013
\$259,618 (in thousands)



Total Expenses by Natural Classification for the Year Ended June 30, 2012
\$239,796 (in thousands)



Operating Loss

WWU's operating losses were \$59.0 million in fiscal 2013, an increase of \$5.6 million (10.5%) from fiscal 2012, and \$53.4 million in fiscal 2012, a decrease of \$22.9 million (-30.0%) from fiscal 2011. Operating revenues increased \$14.8 million (8.2%) during fiscal 2013 and increased \$14.2 million (8.5%) during fiscal 2012, while operating expenditures increased in fiscal 2013 by \$19.4 million (8.2%) and decreased by \$8.7 million (-3.6%) fiscal 2012. The increases in operating revenue are largely due to the 16.0% tuition rate increases in fiscal 2013 and fiscal 2012, 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 loss in fiscal 2013 would have been \$3.4 million and the operating gain would be \$3.6 million in fiscal 2012.

Economic Factors That Will Affect the Future

WWU received a 28% funding increase in the Washington state 2013-2015 biennial budget. The \$22.9 million in additional state appropriations include \$9.5 million to restore base cuts from prior biennium, \$2.9 million to expand WWU's Computer Science and Engineering programs and \$10.5 million in new institutional funding. While this is a significant increase in state appropriations, WWU remains cautiously optimistic about future appropriations due to legislative actions that may or may not change our funding levels in the future.

As a result of the increased state appropriations, WWU will hold the academic year 2013-2014 tuition rates at the 2012-2013 level for undergraduate resident students. The non-resident undergraduate, resident graduate, non-resident graduate and the Masters in Business Administration rates for resident and non-resident students will increase 3%.



Washington State Auditor Troy Kelley

INDEPENDENT AUDITOR'S REPORT

November 22, 2013

Board of Trustees
Western Washington University
Bellingham, Washington

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Western Washington University, Whatcom County, Washington, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Western Washington University Foundation, is based solely on the report 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

As discussed in Note 1, the financial statements of Western Washington University are intended to present the financial position, the changes in financial position, and where applicable, cash flows of only that portion of the governmental 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, 2013 and 2012, 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the report 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, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

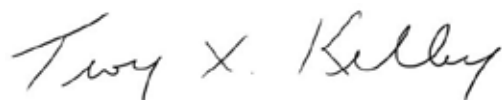
As described in Note 1, during the year ended June 30, 2013, the University has implemented the Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 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 our audit 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,



TROY KELLEY
STATE AUDITOR

Statement of Net Position

Financial Report 2013

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$35,598,392	\$41,090,684
Investments (Note 4)	21,721,286	20,354,587
Funds with State Treasurer (Note 5)	3,132,895	8,743,359
Interest receivable	644,030	565,983
Accounts receivable, net (Note 6)	7,402,884	4,891,069
Pledged gift receivable from the Foundation (Note 24)	100,000	50,000
Prepaid expenses	510,507	413,261
Inventories (Note 8)	<u>1,370,459</u>	<u>1,286,705</u>
Total current assets	70,480,453	77,395,648
Noncurrent assets:		
Restricted cash and cash equivalents (Note 3)	1,123,060	1,461,832
Restricted investments (Note 4)	12,291,656	9,024,321
Investments (Note 4)	35,453,680	24,396,299
Due from State Treasurer	2,902,710	3,375,099
Student loans receivable, net (Note 7)	7,711,713	7,778,036
Pledged gift receivable from the Foundation (Note 24)	864,314	909,216
Non-depreciable capital assets (Note 9)	36,500,470	24,544,930
Depreciable capital assets, net (Note 9)	404,995,776	417,707,959
Other assets (Note 1)	<u>100,438</u>	<u>570,717</u>
Total noncurrent assets	<u>501,943,817</u>	<u>489,768,409</u>
Total assets	<u>572,424,270</u>	<u>567,164,057</u>
Deferred outflows		
Deferred loss on bond refunding	1,797,593	1,643,980
Total deferred outflows	<u>1,797,593</u>	<u>1,643,980</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	9,527,565	10,004,791
Deposits payable	2,738,929	2,513,625
Unearned revenues	7,371,333	6,536,220
Compensated absences (Note 11)	7,768,373	7,788,971
Current portion of bonds and notes payable (Notes 12,13,15)	3,461,463	3,254,025
Current portion of net pension obligations (Note 15,19)	376,000	214,000
Deposits held in custody for others	<u>205,890</u>	<u>322,616</u>
Total current liabilities	31,449,553	30,634,248
Noncurrent liabilities:		
Long-term portion of bonds and notes payable (Note 12, 13,15)	77,534,122	80,528,094
Long-term net pension obligations (Note 15,19)	<u>7,384,970</u>	<u>5,248,938</u>
Total noncurrent liabilities	<u>84,919,092</u>	<u>85,777,032</u>
Total Liabilities	<u>116,368,645</u>	<u>116,411,280</u>
Net Position		
Net investment in capital assets	363,010,380	361,802,573
Restricted for:		
Nonexpendable: scholarships and professorships	4,629,007	4,629,007
Expendable:		
Instruction and research	2,855,267	2,449,905
Loans	14,321,853	14,001,443
Capital Projects	11,524,286	13,967,401
Unrestricted	<u>61,512,425</u>	<u>55,546,428</u>
Total net position	<u>\$457,853,218</u>	<u>\$452,396,757</u>

