



WADE KING STUDENT RECREATION CENTER

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

June 30, 2014 and 2013

Overview

Western Washington University Wade King Student Recreation Center (the Recreation Center) is a state of the art open recreation fitness and wellness facility that has been created and shaped by the vision and support of Western Washington University (WWU) students. The Recreation Center was one of the nation's first recreation centers designed to meet Leadership in Energy and Environmental Design (LEED).

The following discussion and analysis provides an overview of the financial position and activities of the Western Washington University Wade King Student Recreation Center (the Recreation Center) for the fiscal years ended June 30, 2014, 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.

Using the Financial Statements

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

The statements are prepared in accordance with Governmental Accounting Standard Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. The financial statements are 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.

Statement of Net Position

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

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

Below is a condensed view of the Statements of Net Position as of June 30, 2014, 2013 and 2012:

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

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Current assets	\$780,468	\$1,988,552	\$1,733,021
Noncurrent assets	2,689,285	3,633,133	3,340,465
Capital assets, net	<u>23,580,776</u>	<u>21,662,553</u>	<u>21,663,209</u>
Total assets	<u>\$27,050,529</u>	<u>27,284,238</u>	<u>\$26,736,695</u>
Deferred outflows	<u>467,604</u>	<u>500,022</u>	<u>532,441</u>
Liabilities			
Current liabilities	1,225,332	790,700	451,455
Noncurrent liabilities	<u>24,056,000</u>	<u>24,782,393</u>	<u>24,808,850</u>
Total liabilities	<u>25,281,332</u>	<u>25,573,093</u>	<u>25,260,305</u>
Net Position			
Net invested in capital assets	(707,620)	(1,907,691)	(1,523,200)
Restricted for system renewal and replacements	2,139,260	1,976,548	1,740,551
Restricted for capital projects	-	712,127	1,090,000
Unrestricted	<u>805,161</u>	<u>1,430,183</u>	<u>826,887</u>
Total net position	<u><u>\$2,236,801</u></u>	<u><u>\$2,211,167</u></u>	<u><u>\$2,134,238</u></u>

The construction of Harrington Field, a new multipurpose artificial turf field, was completed in fiscal 2014 at a total cost of \$6.35 million (including capitalized interest), \$3.4 million of which was funded by the Recreation Center. The project has created 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 by servicing the growing needs of the intramural and sport club system. The Recreation Center contributed significant reserve funds as well as up front savings from refinancing its bonds.

Total current assets decreased \$1,208,084 when comparing fiscal 2014 to fiscal 2013 primarily due to funding the Harrington Field project with cash and cash equivalents. The receivable from the Western Washington University Foundation (the Foundation) decreased in fiscal 2014 by \$22,711 due to the purchase of equipment out of the Wade King Foundation fund.

Total noncurrent assets, excluding capital assets net, decreased \$943,848 during fiscal 2014, as cash and investments were used to fund the Harrington Field. Total noncurrent assets, excluding capital assets net, increased \$292,668 during fiscal 2013 primarily due to increases in investments.

The capital assets, net balance increased by \$1,918,223 during fiscal 2014 due to completion of the Harrington Field.

Current liabilities increased \$434,632 and \$339,245 during fiscal 2014 and fiscal 2013, respectively. The increase in fiscal 2014 is due to the current portion of long-term debt offset by a decrease in accounts payable for the remaining Harrington Field invoices. The increase in fiscal 2013 is primarily due to invoices that are attributable to the Harrington Field construction expenses.

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MANAGEMENT'S DISCUSSION AND ANALYSIS***

June 30, 2014 and 2013

Non-current liabilities decreased \$726,393 and \$26,457 in fiscal 2014 and fiscal 2013, respectively, due to the Series 2012 bond amortization and the current portion of principal payments. No principal payments were scheduled until fiscal 2015 due to the 2012 bond refunding for debt service savings, which was committed as one of the funding sources for the Harrington Field.

It should be noted that the fiscal 2013 statements have been restated to account for the adjustment of the Harrington Field as a split asset between the Recreation Center and the University. The decision to split the asset based on the appropriate funding sources was made subsequent to the completion of the fiscal 2013 statements. The Prior Period Adjustment to correct capital contributions previously recognized by the Recreation Center is -\$1,968,019. Overall, net position increased \$25,634 in fiscal 2014 and \$76,929 in fiscal 2013. The amount invested in capital assets, net of related debt continues to decrease as the Recreation Center facility is depreciating at a faster rate than the related debt is repaid. Assets restricted for system renewals and replacements increased over the two prior fiscal years as contributions to this fund exceeded expenditures. Funds for renewal and replacement are set aside according to the capital and maintenance plan required by the debt covenants. These funds are classified as restricted on the Statements of Net Position.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

Non-operating revenues are monies received for which goods and services are not provided, such as investment income. Non-operating expenses include interest expense on outstanding debt and amortization of bond premium.

