



FINANCIAL REPORT

2014







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November 22, 2014

Karen Lee, Chair  
Board of Trustees  
Western Washington University  
Bellingham, WA 98225

Dear Chair Lee:

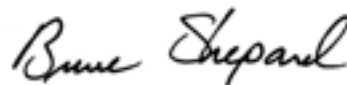
We are pleased to submit the Annual Financial Report of Western Washington University. The accounts of WWU are maintained in accordance with policies and regulations established by Washington State and its Office of Financial Management. This report has been prepared in accordance with generally accepted 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, 2014. 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. WWU is the highest-ranking public, master's-granting university in the Pacific Northwest and on the list of Highly Ranked Universities that Operate Most Efficiently according to the 2013 U.S. News & World Report college rankings and is one of the 100 best values in public colleges according to Kiplinger's Personal Finance. Western's national academic reputation, excellent faculty, as well as its prime location, make it an institution "in demand".

Sincerely,



Bruce Shepard  
President



Richard Van Den Hul  
Vice President for Business and Financial Affairs

**BOARD OF TRUSTEES\***

Karen Lee, Chair  
Sue Sharpe, Vice Chair  
Dick Thompson, Secretary  
Carly Roberts, Student Trustee  
Chase Franklin  
Betti Fujikado  
Peggy Zoro  
Ralph Munro

**ADMINISTRATIVE OFFICERS**

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

*\*as of June 30, 2014*







## 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, 2014 and 2013. 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 and on the list of Highly Ranked Universities that Operate Most Efficiently according to the 2013 U.S. News & World Report college rankings and is one of the 100 best values in public colleges according to Kiplinger's Personal Finance.

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 2014

WWU's overall financial position continued to improve in fiscal 2014, although at a slower pace than in recent fiscal years.

Significant actions which occurred during the fiscal year include the following (discussed in further detail on the following pages):

- Tuition and fees revenue increased 3.2%
- State operating appropriation increased 28%
- Salaries expense increased 6.3%, the first increase for certain employment categories since 2008
- Gain on endowments increased 29.9%

### 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 reports all assets and liabilities of WWU.

A summarized comparison of WWU's assets, liabilities and net position as of June 30, 2014, 2013 and 2012, follows:

	2014	2013	2012
	<i>(Dollars in thousands)</i>		
<b>Assets</b>			
Current assets	\$69,672	\$70,480	\$77,396
Noncurrent assets	74,821	60,448	47,515
Capital assets, net	<u>433,147</u>	<u>441,496</u>	<u>442,253</u>
Total assets	\$577,640	\$572,424	\$567,164
<b>Deferred outflows</b>	1,641	1,798	1,644
<b>Liabilities</b>			
Current Liabilities	34,869	31,450	30,634
Noncurrent Liabilities	<u>82,740</u>	<u>84,919</u>	<u>85,777</u>
Total liabilities	<u>117,609</u>	<u>116,369</u>	<u>116,411</u>
<b>Total net position</b>	<u>461,672</u>	<u>457,853</u>	<u>452,397</u>

### Assets

Current assets consist primarily of cash and cash equivalents, short-term investments, funds held with the State Treasurer, and accounts receivable. The slight decrease (1.1%) in fiscal year (FY) 2014 over FY 2013 is the result of an overall decrease in Accounts Receivable, Net. The 8.9% decrease in FY 2013 current assets over FY 2012 is primarily due to reallocating cash and short-term investments to long-term investments.

The 23.8% FY 2014 increase in noncurrent assets (excluding capital assets) is attributable to increased investments, as WWU continues to build an appropriate level of operating reserve (see ratios later in this section). Noncurrent assets (excluding capital assets) increased by 27.2% in FY 2013 as a result of the shift to longer-term investments.

### Liabilities

The excess of current assets over current liabilities of \$34.8 million in FY 2014 and \$39.0 million in FY 2013 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 10.9% in FY 2014, which (apart from the accounts payable increase related to timing of payments) is attributable to higher unearned revenue. In addition, the Recreation Center Refinancing bonds issued in FY 2012 called for no principal payments until FY 2015, increasing the current portion of bonds and notes payable in FY 14. Current liabilities increased 2.7% in FY 2013 compared to FY 2012 due to increases in unearned revenue and deposits payable offset by decreased accounts payable and accrued liabilities.