	2013	2012
Assets		(Restated)
Cash and cash equivalents	\$437,771	\$1,750,884
Unconditional promises to give, net	4,342,482	4,122,935
Investments:		
Operating investment pool	10,757,553	9,298,513
Endowment investment pool	48,527,533	42,248,335
Endowment real estate held for investment	2,789,800	2,659,200
Annuity and life income investments	4,241,160	4,157,673
Real property and notes receivable	<u>192,757</u>	<u>458,757</u>
Total investments	66,508,803	58,822,478
Other assets	116,964	22,985
Property and equipment, net	<u>569,285</u>	<u>16,843</u>
Total Assets	<u>71,975,305</u>	<u>64,736,125</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	193,165	265,845
Due to Western Washington University	274,461	321,390
Gift payable to Western Washington University, net	964,314	959,216
Annuity and life income obligations	1,323,278	1,339,382
Investments held in trust for Western Washington University	10,719,104	9,632,996
Contingent obligation to Northwest Indian College Foundation	<u>1,089,135</u>	<u>1,020,031</u>
Total Liabilities	14,563,457	13,538,860
Net Assets		
Unrestricted	14,230,832	10,904,221
Temporarily restricted	18,119,831	16,961,391
Permanently restricted	<u>25,061,185</u>	<u>23,331,653</u>
Total Net Assets	<u>57,411,848</u>	<u>51,197,265</u>
Total Liabilities and Net Assets	<u>\$71,975,305</u>	<u>\$64,736,125</u>

Statements of Revenues, Expenses, and Changes in Net Assets

Financial Report 2013

	2013	2012
Operating Revenues		
Student tuition and fees	\$136,690,266	\$120,437,058
Less scholarship allowances	<u>(25,804,362)</u>	<u>(20,733,825)</u>
Net student tuition and fees	110,885,904	99,703,233
Federal grants and contracts	7,058,646	6,940,282
State and local grants and contracts	17,594,759	14,279,909
Nongovernmental grants and contracts	2,721,486	2,720,510
Sales and services of educational activities	4,804,365	5,366,676
Interest earned on loans to students	168,043	150,206
Other operating revenue	186,834	233,963
Auxiliary enterprises	59,582,226	57,830,760
Less scholarship allowances	<u>(6,062,503)</u>	<u>(5,125,147)</u>
Net auxiliary enterprises	<u>53,519,723</u>	<u>52,705,613</u>
Total operating revenues	196,939,760	182,100,392
Operating Expenses		
Salaries and wages	121,029,531	114,814,608
Benefits	37,786,101	36,306,406
Scholarships and fellowships	16,796,678	15,278,601
Utilities	5,385,944	5,322,270
Supplies and materials	48,573,820	39,382,286
Purchased services	4,694,225	4,371,367
Depreciation	<u>21,698,636</u>	<u>20,042,554</u>
Total operating expenses	<u>255,964,935</u>	<u>235,518,092</u>
Operating loss	(59,025,175)	(53,417,700)
Nonoperating Revenues (Expenses)		
State appropriations	40,052,232	43,083,007
Federal Pell grant revenue	14,514,274	13,899,353
Investment income	628,431	568,859
Interest on indebtedness	(3,652,599)	(4,041,655)
Gain (loss) on endowments	1,289,455	(199,342)
Nonoperating rental property expense/income	<u>27,821</u>	<u>(36,817)</u>
Total nonoperating revenues (expenses)	<u>52,859,614</u>	<u>53,273,405</u>
Income (Loss) before other revenues	(6,165,561)	(144,295)
Other Revenues		
Capital appropriations	8,417,155	6,883,439
Other capital revenue	3,204,867	7,784,973
Pledged gift revenue from the Foundation	_____	<u>959,216</u>
Total other revenues	11,622,022	15,627,628
Increase in net position	5,456,461	15,483,333
Net position, beginning of year	<u>452,396,757</u>	<u>436,913,424</u>
Net position end of year	<u>\$457,853,218</u>	<u>\$452,396,757</u>