Following is a condensed version of the Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 4,321,348	\$ 4,327,749	\$ 4,327,272
Operating expenses	<u>(3,376,104)</u>	<u>(3,244,359)</u>	<u>(2,982,134)</u>
Income from operations	945,244	1,083,390	1,345,138
Nonoperating revenues	11,765	1,022,451	975,119
Nonoperating expenses	<u>(931,375)</u>	<u>(1,020,109)</u>	<u>(1,239,045)</u>
Increase in net assets	25,634	1,085,732	1,081,212
Net position, beginning of year	<u>2,211,167</u>	<u>2,134,238</u>	<u>2,012,242</u>
Restatement	-	(1,008,803)	(959,216)
Net position, beginning of year restated	2,211,167	1,125,435	1,053,026
Net position, end of year	<u>\$ 2,236,801</u>	<u>\$ 2,211,167</u>	<u>\$ 2,134,238</u>

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

June 30, 2014 and 2013

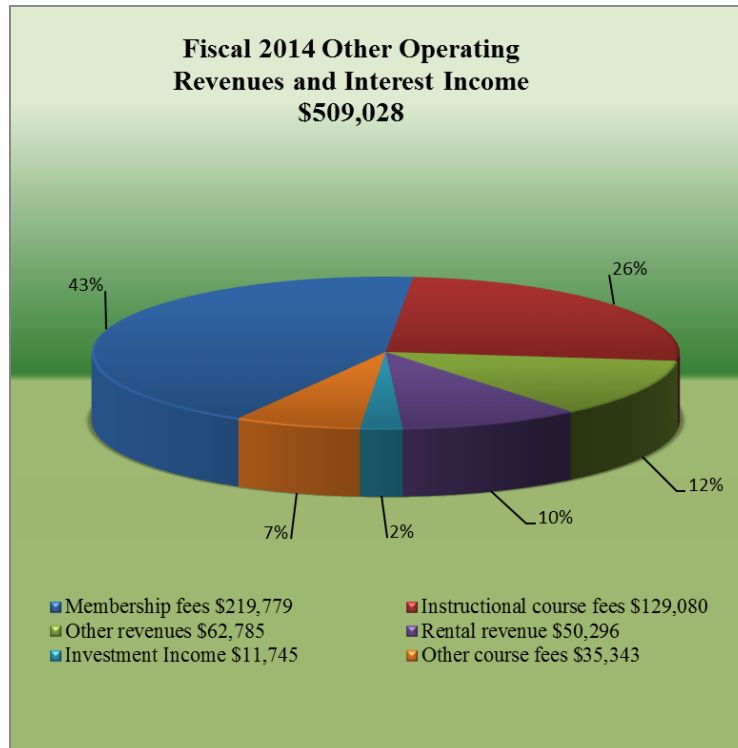
Revenues

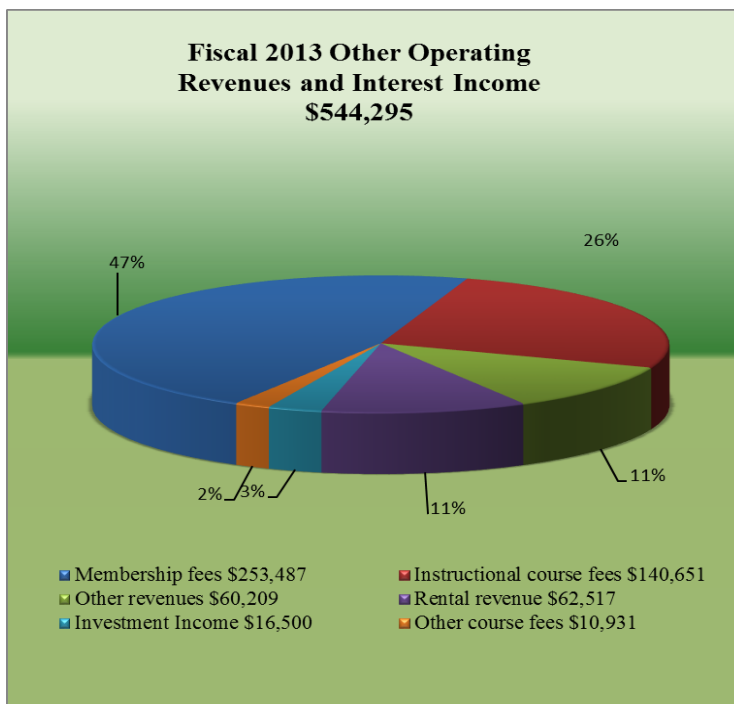
The Recreation Center's largest source of revenue is a \$95 per quarter mandatory service and activity fee entitled the "Student Recreation Fee" for use of the facility for those students taking six or more credits. During fiscal 2014, the estimated academic yearly average (AYA) of students taking 6 or more credits increased to 13,262 from 13,156. During fiscal 2013, AYA increased by 55 students. Other students, faculty, staff and alumni may pay a membership fee on a voluntary basis to gain access to the facility. The AYA does not include summer term. The fiscal 2014 mandatory service and activity fee remained unchanged from fiscal 2013 and fiscal 2012.