Long-term liabilities decreased overall 2.6% (\$2.2 million) during fiscal 2014 due largely to decreases in scheduled principal payments (\$4.4 million) for Housing and Dining Bonds and leases payable. This decrease was offset by a \$2.2 million increase in the unfunded long-term net pension obligation to certain state employees based on the estimated State Actuarial valuation of the plan (Note 19). 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 in the unfunded long-term net pension obligation.



## 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, 2014, 2013 and 2012 are summarized as follows:

	2014	2013	2012
	<i>(Dollars in thousands)</i>		
<b>Net Position</b>			
Net investment in capital assets	\$357,384	\$363,010	\$361,803
Restricted:			
Nonexpendable	4,631	4,629	4,629
Expendable	25,943	28,701	30,419
Unrestricted	<u>73,714</u>	<u>61,513</u>	<u>55,546</u>
<b>Total net position</b>	<u>\$461,672</u>	<u>\$457,853</u>	<u>\$452,397</u>

Net investment in capital assets decreased by \$5.6 million during fiscal 2014 primarily due to a \$14.9 million increase of capital assets, a \$23.2 million increase in depreciation and a \$3.6 million decrease in debt. The increase in capital assets includes fixed asset disposals of \$1.2 million. During fiscal 2014, WWU granted \$723 thousand in land and \$523 thousand in buildings, net to the Western Crossing Development (WCD) which, is a private/public partnership joint venture with the Port of Bellingham to develop a WWU waterfront campus (See Note 23). 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.

Highlights of fiscal 2014 capital asset activities:

- Construction in process decreased \$13.9 million primarily due to the completions of the ESCO project, Fraser Hall renovation, classroom and lab upgrades and Housing and Dining System renovations.
- Capital improvements to buildings increased \$17.2 million primarily due to completed renovations to the Fraser Hall lecture rooms, Classroom and Lab, Housing and Dining System residence halls.
- Long-term debt used to purchase capital assets decreased \$4.4 million due to principal payments and amortizations.
- Capital assets were reduced by \$1.2 million due to granting land and building to the Western Crossing Development joint venture.

Restricted nonexpendable includes donations and matching State contributions for the purpose of establishing distinguished professorships and graduate fellowships. During fiscal 2014, \$2,008 in additional restricted funds were acquired for endowments. When comparing fiscal 2013 to fiscal 2012, there were no changes to restricted nonexpendable net position as no new additions to endowments were received.

Restricted expendable net position decreased \$2.8 million during fiscal 2014 primarily due to spending \$2.3 million existing capital resources. Restricted expendable net position decreased \$1.7 million during FY 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.

Unrestricted net position increased \$12.2 million during FY 2014 mainly due to higher tuition and fee revenue, longer start-up periods for new programs funded by one-time funds and departmental savings under budget due to timing of new hires. Unrestricted net position increased \$6.0 million in fiscal 2013 primarily due to increases in tuition and fees and timing of new programs and hires

### Capital Assets and Related Debt

During FY 2014 and 2013, \$14.9 million and \$18.3 million (excluding library materials and equipment) respectively, were expended on capital improvements compared to \$16.7 million in FY 2012. Of the \$14.9 million in capital improvements during FY 2014, \$5.7 million was spent on the Harrington Field, \$6.1 million was expended on residence halls and dining facilities upgrades, \$1.6 million was spent on Fraser Hall renovations and \$576 thousand on Carver Gym design work. In addition to the \$14.9 million, the dining contract with Aramark provides a financial commitment up to \$7.3 million in dining area improvements. FY 2014, 2013 and 2012, the financial commitments were valued at \$769 thousand, \$535 thousand and \$4.3 million in capitalized improvements, respectively.

Specific projects completed or underway in fiscal 2014 include:

***Carver Gymnasium Renovations*** The estimated \$80.4 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.

***Harrington Field*** The \$6.4 million project was substantially complete at June 30, 2014. The facility includes 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 was partially funded by \$1.1 million acquired through the FY 2012 Wade King Recreation Center bond refunding along with a \$1.1 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.

***Fraser Hall renovation.*** The \$4.9 million project completed in FY 2014 involved a major renovation of the 13,000 square foot lecture hall. Improvements include replacement of the mechanical and electrical systems, new fire sprinklers, an upgrade of the building exterior envelope, installation of an elevator, new restrooms, new fixed seating and casework, interior upgrades, installation of a new water line to the building and associated site improvements for ADA access.