Foundation Statement of Activities & Changes in Net Assets

Financial Report 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
Support and Revenue:				
Contributions	\$2,098,006	\$1,400,898	\$1,729,532	\$5,228,436
In-kind services and facilities provided by				
Western Washington University	2,730,236			2,730,236
Interest and dividends	442,123	649,141		1,091,264
Net realized and unrealized gains on investments	1,390,828	3,468,779		4,859,607
Return on annuity and life income investments		286,620		286,620
Change in valuation of annuity and life income obligations		(250,703)		(250,703)
Administrative fees	789,737			789,737
Fundraising events and other	69,379	493,932		563,311
Total support and revenue before net assets released from restrictions	7,520,309	6,048,667	1,729,532	15,298,508
Net assets released from restrictions	4,858,935	(4,858,935)		
Recovery of underwater endowments	31,292	(31,292)		
Total Support and Revenue	12,410,536	1,158,440	1,729,532	15,298,508
Expenses:				
Program services and grants	5,283,610			5,283,610
Management and general in-kind	1,566,042			1,566,042
Management and general - other	287,236			287,236
Fundraising in-kind	1,164,194			1,164,194
Fundraising - other	782,843			782,843
Total Expenses	9,083,925			9,083,925
Change in Net Assets	3,326,611	1,158,440	1,729,532	6,214,583
Net Assets, beginning of year (restated)	10,904,221	16,961,391	23,331,653	51,197,265
Net Assets, end of year	\$14,230,832	\$18,119,831	\$25,061,185	\$57,411,848

Foundation Statement of Activities & Changes in Net Assets

Financial Report 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total (Restated)
Support and Revenue:				
Contributions	\$569,784	\$5,006,747	\$769,277	\$6,345,808
In-kind 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 and unrealized gains on investments	(124,837)	(522,875)		(647,712)
Return on annuity and life income investments		120,999		120,999
Change in valuation of annuity and life income obligations		(136,408)		(136,408)
Administrative fees	566,875			566,875
Fundraising events and other	<u>37,821</u>	<u>437,887</u>		<u>475,708</u>
Total support and revenue before net assets released from restrictions	3,672,293	5,515,046	769,277	9,956,616
Net assets released from restrictions	4,865,323	(5,243,891)	378,568	
Change in restrictions	96,246	(97,455)	1,209	
Shortfall for underwater endowments	<u>(133,661)</u>	<u>133,661</u>		
Total Support and Revenue	8,500,201	307,361	1,149,054	9,956,616
Expenses:				
Program services and grants	6,909,622			6,909,622
Management and general in-kind	1,217,709			1,217,709
Management and general - other	265,799			265,799
Fundraising - WWU in-kind	979,412			979,412
Fundraising - other	<u>395,560</u>			<u>395,560</u>
Total Expenses	<u>9,768,102</u>			<u>9,768,102</u>
Change in Net Assets	(1,267,901)	307,361	1,149,054	188,514
Net Assets, beginning of year (restated)	<u>12,172,122</u>	<u>16,654,030</u>	<u>22,182,599</u>	<u>51,008,751</u>
Net Assets, end of year (restated)	<u>\$10,904,221</u>	<u>\$16,961,391</u>	<u>\$23,331,653</u>	<u>\$51,197,265</u>

	2013	2012
Cash Flows from Operating Activities		
Tuition and fees	\$110,396,695	\$100,196,266
Grants and contracts	26,458,925	24,390,823
Payments to vendors	(71,522,472)	(64,990,544)
Payments to employees for salaries and benefits	(157,737,351)	(150,370,134)
Loans issued to students	(1,422,760)	(1,027,167)
Collection of loans to students	1,400,371	1,257,169
Sales of auxiliary enterprises	53,464,583	51,619,995
Sales and services of educational activities	4,787,788	5,289,901
Interest received on loans to students	<u>354,877</u>	<u>384,169</u>
Net cash used by operating activities	(33,819,344)	(33,249,522)
Cash Flows from Noncapital Financing Activities		
State appropriations	40,081,177	43,447,168
Direct Lending proceeds	68,933,156	69,447,710
Direct Lending disbursements	(68,844,444)	(69,753,232)
Federal Pell grant receipts	<u>14,514,274</u>	<u>13,899,353</u>
Net cash provided by noncapital financing activities	54,684,163	57,040,999
Cash Flows from Investing Activities		
Purchases of investments	(37,558,009)	(57,706,458)
Net proceeds from sales of investments	23,156,049	57,566,801
Interest received on investments	<u>547,281</u>	<u>557,934</u>
Net cash (used)/provided by investing activities	(13,854,679)	418,277
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	9,374,908	27,490,000
Interest earned on bond proceeds	3,103	2,161
Capital appropriations	8,860,599	6,512,139
Other capital (expense)/revenue	8,076,563	(1,376,639)
Contributions and gifts in-kind	733,670	5,406,954
Proceeds from disposal of capital assets	8,768	28,511
Purchases of capital assets	(24,283,368)	(26,149,394)
Principal paid on capital debt	(12,800,256)	(27,244,419)
Interest paid on capital debt	(2,848,471)	(3,446,801)
Other activities	<u>33,280</u>	<u>(36,817)</u>
Net cash used by capital and related financing activities	(12,841,204)	(18,814,305)
Net increase/(decrease) in cash and cash equivalents	(5,831,064)	5,395,449
Cash and cash equivalents, beginning of year	42,552,516	37,157,067
Cash and cash equivalents, end of year	<u>\$36,721,452</u>	<u>\$42,552,516</u>