The decrease in membership fees to \$219,779 in fiscal 2014 from \$253,487 in fiscal 2013 is primarily due to fewer sponsored and faculty/staff memberships, as new Bellingham fitness facilities provided the community with additional options. Instructional course fees decreased similarly as there were fewer classes and personal training sales. Membership and instruction course fees increased during fiscal 2013 by \$25,114 due to increased personal training opportunities and sales of sponsored memberships.

The capital contribution of \$1.0 million for fiscal 2013 for the Harrington Field has been restated as part of the Prior Period Adjustment (-\$1,968,019). Subsequent to completion of the fiscal 2013 statements it was determined that the asset be split between WWU and the Recreation Center to reflect the appropriate sources of funding.

Rental revenue for fiscal 2014 decreased by \$12,221 primarily due to a loss of two high school graduation parties. Conversely, rental revenue increased by \$18,546 between fiscal 2013 and fiscal 2012 due to new marketing changes that promoted more usage of the facility by outside groups, specifically additional graduation night rentals. Other course fees increased significantly because of the addition of the largest summer sport camp, rugby. The rugby camp increased other course revenue by \$24,412 between fiscal 2014 and fiscal 2013. Other course fee revenue decreased \$7,105 between fiscal 2012 and fiscal 2013 due to limited enrollment in summer tennis camps.





Expenses

The largest category of expenses for the Recreation Center is student and staff salaries and benefits, with depreciation being the second largest expense. Salaries and benefits comprised 45.1% of the total operating expenses in fiscal 2014 compared to 46.8% and 45.3% in fiscal 2013 and fiscal 2012, respectively. The moderate increase of \$3,384 in salaries and benefits in fiscal 2014 was due to increased student employment opportunities to assist with paraprofessional duties. The \$167,132 increase in salaries and benefits in fiscal 2013 was due to a new position, Assistant Director of Departmental Assessment and Sport Clubs, as well as an increased appointment for our University Dietician, Injury Rehabilitation Athletic Trainer, and increased student employment opportunities.

Total utility expense for fiscal 2014 was \$283,105, an increase of \$944. This small increase in utility expense was balanced out from a decrease in refuse and disposal and an increase in water and sewer. Total utility expense for fiscal 2013 was \$282,161, an increase of \$6,585 from fiscal 2012 due to higher steam consumption.

Repairs and maintenance increased by \$52,151 from fiscal 2013. This is attributed to additional facility projects throughout fiscal 2014, such as aerobic room floor refinishing. Repairs and maintenance expenses decreased \$21,712 in fiscal 2013 from fiscal 2012 as a result of more preventative maintenance reducing the need for costly repairs.

WWU imposed an equipment freeze for state and tuition funds in fiscal 2011 to achieve savings in anticipation of state-wide budget reductions. The equipment freeze was lifted in fiscal 2012. Major purchases were made but not received by the end of fiscal 2012, so this expense was recorded in fiscal 2013. Those expenses were \$115,473, a \$27,407 increase from fiscal 2012. In previous years' auxiliary operations, including the Recreation Center, voluntarily restricted equipment expenditures from operating funds, but utilized \$10,842 in fiscal 2012 from its Wade King Foundation Fund. The Recreation Center has an equipment replacement plan that budgets

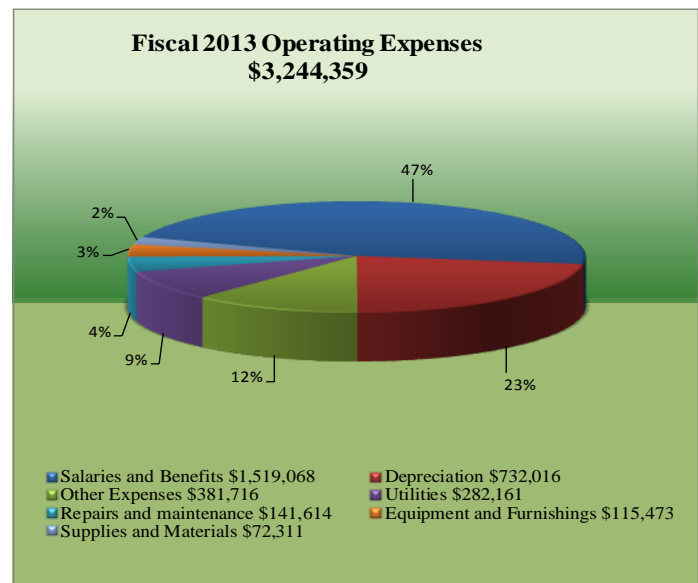
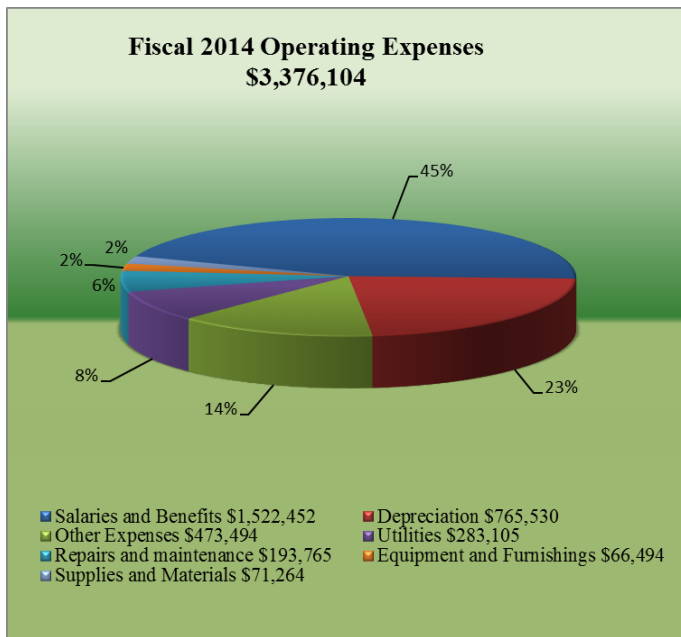
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\$100,000 per year in equipment replacement and refurbishment. Considering the expense of \$115,473 in fiscal 2013, the Recreation Center only spent \$66,494 in fiscal 2014 to maintain its equipment needs, a decrease of \$48,979