***Energy Services Performance Contract (ESCO)*** The \$3.2 million project completed in FY 2014 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, 2014, 2013 and 2012 follows:

	2014	2013	2012
	<i>(Dollars in thousands)</i>		
Operating revenues	\$200,594	\$196,935	\$182,100
Operating expenses	<u>268,756</u>	<u>255,965</u>	<u>235,518</u>
Operating loss	(68,162)	(\$59,030)	(53,418)
State appropriations revenue	52,028	40,052	43,083
Other nonoperating revenues	17,369	16,460	14,468
Nonoperating expenses	<u>(3,554)</u>	<u>(3,653)</u>	<u>(4,277)</u>
(Loss) income before other revenues	(2,319)	(\$6,166)	(144)
Other revenues	<u>6,138</u>	<u>11,627</u>	<u>15,628</u>
Increase in net position	3,819	5,456	15,484
Net position, beginning of year	<u>457,853</u>	<u>452,397</u>	<u>436,913</u>
Net position, end of year	<u>\$461,672</u>	<u>\$457,853</u>	<u>\$452,397</u>

WWU relies primarily on student tuition and fees and state appropriations as revenue sources to support operations.

Student tuition and fees, which includes tuition fees and mandatory fees (such as Service and Activity Fee and Health Service Fee) increased slightly (3.2%) during FY 2014. 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. Resident undergraduate students comprise approximately 85% of the total student population. The tuition rate for resident undergraduates remained constant in FY 2014, following a 16% increase in FY 2013 over FY 2012. Enrollment increased to an average annual headcount of 14,316 in FY 2014 compared to 14,237 in FY 2013 and 14,292 students in FY 2012. Net tuition revenue (student tuition and fees less scholarship allowances) increased 2.8% in FY 2014 and 11.2% in FY 2013. WWU provided \$27.2 million in scholarship allowances in FY 2014, compared to \$25.8 million in FY 2013 and \$20.7 million in FY 2012.

During FY 2014, state appropriations used for operations (which includes capital appropriations that are used for operations) increased \$12.0 million compared to declines during FY 2013 and 2012 of \$3.0 million and \$20.7 million, respectively. The increase during FY 2014 represents a 29.9% increase in state funding for WWU. The slight decrease in FY 2013 is attributable to an easing of state budget pressures experienced in the preceding several years. WWU's state supported budgeted enrollments (FTE) were 11,762 for FY 2014 and 2013 while the actual average FTE was 12,565 for FY 2014 and 12,516 for FY 2013. The differences of 803 in FY 2014 and 754 in FY 2013 non-budgeted FTE were not supported by State dollars.