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Financial Report 2013

	2013	2012
Operating loss	(\$59,025,175)	(\$53,417,700)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	21,698,636	20,042,554
Gain on disposal of fixed assets	2,621,739	36,609
Changes in assets and liabilities:		
Funds with the State Treasurer		(114,000)
Accounts receivable	(2,511,815)	(643,701)
Student loans receivable	66,323	(68,203)
Inventories	(83,754)	88,085
Prepaid expenses	(97,246)	189,962
Accounts payable and accrued expenses	279,536	(1,170,843)
Deferred revenue	835,113	308,264
Student and other deposits	225,304	138,308
Deposits held in custody	(105,438)	239,486
Compensated absences	(20,598)	(135,826)
Net pension obligation expense	<u>2,298,031</u>	<u>1,257,483</u>
Net cash used by operating activities	<u>(\$33,819,344)</u>	<u>(\$33,249,522)</u>
Supplemental disclosure of cash flow information		
Acquisition of capital assets through accounts payable	<u>\$2,258,069</u>	<u>\$2,966,198</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Western Washington University (WWU) 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 WWU 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. WWU 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 WWU. In exchange, WWU 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 WWU 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 WWU by the donors. The Foundation's activity is reported in separate financial statement 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 Statement.

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 WWU's financial statement for these differences; however, significant note disclosures (see Note 2) to the Foundation's financial statement have been incorporated into WWU's notes to the financial statement.

The Foundation's financial statement 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. WWU 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 WWU. As such, they are not intended to and do not present the financial position, results of operations, or changes in net position of WWU. The auxiliary unit financial statement can be obtained by contacting Western Washington University at (360) 650-3675.

Basis of Accounting

For financial reporting purposes, WWU is considered a special-purpose government engaged only in business-type activities. Accordingly, WWU'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.

New Accounting Pronouncements

On July 1, 2011, WWU 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. WWU financial statement did not change based on this pronouncement.

On July 1, 2011, WWU 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, WWU 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. WWU's financial statements reflect these changes.

On July 1, 2011, WWU 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. WWU's statement did not change based on this pronouncement.

On July 1, 2012, WWU adopted GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". This statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. During a review of assets and liabilities it was determined that, due to materiality, remaining bond costs would be expensed during fiscal 2013. The deferred amount from bond refunding has been reclassified as deferred outflows.

On July 1, 2012, WWU adopted GASB Statement No. 61 "The Financial Reporting Entity: Omnibus—an amendment of GASB Statement No. 14 and No. 34". This statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relations also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Management determined that the discretely presented component unit would be misleading to exclude.

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 WWU 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. WWU records all cash, cash equivalent, and investments at amortized cost, which approximates fair value.

WWU 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 WWU'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, WWU'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 2013 and fiscal 2012, \$38,374 and \$0 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

Bond premiums/discounts are deferred and amortized over the term of the bonds using the effective interest method. The remaining balances of bond premiums/discounts are presented in the Statement of Net Position net of the face amount of bonds payable.

Deferred Outflows

For the year ended June 30, 2013, WWU implemented GASB 65 "Items Previously Reported as Assets and Liabilities". Statement No. 65 established accounting and financial reporting standards that reclassify, as deferred outflow of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflow of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Deferred outflow of resources is a consumption of net assets that is applicable to a future reporting period. The implementation of this standard reclassified the deferred losses on defeasance of bond debt as a deferred outflow. These amounts do not meet the definition of an asset or liability since the amounts do not represent an increase in service capacity and the resources cannot be exchanged for another asset or used to directly provide present service capacity. The deferred outflow amounts are \$1,797,593 and \$1,643,980 for fiscal years 2013 and 2012, respectively.

Unearned revenues

Unearned 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

WWU's net position is classified as follows:

Net investment in capital assets

This represents WWU'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 WWU 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 pro-

ducing 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 WWU, 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

WWU 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.

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

Tax Exemption

WWU 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 statement have been reclassified for comparative purposes to conform to the presentation in the current year financial statement.

2. COMPONENT UNIT

The Western Washington University Foundation (the Foundation) is a discretely presented component unit of WWU. The language in the Foundation's bylaws satisfies the "direct benefit" criterion, and the "entitlement/ability to access" criterion is met due to the Foundation's history of supporting WWU. The "significance" criterion is met because the combined resources used by WWU activities and the restricted resources held by the Foundation are deemed to be significant to WWU, regardless of the extent to which those resources may be used for "in-kind".

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

WWU 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, 2013 and 2012, the carrying amount of cash and cash equivalents is \$36,721,452 and \$42,552,516, respectively. These balances include restricted cash and cash equivalents of \$297,456 in unspent Recreation Center bond proceeds and \$825,604 renewal and replacements at June 30, 2013 and \$566,667 in unspent Housing and Dining and Recreation Center unspent

bond proceeds at June 30, 2012 along with \$895,165 in Recreation Center renewal and replacement funds. The carrying amount of cash and cash equivalents approximates the market value.