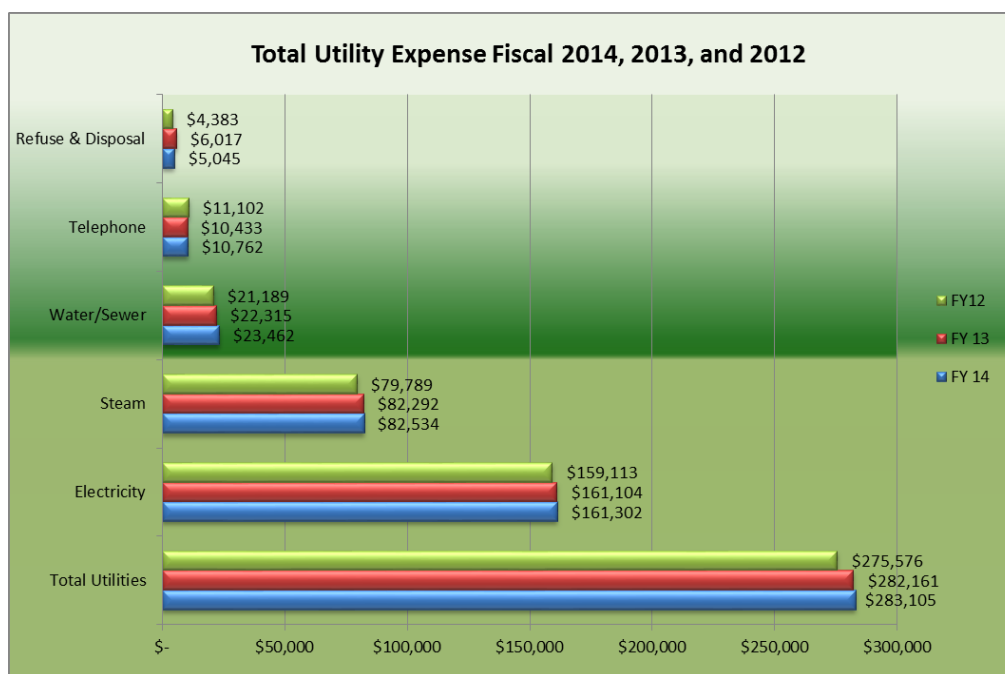
Supplies and materials expenses were on par with fiscal 2013 costs, decreasing by just \$1,047. This same category increased slightly by \$6,256 to \$72,311 in fiscal 2013 from \$66,055 in fiscal 2012. The increased demand for sanitary wipes for our fitness machines and equipment drove the increase between fiscals 2013 and 2012.

WWU's administrative services assessment fee (ASA), which is charged against revenues, increased to 5.0% in fiscal 2014. This expense was \$213,449 in fiscal 2014, a \$20,027 increase from \$193,422 in fiscal 2013. From fiscal 2012 to fiscal 2013 the fee was unchanged at 4.5%.



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MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014 and 2013



Reserve Funds

Bond Covenants require an annual addition to the renewal and replacement (R&R) reserve based on management’s assessment of the funding level necessary to maintain the facility over the long term. The initial five-year requirement was for fund transfers of \$100,000 in 2004, \$150,000 in each of 2005 and 2006, and \$200,000 in 2007 and 2008. All of the transfers were made as planned including an additional \$190,000 (unrestricted) amount in fiscal 2004 as a result of bond defeasance. Management reaffirmed the Facilities Management lifecycle maintenance plan for major maintenance and building repair and increased the annual contribution to \$250,000 beginning in fiscal 2009 to meet anticipated building maintenance and repairs expenses. As planned, \$250,000 was placed into the R&R reserve for fiscals 2014, 2013, and 2012. Various maintenance projects over the course of fiscal 2014 reduced the reserve amount by \$88,567. At June 30, 2014, the R&R balance was \$2,372,280. The funds must be used to improve or maintain the Recreation Center facility.