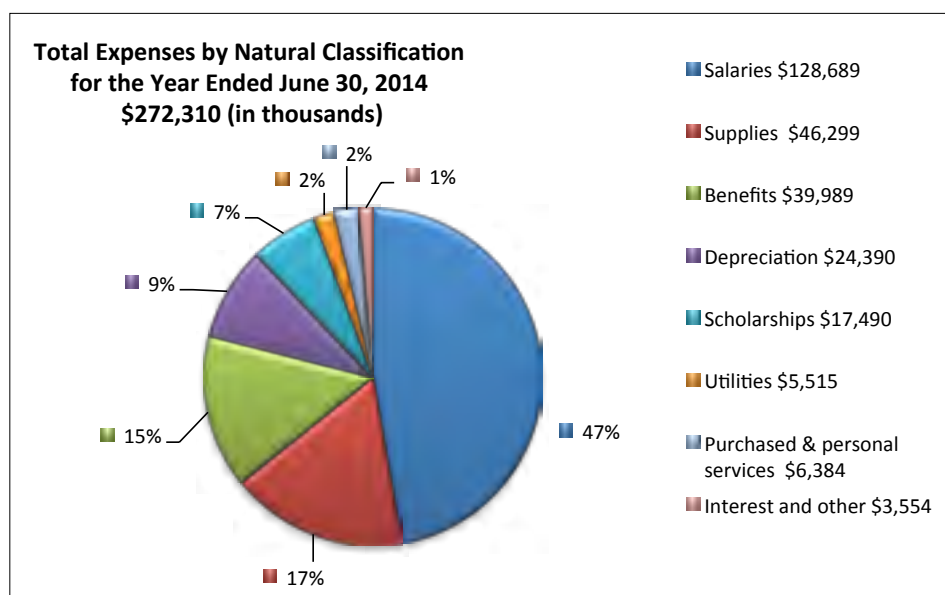
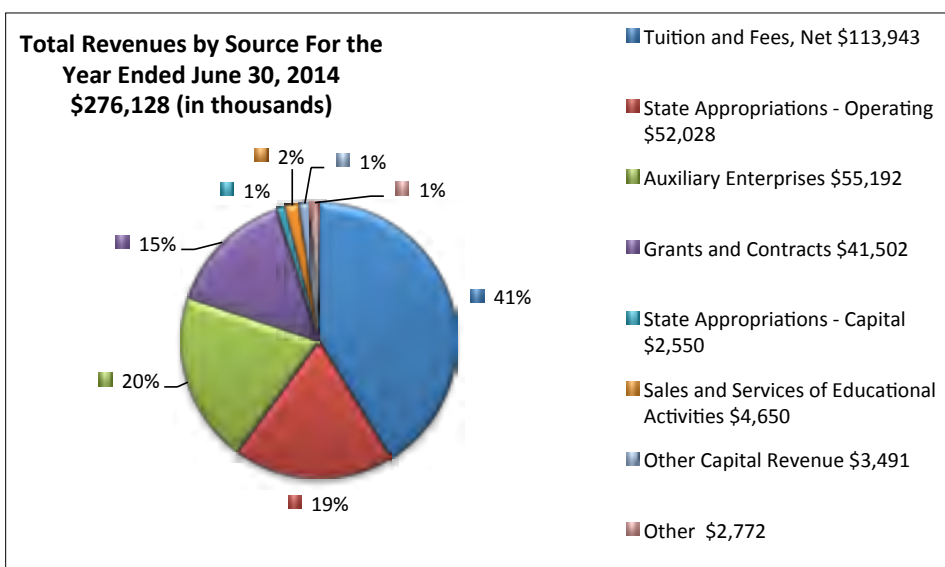
Capital appropriations are recognized as revenue when expenditures are incurred on capital projects and WWU is entitled to receive the cash. Capital appropriations decreased \$5.9 million when comparing FY 2014 to FY 2013 due to the completion of state supported capital projects that began during FY 2013. Capital appropriations increased slightly by \$1.5 million during FY 2013 as no new major capital projects were underway.

Other capital revenue is the revenue earned from the State of Washington Normal School Permanent Fund and capital contributions received. The increase of \$287 thousand during FY 2014 is due to a \$234 thousand increase in capital contributions provided by Aramark combined with Permanent Fund investment earnings. The decrease of \$4.6 million during FY 2013 is attributable primarily to a \$3.8 million reduction in the Aramark capital contribution. Aramark had agreed to provide a total of \$7.3 million for renovations and improvements to several dining areas as a part of their dining contract. The majority of the improvements are reported as capitalized assets on the Statement of Net Position.

During FY 2014, the Foundation pledged \$92 thousand in additional support to the Harrington Field project, payable during FY 2015. In April 2012, WWU received a \$1.0 million unconditional pledged gift from the Foundation for the purpose of design and construction of the Harrington Field project. The \$1.0 million 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.

The following graphs illustrate revenues by source for the years ended June 30, 2014 and 2013:





WWU's operating expense increased \$12.8 million during FY 2014 largely due to a \$9.8 million increase in salaries and benefits combined with a \$2.7 million increase in depreciation. WWU's operating expenses increased \$20.4 million during FY 2013 when compared to FY 2012. The FY 2013 increase is primarily due to salary and supplies increases.