4. INVESTMENTS

Investments include internally pooled cash operating funds, renewal and replacement funds, unspent bond proceeds, and University endowment funds.

WWU held \$6,036,447 and \$6,064,351 in certificates of deposits in pooled investments at June 30, 2013 and 2012, respectively. WWU held \$51,188,499 and \$36,583,352 in U.S. Agency securities in the investment pool at June 30, 2013 and 2012, respectively. These investments include \$414,672 in unspent bond proceeds at June 30, 2013.

The Housing and Dining System Renewal and Replacement fund held \$3,048,012 and \$3,019,505 as of June 30, 2013 and 2012, respectively. This was separately invested in CDs and U.S. Agencies.

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 performance, 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, 2013, WWU's Endowment funds are comprised of \$5,942,281 in donor restricted and unrestricted funds and \$4,776,823 in Quasi-endowments. As of June 30, 2012, the balances were \$5,464,938 and \$4,168,067, respectively.

Credit (Quality) Risk

Credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. Statutory and policy constraints with regard to the types of instruments available for investment limit WWU's exposure to this risk. Instruments available for investment include obligations of the US Treasury and agency securities and certificates of deposit. The certificates of deposit held in the internal investment pool are insured by the Federal Deposit Insurance Company (FDIC) or by a collateral

pool administered by the Washington Public Deposit Protection Commission (PDPC). US Agency securities are rated at least AA by the three major rating agencies.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, WWU will not be able to recover the value of the investment. As of June 30, 2013 WWU had \$51,188,499 in US Agencies held in custody by Bank of New York Mellon in WWU's name.

Interest Rate Risk

WWU manages its exposure to fair value losses in the internal investment pool by targeting the portfolio duration to 2.25 years and limiting the weighted average maturity to a maximum of three years. WWU generally does not invest operating funds in securities maturing more than five years from the date of purchase.

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. WWU's operating investment policy limits per issuer holdings to 5%, with the exception of U.S. Treasuries (100%), U.S. Agencies (35% per agency), and Certificates of Deposit (10%). The Endowment Investment Policy limits the endowment investments to no more than 5% of the portfolio for a single issuer, with the exception of U.S. government and agency securities.

At June 30, 2013, WWU held the following in cash, cash equivalents and investments:

Description	Fair Value	Weighted Average Maturity (in Years)
WWU Investment Pool:		
Cash & Cash Equivalents	\$36,721,452	0.001
Time Certificates of Deposits (CDs)	6,036,447	0.057
U.S. Agencies	49,662,050	1.311
WWU Endowment Funds:		
Cash & cash equivalents	45,265	
Fixed income investments:		
U.S. Treasuries	430,697	14.600
U.S. Agencies	513,602	4.700
Other fixed income	1,264,116	n/a
Equity investments	6,468,949	n/a
Real estate	585,252	n/a
Alternative investments	1,411,223	n/a
Other Investments:		
Renewal and Replacement Time CDs	1,521,563	3.241
Renewal and Replacement U.S. Agencies	1,526,449	0.411
Miscellaneous	<u>1,010</u>	n/a
TOTAL CASH AND INVESTMENTS	<u><u>\$106,188,075</u></u>	

At June 30, 2012, WWU 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. 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	<u>1,000</u>	n/a
TOTAL CASH AND INVESTMENTS	<u><u>\$96,327,722</u></u>	

5. FUNDS WITH STATE TREASURER

This account represents WWU's share of net earnings of the State of Washington Normal School Permanent Fund and the building fee portion of tuition, 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 source

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 \$116,828 in remaining Certificate of Participation (COP) funds during fiscal 2013, which will be used for an energy saving capital project.

WWU's combined earnings and distributions on the fund for the years ending June 30, 2013 and 2012 are \$2,466,100 and \$2,378,019, respectively, which are reported as other capital revenue along with any capital gifts or contributions.

6. ACCOUNTS RECEIVABLE, NET

At June 30, 2013 and 2012, the major components of accounts receivable are as follows:

	2013	2012
Student tuition and fees	\$2,780,861	\$1,826,263
Federal, State and private grants and contracts	2,598,992	2,418,437
Auxiliary enterprises and other operating activities	<u>2,667,501</u>	<u>1,237,379</u>
Total accounts receivable	8,047,354	5,482,079
Less allowance for doubtful accounts	<u>(644,470)</u>	<u>(591,010)</u>
Accounts receivable, net	<u>\$7,402,884</u>	<u>\$4,891,069</u>

7. STUDENT LOANS RECEIVABLE, NET

At June 30, 2013 and 2012, student loans receivable are as follows:

	2013	2012
Federal Perkins student loans	\$8,577,935	\$8,648,042
Other long-term loans	34,662	36,108
Institutional loans	<u>51,020</u>	<u>47,738</u>
Total student loans	8,663,617	8,731,888
Less allowance for doubtful accounts	<u>(951,904)</u>	<u>(953,852)</u>
Student loans receivable, net	<u>\$7,711,713</u>	<u>\$7,778,036</u>