Management established an Operating Reserve in fiscal 2005 for unforeseen or extraordinary expenses. The reserve acts as an emergency fund for unplanned repairs, insurance deductibles, and as an operating cushion to cover unforeseen decreases in revenue. Reserve funds can also be designated for facility improvements beyond basic maintenance or for the purchase of new equipment. In fiscal 2014, \$11,701 was spent in both capital and non-capital equipment compared to \$87,667 in fiscal 2013. The Recreation Center transferred \$600,000 to the Harrington Field (formerly known as the Multipurpose Field) project in fiscal 2013. Contributions to this reserve in the past three years include \$0 in fiscal 2014 and fiscal 2013 and \$50,000 in fiscal 2012. During fiscal 2012, \$44,178 was spent on strength training equipment and \$250,000 was transferred to the Harrington Field project to assist with architectural design. At June 30, 2014 the Operating Reserve balance was \$703,295.

The King family made an annual donation of \$50,000 over the first seven years, totaling \$350,000. As of fiscal 2011, their annual contribution to the Recreation Center has been restructured. This Foundation reserve fund is dedicated to maintaining the quality of the facility and its programs, and supports students directly as well. During fiscal 2014, \$22,711 was spent on non-capital equipment to improve the weight and fitness areas. While \$10,842

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

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was spent on similar equipment to improve the weight and fitness areas in fiscal 2012 no money was spent out of this fund in fiscal 2013. Portions of the donations have been used in the past for youth programming scholarships and certain equipment upgrades. The available balance maintained by the Foundation at June 30, 2014 was \$13,912. These assets are reported as unrestricted on the Statement of Net Position.

Ratio Analysis

Ratios can be helpful in evaluating the Recreation Center's financial health and performance. The debt service coverage ratios for fiscal 2014, 2013, and 2012 were 4.67, 4.68, and 2.36 respectively. The higher ratios in fiscal 2014 and fiscal 2013 were due to the intentional structuring of bond debt payments to include interest only in support of funding the Harrington Field. This ratio is calculated by dividing total operating revenues and investment income by the actual annual debt service paid during the fiscal year on the outstanding revenue bonds. The debt services amounts for fiscal years 2014, 2013 and 2012 were \$925,350, \$927,920, and \$1,839,750 respectively.

Utilization Rates

Student utilization rates dropped with 12,135 (91.5%) of the estimated 13,262 AYA enrolled students using the facility during the course of fiscal 2014. This utilization rate was lower than the 13,045 (99.2%) of the estimated 13,470 AYA enrolled students who utilized the recreation center in fiscal 2013 and lower than the 12,106 (92.4%) of the 13,101 AYA who utilized the recreation center in fiscal 2012. AYA does not include summer term. Utilization information is recorded in the Recreation Center's system when students present their membership cards upon entry to the facility. Visits by members and non-members totaled 436,933 during fiscal 2014, compared with 422,709 during fiscal 2013 and 415,637 in fiscal 2012. The highest number of visits in a given day exceeded 3,200 in fiscal 2014. This is a steady rise from the 3,100 visits per day that were recorded in fiscal 2013 and 3,000 visits recorded in fiscal 2012.



Washington State Auditor Troy Kelley

INDEPENDENT AUDITOR'S REPORT

November 21, 2014

Board of Trustees
Western Washington University Wade King Student Recreation Center
Bellingham, Washington

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Western Washington University Wade King Student Recreation Center (the Recreation Center), Whatcom County, Washington, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Recreation Center'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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Recreation Center'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 Recreation Center'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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Western Washington University Wade King Student Recreation Center, as of June 30, 2014 and 2013, and the changes in financial position and 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 discussed in Note 1, the financial statements of Western Washington University Wade King Recreation Center, a department of the University, are intended to present the financial position, the changes in financial position, and where applicable, cash flows of only that portion of the business-type activities of the University that is attributable to the transactions of the Recreation Center. They do not purport to, and do not, present fairly the financial position of Western Washington University as of June 30, 2014 and 2013, 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. 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 3 through 11 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,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" between the first and last names.