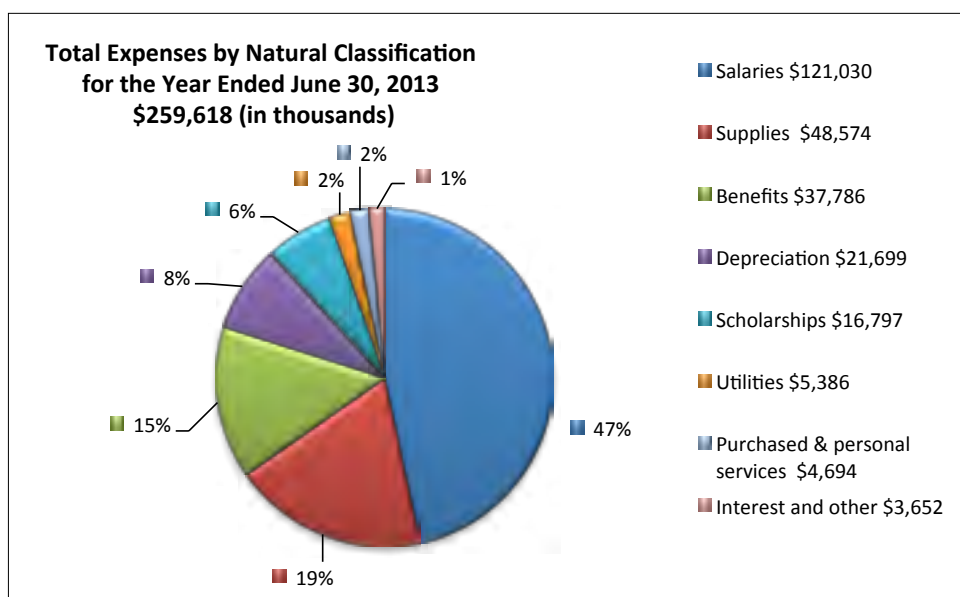
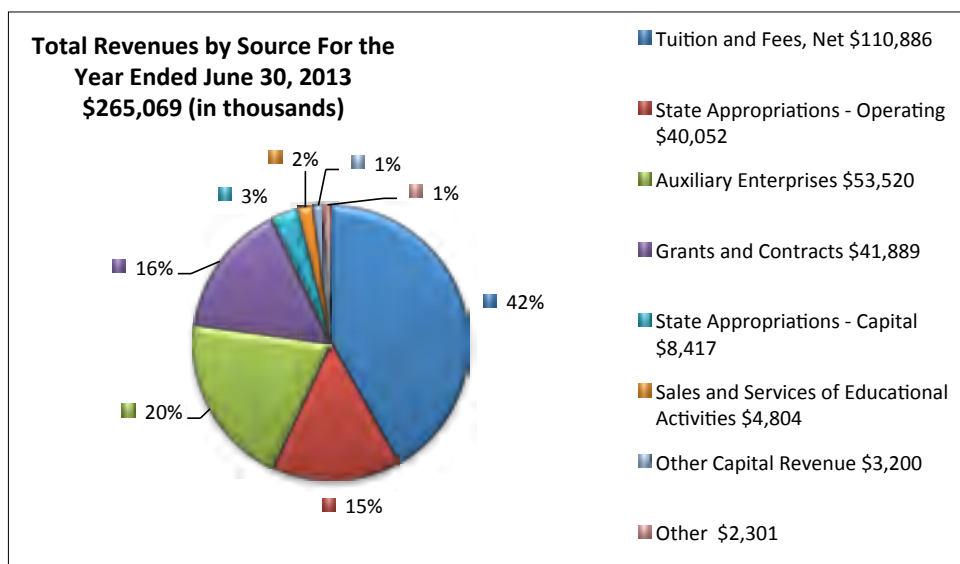
The \$9.8 million increase in salary and wages and benefits expense in FY 2014 is attributable to negotiated faculty and certain staff salary increases of \$6.3 million combined with the \$2.2 million amortization of the unfunded net pension obligation. Salary and wages and benefits expense increased \$7.7 million when comparing FY 2013 to FY 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 net pension obligation.

Scholarships and fellowships increased slightly during FY 2014 by \$693 thousand and increased \$1.5 million during FY 2013 due to increases in financial aid payments made directly to students.