8. INVENTORIES

At June 30, 2013 and 2012, inventories, stated at cost using various methods: retail, first-in, first-out (FIFO), or average cost, consist of the following:

	Valuation Method	2013	2012
Location			
Bookstore	Retail	\$941,848	\$767,989
Central Stores	Average Cost	21,393	86,512
Facilities Maintenance	FIFO	132,720	157,705
Lock Shop	FIFO	144,156	137,446
Other inventory	FIFO	<u>130,343</u>	<u>137,053</u>
Total inventory		<u>\$1,370,460</u>	<u>\$1,286,705</u>

9. LAND AND CAPITAL ASSETS, NET

The depreciation expense for the fiscal years ended June 30, 2013 and 2012 was \$21,698,636 and \$20,042,554, respectively.

Following are the changes in land and capital assets for the year ended June 30, 2013:

	6/30/2012	Additions/ Transfers	Retirements	6/30/2013
Non-depreciable Capital Assets				
Land	\$12,772,593			\$12,772,593
Construction in progress	<u>11,772,337</u>	<u>11,955,540</u>		<u>23,727,877</u>
Total non-depreciable capital assets	<u>\$24,544,930</u>	<u>\$11,955,540</u>		<u>\$36,500,470</u>
Depreciable Capital Assets				
Infrastructure	\$53,656,654		\$710,720	\$52,945,934
Buildings	398,572,414	95,028	681,112	397,986,330
Furniture, fixtures and equipment	33,767,605	5,109,042	1,054,859	37,821,788
Library materials, art collection	54,621,279	139,724	1,629,135	53,131,868
Improvements	<u>126,600,116</u>	<u>6,278,625</u>		<u>132,878,741</u>
Total depreciable capital assets	<u>667,218,068</u>	<u>11,622,419</u>	<u>4,075,826</u>	<u>674,764,661</u>
Less Accumulated Depreciation				
Infrastructure	24,839,294	1,357,902	151,935	26,045,261
Buildings	135,702,132	8,274,345	184,221	143,792,256
Furniture, fixtures and equipment	23,867,682	3,515,263	1,054,859	26,328,086
Library materials, art collection	40,160,186	1,708,117	54,304	41,813,999
Improvements	<u>24,940,815</u>	<u>6,848,468</u>		<u>31,789,283</u>
Total accumulated depreciation	<u>249,510,109</u>	<u>21,704,095</u>	<u>1,445,319</u>	<u>269,768,885</u>
Capital Assets, Net of depreciation	<u>\$417,707,959</u>	<u>\$(10,081,676)</u>	<u>\$2,630,507</u>	<u>\$404,995,776</u>

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
Non-depreciable Capital Assets				
Land	\$12,772,593			\$12,772,593
Construction in progress	<u>63,030,794</u>	<u>(51,258,457)</u>		<u>11,772,337</u>
Total non-depreciable capital assets	<u>\$75,803,387</u>	<u>(51,258,457)</u>		<u>\$24,544,930</u>
Depreciable Capital Assets				
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	<u>69,965,790</u>	<u>56,634,326</u>		<u>126,600,116</u>
Total depreciable capital assets	<u>589,777,465</u>	<u>77,981,403</u>	<u>540,800</u>	<u>667,218,068</u>
Less Accumulated Depreciation				
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	<u>19,219,537</u>	<u>5,721,278</u>		<u>24,940,815</u>
Total accumulated depreciation	<u>229,943,235</u>	<u>20,042,554</u>	<u>475,680</u>	<u>249,510,109</u>
Capital Assets, Net of depreciation	<u>\$359,834,230</u>	<u>\$57,938,849</u>	<u>\$65,120</u>	<u>\$417,707,959</u>

10. ART COLLECTIONS

WWU 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 19th and 20th century prints and drawings, the Whittington Collection of Asian Ceramics, and the Chair Collection. These collections adhere to WWU'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. WWU'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, 2013 and 2012 are \$7,768,373 and \$7,788,971, 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, WWU 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 WWU. The VEBA-MEP enables WWU 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 2013 and fiscal 2012, \$86,263 and \$92,985, respectively, were contributed to VEBA accounts by WWU on behalf of employees.

12. NOTES PAYABLE

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

Fiscal Year	Principal	Interest
2014	\$551,463	\$106,831
2015	517,910	163,507
2016	503,798	148,053
2017	1,059,691	360,223
2018	1,080,000	190,738
2019-2023	1,510,000	168,825
2024-2028	<u>290,000</u>	<u>8,700</u>
Total	<u>\$5,512,862</u>	<u>\$1,146,877</u>

13. BONDS PAYABLE

Bonds payable consist of revenue bonds issued by WWU 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 (the 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 2012 Revenue and Refunding Bonds with interest rates ranging from 3.0% to 5.0% and an aggregate face value of \$9,205,000 at June 30, 2013, which is reported net of the original issue premium of \$533,980.