TROY KELLEY
STATE AUDITOR

WADE KING STUDENT RECREATION CENTER
STATEMENT OF NET POSITION

June 30, 2014 and 2013

Assets	2014	2013 Restated
Current assets		
Cash and cash equivalents (Note 2)	\$512,499	\$1,187,836
Investments (Note 2)	177,968	711,043
Accounts receivable, net of allowance of \$10,104 in 2014 and \$7,056 in 2013	71,447	48,352
Receivable from Western Washington University Foundation, net (Note 7)	13,912	36,623
Prepaid Expenses	-	355
Inventory	4,642	4,343
Total current assets	<u>780,468</u>	<u>1,988,552</u>
Noncurrent assets		
Investments (Note 2)	550,025	944,457
Restricted cash and cash equivalents (Note 2)	883,514	1,123,060
Restricted investments (Note 2)	1,255,746	1,565,616
Capital assets, net (Note 3)	23,580,776	21,662,553
Total noncurrent assets	<u>26,270,061</u>	<u>25,295,686</u>
Total assets	<u>27,050,529</u>	<u>27,284,238</u>
Deferred outflows		
Deferred loss on bond refunding	467,604	500,022
Total deferred outflows	<u>467,604</u>	<u>500,022</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	46,392	333,980
Accrued wages and benefits	154,395	154,367
Unearned revenue	170,320	148,129
Interest payable	154,225	154,224
Current portion of bonds payable (Note 4)	700,000	-
Total current liabilities	<u>1,225,332</u>	<u>790,700</u>
Noncurrent liabilities		
Bonds payable, less current portion (Note 4)	24,056,000	24,782,393
Total liabilities	<u>25,281,332</u>	<u>25,573,093</u>
Net Position		
Net investment in capital assets	(707,620)	(1,907,691)
Restricted for system renewals and replacements	2,139,260	1,976,548
Restricted for capital projects	-	712,127
Unrestricted	805,161	1,430,183
Total net position	<u>\$2,236,801</u>	<u>\$2,211,167</u>

WADE KING STUDENT RECREATION CENTER
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION *June 30, 2014 and 2013*

	<u>2014</u>	<u>2013 Restated</u>
Operating Revenues		
Service and activity fees, net of mandatory transfer	\$3,824,065	\$3,799,954
Staff, faculty and alumni membership fees	219,779	253,487
Instructional course fees	129,080	140,651
Other course fees	35,343	10,931
Rental revenue	50,296	62,517
Other revenues	62,785	60,209
Total operating revenues	<u>4,321,348</u>	<u>4,327,749</u>
Operating Expenses		
Salaries and benefits	1,522,452	1,519,068
Depreciation	765,530	732,016
Utilities	283,105	282,161
Repairs and maintenance	193,765	141,614
Equipment and furnishings	66,494	115,473
Supplies and materials	71,264	72,311
Administrative assessment	213,449	193,421
Insurance	38,407	28,585
Other	221,638	159,710
Total operating expenses	<u>3,376,104</u>	<u>3,244,359</u>
Income from operations	945,244	1,083,390
Nonoperating Revenues (Expenses)		
Investment income	11,745	16,500
Capital contribution	-	1,000,000
Gift income	20	5,951
Interest expense	(925,350)	(888,689)
Amortization of bond premiums	(6,025)	(131,420)
Total nonoperating revenues (expenses)	<u>(919,610)</u>	<u>2,342</u>
Increase in net assets	25,634	1,085,732
Net Position, Beginning of Year	<u>2,211,167</u>	<u>3,093,454</u>
Prior Period Adjustment-Correction of Capital Contributions (Note 1)		(1,968,019)
Net Position, Beginning of Year, as restated	<u>2,211,167</u>	<u>1,125,435</u>
Net Position, End of Year	<u><u>\$2,236,801</u></u>	<u><u>\$2,211,167</u></u>

WADE KING STUDENT RECREATION CENTER
STATEMENT OF CASH FLOWS

June 30, 2014 and 2013

	2014	2013 Restated
Cash Flows from Operating Activities		
Cash received from students and other customers	\$4,320,444	\$4,322,787
Payments to employees	(1,522,424)	(1,505,293)
Payments to suppliers	(1,375,654)	(663,981)
Net cash flows provided by operating activities	<u>1,422,366</u>	<u>2,153,513</u>
Cash Flows from Noncapital Financing Activities		
Gift Income from the Foundation	<u>22,731</u>	<u>818</u>
Net cash flows provided by(used in) noncapital financing activities	22,731	818
Cash Flows from Investing Activities		
Net purchases of investments in internal investment pool	1,237,377	(800,184)
Investment income received	<u>11,745</u>	<u>12,794</u>
Net cash flows provided by investing activities activities	1,249,122	(787,390)
Cash Flows from Capital and Related Financing Activities		
Purchases of equipment	(2,683,753)	(731,360)
Interest paid on capital debt	(925,349)	(886,141)
Principal paid on capital debt	-	-
Net cash used in capital and related financing	<u>(3,609,102)</u>	<u>(1,617,501)</u>
Net increase in cash and cash equivalents	(914,883)	(250,560)
Cash and cash equivalents, beginning of year	<u>2,310,895</u>	<u>2,561,455</u>
Cash and cash equivalents, end of year	<u>\$1,396,012</u>	<u>\$2,310,895</u>
Reconciliation of Operating Income to Net Cash Provided to Operating Activities		
Income from operations	\$945,244	\$1,083,390
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation	765,530	732,016
Change in operating assets and liabilities		
Accounts receivable	(23,095)	1,991
Accounts payable, accrued expenses, salaries and benefits	(287,560)	343,599
Prepaid Expense	355	(104)
Unearned revenue	22,191	(6,953)
Inventory	(299)	(426)
Net cash flows provided by operating activities	<u>\$1,422,366</u>	<u>\$2,153,513</u>