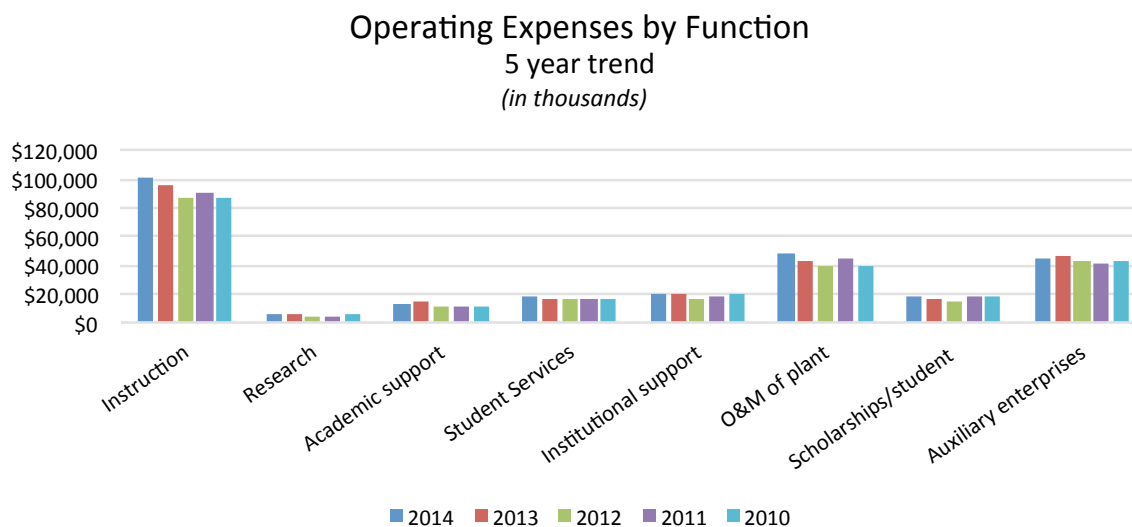
Supplies and materials decreased \$2.3 million during FY 2014 partly due to reduced purchases of noncapital furnishing and equipment. Supplies and materials increased \$9.2 million in FY 2013 primarily due to a \$3.1 million increase in non-capitalized repairs and maintenance to campus buildings and facilities and \$2.6 million expended for library purchases and other items that were originally included in FY 2012 as a capital asset but were later deemed to not meet the capitalization threshold.

Depreciation expense increased \$2.7 million during FY 2014 and \$1.7 million during FY 2013 as additional capital assets were completed and depreciated.

The following graphs illustrate expenses by natural classification for the years ended June 30, 2014 and 2013:



The following graph illustrate expenses by natural classification for the years ended June 30, 2014, 2013, 2012, 2011, 2010:



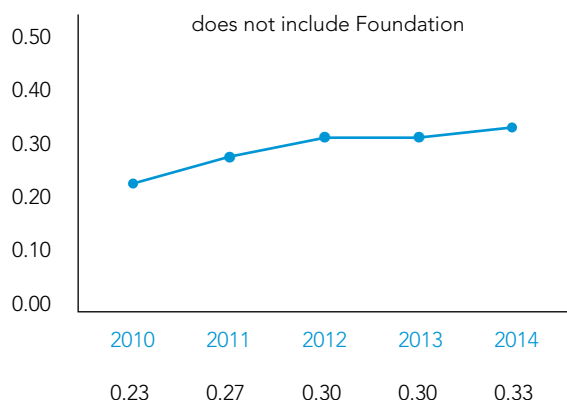
### Operating Loss

WWU’s operating losses were \$68.2 million in FY 2014, an increase of \$9.1 million from FY 2013, and \$59.0 million in FY 2013, an increase of \$5.6 million from FY 2012. GASB Statement 34 requires that State appropriations and Federal Pell grants be classified as nonoperating revenues, thereby creating the significant operating loss. If these revenues were classified as operating, the operating losses would have been \$1.2 million in fiscal 2014 and \$4.5 million in fiscal 2013.

### Financial Indicators

#### Primary Reserve Ratio

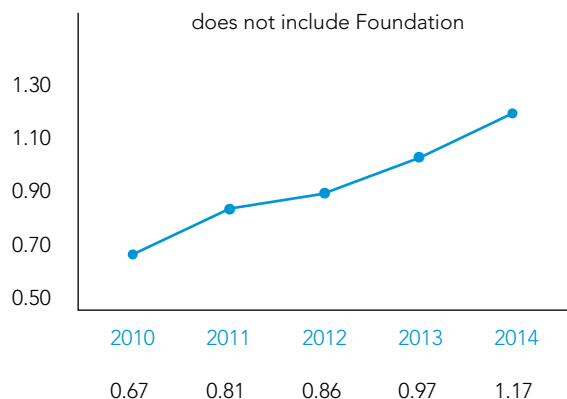
This ratio measures the financial strength of WWU by comparing expendable net position to total expenses, excluding the Foundation. A ratio of .40 or better is advisable from various studies to give institution the flexibility to transform an enterprise over the long-term. The ratio of .40 indicates that an institution has sufficient expendable resources to continue operations for approximately 120 days without any additional revenue or support. The .33 ratio indicates WWU has 3.3 months or roughly 100 days of expendable resources to cover operations in an unforeseen event.