Series 2009 A and B Revenue Bonds with interest rates ranging from 3.0% to 7.4% and an aggregate face value of \$13,440,000 at June 30, 2013, which is reported net of the original issue premium of \$4,224.

Series 2006 Revenue Bonds with an interest rate of 4% and an aggregate face value of \$7,110,000 at June 30,

2013, which is reported net of the original issue premium of \$27,851.

Series 2005 Revenue and Refunding Bonds with interest rates ranging from 3.375% to 4.0% and an aggregate face value of \$10,305,000 at June 30, 2013, which is reported net of the unamortized original discount of \$95,502.

Series 1998 Junior Lien Revenue and Refunding Bonds with interest rates ranging from 4.4% to 5.5% and an aggregate face value of \$10,055,000 at June 30, 2013, which is reported net of the unamortized original issue premium of \$114,776.

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, 2013, which is reported net of the unamortized original issue premium of \$397,394.

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

On July 19 2012, the Housing and Dining System (the system) issued at par \$9,205,000 Revenue and Refunding Bonds Series 2012 with an average interest rate of 4.0% to advance refund \$10,175,000 of outstanding 2003 Series. The net proceeds of \$9.9 million (after payment of \$161,556 in underwriting fees and issuance costs) were used to purchase State and Local Government Series U.S. Treasury Securities

Those Securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt services payments on the 2003 Series bonds. As a result, the 2003 Series bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt. The System advance refunded the 2003 Series bonds to reduce its total debt service payments over the next 11 years by \$871 thousand and to obtain an economic gain of \$760 thousand.

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
2014	\$2,910,000	\$2,393,684		\$925,350
2015	3,035,000	2,384,039	700,000	925,350
2016	3,145,000	2,259,952	725,000	904,350
2017	3,285,000	2,121,325	750,000	882,600
2018	3,430,000	1,976,333	770,000	860,100
2019-2023	18,910,000	7,411,334	4,230,000	3,914,425
2024-2028	9,445,000	3,555,693	5,100,000	3,050,000
2029-2033	4,840,000	1,490,700	6,205,000	1,944,800
2034-2037	<u>1,115,000</u>	<u>82,510</u>	<u>5,905,000</u>	<u>602,200</u>
Total	50,115,000	23,675,570	24,385,000	14,009,175
Unamortized premium/ (discount)	585,329		397,393	
Total	<u>\$50,700,329</u>	<u>\$23,675,570</u>	<u>\$24,782,393</u>	<u>\$14,009,175</u>

14. PLEDGED REVENUES

WWU 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	\$73,790,570	Housing and Dining bonds issued in 1998, 2005, 2006, 2009,2012	Construction and renovation of student housing projects	2034	67.8%
Student Recreation Center gross revenues	\$38,394,175	Student Recreation Center bonds issued in 2012	Construction of the Student Recreation Center	2033	20.5%
* 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, 2013 and 2012:

	6/30/12	Additions/ Amortization	Retirements	6/30/13	Current Portion
Bonds and notes payable					
Revenue and refunding bonds	\$78,003,909	\$9,743,814	\$12,265,000	\$75,482,723	\$2,910,000
Notes payable	5,778,210	269,908	535,256	5,512,862	551,463
Net pension obligation	5,462,938	2,449,000	150,968	7,760,970	376,000
Total long term liabilities	\$89,245,057	\$12,462,722	\$12,951,224	\$88,756,555	\$3,837,463

	6/30/11	Additions/ Amortization	Retirements	6/30/12	Current Portion
Bonds and notes payable					
Revenue and refunding bonds	\$79,873,169	\$25,045,740	\$26,915,000	\$78,003,909	\$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	\$87,181,253	\$29,450,740	\$27,386,936	\$89,245,057	\$3,468,025

16. LEASES

WWU leases facilities for off-campus office and educational spaces under a variety of agreements. WWU also finances certain equipment through non-cancelable operating leases. At June 30, 2013, future payments under these operating leases are as follows:

Fiscal Year	Lease Payment
2014	\$551,146
2015	409,573
2016	193,770
2017	102,368
2018	74,253
2019-2029	247,762
Total minimum lease payments	\$1,578,872

17. DEFERRED COMPENSATION

WWU, 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 WWU's employees; WWU 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, 2013 and 2012 are as follows:

Operating Expenses	2013	2012
Instruction	\$93,857,845	\$87,654,779
Research	4,969,498	4,685,940
Academic Support	14,911,524	11,224,188
Student Services	16,470,143	16,574,245
Institutional Support	19,168,694	17,141,831
Operation and Maintenance of Plant	42,411,775	39,724,503
Scholarships and other student aid	16,796,678	15,278,601
Auxiliary enterprise expenditures	<u>46,329,778</u>	<u>43,234,005</u>
Total operating expenses	<u>\$254,915,935</u>	<u>\$235,518,092</u>

19. PENSION PLANS

WWU 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 WWU employees covered by PERS for the year ended June 30, 2013 and 2012 is \$32,233,297 and \$32,271,085; the payroll for employees covered by TRS is \$876,331 and \$885,844; the payroll covered by WWURP is \$71,497,672 and \$70,767,054; the payroll for LEOFF is \$853,190 and \$781,159, respectively.