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

June 30, 2014 and 2013

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

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

The facility was named in memory of Wade King, a 10-year old who died in 1999 in a pipeline explosion in Bellingham. Prior to fiscal 2011, Wade King's parents, Frank and Mary King, pledged a lifetime gift of \$50,000 per year to the Western Washington University Foundation, a related party, restricted for support to ensure continued quality facilities and programs at the Recreation Center. The Recreation Center requests funds from the Western Washington University Foundation when expenditures are incurred. During fiscals 2013, 2012 and 2011, the Recreation Center did not receive the \$50,000 due to a restructuring of the pledged gift to an estate gift.

Financial Statement Presentation

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

Basis of Accounting

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

Cash, Cash Equivalents and Investments

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

Inventory

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

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Accounts Receivable

Receivables are recorded at their principal balances and are due primarily from WWU students. The Recreation Center considers all accounts greater than 30 days old to be past due and uses the allowance method for recognizing bad debts. When an account is deemed uncollectible, it is written off against the allowance. Management determined that an allowance of \$10,104 and \$7,056 at June 30, 2014 and 2013 respectively, is adequate.

Building and Equipment, Net

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

Deferred Outflows

For the year ended June 30, 2013, the Recreation Center 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. The implementation of this standard reclassified the deferred loss on defeasance from the 2012 bond refunding as a deferred outflow of resources. The deferred outflow amounts are \$467,604 and \$500,022 for fiscal years 2014 and 2013, respectively and are reported on the statement of net position.

Unearned Revenue

Summer quarter, which is the first quarter of WWU's fiscal year, begins shortly before June 30. The majority of cash received for service and activity fees related to summer session in fiscal 2014 are recorded as unearned revenue until the following fiscal year when the revenue is earned.

Restatement of prior period

During fiscal 2014, it was decided with the completion of the Harrington Field project that the asset will be split between the Recreation Center and WWU based upon the amount of funding provided by each entity. As such, the Recreation Center recorded 52.8% of the capital asset. The restatement resulted in a total decrease in net position of \$1,960,019 for fiscal 2013 due to the reduction of WWU capital contribution as well as the net present value of the Foundation pledge.

Net Position

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

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

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

Unrestricted net position. Unrestricted net position represent resources derived from operations and investing

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activities along with operating reserves established for future replacement of assets.

Restricted for capital projects. Restricted for capital projects net position represent resources that are restricted by bond covenants and contracts to be used for the Harrington Field project.

Classification of Revenues and Expenses

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

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

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

Student Recreation Center Fee, net of mandatory transfer

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

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

Bond Premiums

Bond premiums are deferred and amortized over the term of the bonds using the effective interest method. The remaining balances of bond premiums are presented as an increase of the face amount of bonds payable.

Administrative Assessment

WWU provides support to the Recreation Center through cash and bond debt management, accounting, purchasing and disbursing services, risk management, human resources and other support services. The effects of these transactions are included as operating expenditures in these financial statements. The amount paid was \$213,449 and \$193,422 for fiscal years ended June 30, 2014 and 2013, respectively, and is based on a percentage of revenues.

Tax Exemptions

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

Estimates

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

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NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Interest Rate and Credit Risk

The Recreation Center's operating cash is part of WWU's internal investment pool. The pool is invested in demand deposits, time certificates of deposit, the Washington State Local Government Investment Pool (LGIP) and U.S. Treasury and Agency securities. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The LGIP is an unrated investment pool. Bank balances (including time certificates of deposit) are insured by the Federal Deposit Insurance Corporation (FDIC) or by a collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). U.S. Treasury and Agency securities are rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service.

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.

The Recreation Center's investment in WWU's pool includes \$2,139,260 restricted for renewals and replacements.

	June 30, 2014	Weighted Average Maturity (in years)	June 30, 2013	Weighted Average Maturity (in years)
Cash and Cash Equivalents	\$1,396,013	0.001	\$2,730,143	0.001
Investments				
Certificates of deposit	196,112	2.033	412,524	0.057
U.S. Treasury	162,607	1.085	-	
U.S. Agencies	<u>1,625,019</u>	2.657	<u>3,393,050</u>	0.722
	<u>\$3,379,752</u>		<u>\$6,535,717</u>	

NOTE 3. CAPITAL ASSETS, NET

The depreciation expense for the fiscal years ended June 30, 2014 and 2013 was \$765,530 and \$732,016, respectively.