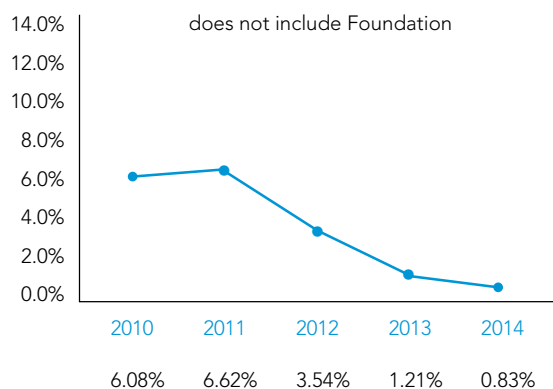
**Viability Ratio**

The Viability ratio measures the ability of the institution to liquidate debt from its expendable resources. A ratio of 1:1 or greater is recommended by various studies and indicates existing debt could be repaid from expendable resources available today.



**Return on Net Position**

This ratio shows whether the institution is better off financially than it was in previous years. This ratio is better applied over an extended period so that results over the long-term plans are measured. A decline in this ratio may be appropriate and even warranted if it reflects a strategy or policy changes at the state level.



**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 cautious in their outlook, as the state revenue forecast is revenue neutral and the state Supreme Court has mandated a big increase in K-12 spending under the McCleary school-funding decision. In addition the Governor's office recently asked higher education to submit budget proposals reflecting a 15% decrease.

Beginning in FY 2015, WWU will be required to record in its statements its share of the unfunded net pension liability. The liability is the difference between the total pension liability and the value of the assets that have been set aside in a pension plan to pay benefits to current employees, retirees, and the beneficiaries. Additionally, the new standard will require recording a larger pension expense than amounts reflected currently, with the immediate recognition of annual service costs as well as interest on the pension liability.

WWU will continue to seek capital funding from the state for the Carver Gymnasium renovation project. This project is estimated to be \$80.4 million and will increase WWU's net investment in capital assets.



## Washington State Auditor Troy Kelley

### INDEPENDENT AUDITOR'S REPORT

November 21, 2014

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 the Western Washington University, 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 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 financial statements of the Western Washington University Foundation, the discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as relates to the amount 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. 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 the 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 the Western Washington University, Washington, as of June 30, 2014 and 2013, 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 discussed in Note 1, the financial statements of Western Washington University, an agency of the state of Washington, 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 and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014 and 2013, the changes in its financial position, or where applicable, its cash flows for the years 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 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 and the other auditors 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 cursive script that reads "Troy X. Kelley". The signature is written in black ink and is positioned below the word "Sincerely,".