Western Washington University Retirement Plan (WWURP)*Plan Description*

The WWURP is a defined contribution single employer pension plan with a supplemental payment, when re-

quired. The plan covers faculty, professional staff, and certain other employees. It is administered by WWU. WWU's Board of Trustees is authorized to establish and amend benefit provisions. During the fiscal year ending June 30, 2011, the University amended the supplemental retirement plan, limiting participation to those individuals who were active participants on February 28, 2011. 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. WWU matches the employee contributions. All required employer and employee contributions have been made.

The WWURP contributions for the years ending June 30, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Employee	\$5,906,235	\$5,436,281	\$5,612,217
University	5,938,412	5,427,185	5,624,889

Supplemental Component

The supplemental payment plan determines a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date.

WWU makes direct payments to qualified retirees when the retirement benefit provided by the fund sponsor does not meet the benefit goal.

WWU received an actuarial evaluation of the supplemental component of the WWURP during fiscal 2013. The previous evaluation was performed in 2011. The Unfunded Actuarial Accrued Liability (UAL) calculated as of June 30, 2013 and 2011 was

\$17,924,000 and \$10,035,000 respectively, and is amortized over an 11 year period.

The Annual Required Contribution (ARC) of \$2,449,000 consists of amortization of the UAL (\$1,730,000), normal cost (or current cost) (\$669,000) 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 4.25% to 7.25% and projected salary increases of 3.0%. Approximately \$71,497,672 and \$70,767,054 of WWU's payroll were covered under this plan during fiscal 2013 and fiscal 2012, respectively.

The following table reflects the activity in the Net Pension Obligation for the year ended June 30, 2013:

Balance as of June 30, 2011	\$4,205,455
Annual Required Contribution FY12	1,400,000
Payments to Beneficiaries FY12	(142,517)
Balance as of June 30, 2012	5,462,938
Annual Required Contribution FY13	2,449,000
Payments to Beneficiaries FY13	(150,968)
Balance as of June 30, 2013	<u>\$7,760,970</u>

PERS, TRS and LEOFF

Plan Description

WWU 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. TRS 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, 2013 are as follow:

	Employee	University
PERS		
Plan I	6.00%	7.21%
Plan II	4.64%	7.21%
Plan III	5% - 15%	7.21%
TRS		
Plan I	6.00%	8.04% - 8.05%
Plan II	4.69%	8.04% - 8.05%
Plan III	5% - 15%	8.04% - 8.05%
LEOFF		
Plan II	8.46%	8.62%

The required contributions for the years ending June 30, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
PERS			
Employee	\$1,604,739	\$1,603,586	\$1,466,592
University	2,297,067	2,289,213	1,738,991
TRS			
Employee	\$31,890	\$29,631	\$28,122
University	36,137	33,660	26,711
LEOFF			
Employee	\$72,180	\$66,086	\$65,066
University	73,545	67,336	66,022

All required employer and employee contributions have been made.

20. OTHER POST EMPLOYMENT BENEFITS (OPEB)

During the 2008 fiscal year, WWU 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:

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 2013, 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 January 1, 2011 to be \$3.5 billion.

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 WWU's financial statement.

WWU was billed and paid approximately \$17.3 million for active and retiree health care expense during fiscal 2013 and \$18.2 million in fiscal 2012.

21. RISK MANAGEMENT

WWU 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. WWU 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

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

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

	2013	2012
Operating	\$3,605,931	\$6,661,978
Research	524,672	677,966
Capital projects	<u>9,820,775</u>	<u>16,614,668</u>
Total commitments	<u>\$13,951,378</u>	<u>\$23,954,612</u>

23. JOINT VENTURE

In fiscal 2010, WWU 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 WWU Board of Trustees appointed by WWU Board of Trustees, the President of WWU, 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 WWU's Statement of Net Position.

24. FOUNDATION PLEDGED GIFT RECEIVABLE

In April 2012, WWU received a \$1.0 million unconditional pledged gift from the Foundation for the purpose of the design and construction of the Multipurpose Field project to be located on WWU's campus. The pledged gift to WWU is recorded at its net present value, with the discount amortized over the 8 year payment schedule using the straight line method. The pledge is expected to be paid as follows:

For the year ending June 30,

2014	\$100,000
2015	50,000
2016	50,000
2017	150,000
Thereafter	<u>650,000</u>
	1,000,000
Less present value discount (0.71%)	<u>(35,686)</u>
Pledged gift receivable from the Foundation, net	<u>\$964,314</u>



Accounting Services
333 32nd Street, Suite 114
Bellingham, WA 98225

Phone: 360-650-3040
Fax: 360-650-4666