Following are the changes in capital assets for the years ended June 30, 2014 and 2013:

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	June 30, 2013	Additions	Retirements	June 30, 2014
Non-Depreciable				
Construction in Progress	\$666,247	\$ -	(\$666,247)	\$ -
Depreciable				
Building	27,687,761	-	-	27,687,761
Equipment	348,698	-	-	348,698
Improvements	7,078	3,350,000		3,357,078
	28,709,784	3,350,000	(666,247)	31,393,537
Less accumulated depreciation	(7,047,231)	(765,530)	-	(7,812,761)
Capital assets, net	<u>\$21,662,553</u>	<u>\$2,584,470</u>	<u>(\$666,247)</u>	<u>\$23,580,776</u>

	June 30, 2012	Additions	Retirements	June 30, 2013
Non-Depreciable				
Construction in Progress	\$12,658	\$653,589	\$ -	\$666,247
Depreciable				
Building	27,687,761	-	-	27,687,761
Equipment	270,927	77,771	-	348,698
Improvements	7,078	-	-	7,078
	27,978,424	731,360	-	28,709,784
Less accumulated depreciation	(6,315,215)	(732,016)	-	(7,047,231)
Capital assets, net	<u>\$21,663,209</u>	<u>(\$656)</u>	<u>\$ -</u>	<u>\$21,662,553</u>

NOTE 4. BONDS PAYABLE

For the year ended June 30, 2013, the Recreation Center 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. The implementation of this standard expensed \$125,407 of unamortized bond issuance costs and reclassified the deferred loss on defeasance as a deferred outflow. The deferred outflow amounts are \$467,604 and \$500,022 for fiscal years 2014 and 2013, respectively. Management determined the unamortized bond issuance costs to be immaterial and chose not to restate previous years’ net positions. Had the issuance cost been deemed material, the effect on net position for fiscal year 2012 would have been a reduction of \$125,407.

The Recreation Center issued the Revenue and Refunding Bonds Series 2012 in April 2012. The bonds bear interest at rates of 3.0% to 4.1% and mature annually until 2037. The bonds have an aggregate face amount of \$24,385,000 and \$24,385,000 at June 30, 2014 and 2013, which is reported net of the unamortized original issue premium of \$371,000 and \$397,393 respectively.

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

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premium of \$423,850.

Management expects the refunding will provide a net present value savings of approximately \$2,723,000 in debt service over the life of the new bonds and a loss on defeasance of \$532,441. The amount required to refund the 2002 bonds remaining plus a refunding premium and underwriter's discount (total of \$23,721,064) were sent directly to the escrow agent, US Bank, and these funds were disbursed completely on May 1, 2012.

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

	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2015	\$700,000	925,350	\$1,625,350
2016	725,000	904,350	1,629,350
2017	750,000	882,600	1,632,600
2018	770,000	860,100	1,630,100
2019	795,000	837,000	1,632,000
2020-2024	4,375,000	3,765,825	8,140,825
2025-2029	5,305,000	2,846,000	8,151,000
2030-2034	6,450,000	1,696,600	8,146,600
2035-2037	4,515,000	366,000	4,881,000
	<u>24,385,000</u>	<u>13,083,825</u>	<u>37,468,825</u>
Plus unamortized premium	<u>371,000</u>		
Total	<u><u>\$24,756,000</u></u>	<u><u>\$13,083,825</u></u>	<u><u>\$37,468,825</u></u>

Following are the changes in bonds payable:

	<u>Beginning Balance</u>	<u>Additions and Amortizations of Bond Premium</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion</u>
As of June 30, 2014 - Series 2012 Revenue Refunding Bonds, net of unamortized original issue premium of \$371,000 and \$397,393 at June 30, 2014 and 2013 respectively.	<u>\$24,782,393</u>	<u>(\$26,393)</u>	<u>\$ -</u>	<u>\$24,756,000</u>	<u>\$700,000</u>
As of June 30, 2013 - Series 2012 Revenue Refunding Bonds, net of unamortized original issue premium of \$397,393 and \$423,850 at June 30, 2013 and 2012 respectively.	<u>\$24,808,850</u>	<u>(\$26,457)</u>	<u>\$ -</u>	<u>\$24,782,393</u>	<u>\$ -</u>

In accordance with resolutions of the Board of Trustees, WWU sold the Recreation Center Bonds to investors

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who have a first lien on, and are to be paid solely from the gross revenue from the operation of the Recreation Center.

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

NOTE 5. PENSION PLAN

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

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

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

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

WWURP is a defined contribution single-employer pension plan with a supplemental payment, when required. The plan covers faculty, professional staff, and certain other employees. It is administered by WWU. WWU's Board of Trustees is authorized to establish and amend benefit provision.

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

Employee contribution rates, which are based on age, range from 5% to 10% of salary. WWU matches the contributions. All required employer and employee contributions have been made. The Recreation Center contributed \$55,534, \$50,485 and \$44,759 to these plans in fiscal 2014, 2013 and 2012, respectively. Actuarial valuations of the plans for the Recreation Center as a stand-alone entity are not available.

NOTE 6. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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