**TROY KELLEY**  
STATE AUDITOR

# Statement of Net Position

Financial Report 2014

	2014	2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 3)	\$41,777,144	\$35,598,392
Investments (Note 4)	14,619,746	21,721,286
Funds with State Treasurer (Note 5)	4,008,042	3,132,895
Interest receivable	753,700	644,030
Accounts receivable, net (Note 6)	6,571,399	7,402,884
Pledged gift receivable from the Foundation (Note 24)	141,634	100,000
Prepaid expenses	344,863	510,507
Inventories (Note 8)	<u>1,455,486</u>	<u>1,370,459</u>
Total current assets	69,672,014	70,480,453
Noncurrent assets:		
Restricted cash and cash equivalents (Note 3)	883,514	1,123,060
Restricted investments (Note 4)	8,938,542	9,243,645
Investments (Note 4)	52,946,032	38,501,691
Due from State Treasurer	3,192,149	2,902,710
Student loans receivable, net (Note 7)	7,921,302	7,711,713
Pledged gift receivable from the Foundation (Note 24)	819,412	864,314
Non-depreciable capital assets (Note 9)	21,850,996	36,500,470
Depreciable capital assets, net (Note 9)	411,295,551	404,995,776
Other assets (Note 1)	<u>119,732</u>	<u>100,438</u>
Total noncurrent assets	<u>507,967,230</u>	<u>501,943,817</u>
Total assets	<u>577,639,244</u>	<u>572,424,270</u>
<b>Deferred outflows</b>		
Deferred loss on bond refunding	<u>1,641,095</u>	<u>1,797,593</u>
Total deferred outflows	<u>1,641,095</u>	<u>1,797,593</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	11,443,526	9,527,565
Deposits payable	2,607,639	2,738,929
Unearned revenues	8,208,306	7,371,333
Compensated absences (Note 11)	7,968,633	7,768,373
Current portion of bonds and notes payable (Notes 12,13,15)	4,252,910	3,461,463
Current portion of net pension obligations (Note 15,19)	376,000	376,000
Deposits held in custody for others	<u>11,877</u>	<u>205,890</u>
Total current liabilities	34,868,891	31,449,553
Noncurrent liabilities:		
Long-term portion of bonds and notes payable (Note 12, 13,15)	73,150,533	77,534,122
Long-term net pension obligations (Note 15,19)	<u>9,589,408</u>	<u>7,384,970</u>
Total noncurrent liabilities	<u>82,739,941</u>	<u>84,919,092</u>
Total Liabilities	<u>117,608,832</u>	<u>116,368,645</u>
<b>Net Position</b>		
Net investment in capital assets	357,384,198	363,010,380
Restricted for:		
Nonexpendable: scholarships and professorships	4,631,015	4,629,007
Expendable:		
Instruction and research	2,448,499	2,855,267
Loans	14,234,250	14,321,853
Capital Projects	9,259,794	11,524,286
Unrestricted	<u>73,713,751</u>	<u>61,512,425</u>
Total net position	<u>\$461,671,507</u>	<u>\$457,853,218</u>



	2014	2013
<b>Assets</b>		(Restated)
Cash and cash equivalents	\$702,080	\$437,771
Unconditional promises to give, net	4,361,907	4,342,482
Investments:		
Operating investment pool	13,133,188	10,757,553
Endowment investment pool	55,518,148	48,527,533
Endowment real estate held for investment	2,811,600	2,789,800
Annuity and life income investments	4,707,803	4,241,160
Real property and notes receivable	<u>160,000</u>	<u>192,757</u>
Total investments	76,330,739	66,508,803
Other assets	23,971	116,964
Property and equipment, net	<u>549,303</u>	<u>569,285</u>
<b>Total Assets</b>	<u>81,968,000</u>	<u>71,975,305</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	145,773	193,165
Due to Western Washington University	394,405	274,461
Gift payable to Western Washington University, net	878,725	964,314
Annuity and life income obligations	1,116,744	1,323,278
Investments held in trust for Western Washington University	12,390,142	10,719,104
Contingent obligation to Northwest Indian College Foundation	<u>1,243,999</u>	<u>1,089,135</u>
<b>Total Liabilities</b>	16,169,788	14,563,457
<b>Net Assets</b>		
Unrestricted	16,277,142	14,230,832
Temporarily restricted	23,281,624	18,119,831
Permanently restricted	<u>26,239,446</u>	<u>25,061,185</u>
<b>Total Net Assets</b>	<u>65,798,212</u>	<u>57,411,848</u>
<b>Total Liabilities and Net Assets</b>	<u>\$81,968,000</u>	<u>\$71,975,305</u>

# Statements of Revenues, Expenses, and Changes in Net Assets

Financial Report 2014

	2014	2013
<b>Operating Revenues</b>		
Student tuition and fees	\$141,124,174	\$136,690,266
Less scholarship allowances	<u>(27,181,020)</u>	<u>(25,804,362)</u>
Net student tuition and fees	113,943,154	110,885,904
Federal grants and contracts	5,986,263	7,058,646
State and local grants and contracts	17,805,187	17,594,759
Nongovernmental grants and contracts	2,661,042	2,716,388
Sales and services of educational activities	4,650,219	4,804,365
Interest earned on loans to students	192,000	168,043
Other operating revenue	164,600	186,834
Auxiliary enterprises	61,608,600	59,582,226
Less scholarship allowances	<u>(6,417,020)</u>	<u>(6,062,503)</u>
Net auxiliary enterprises	<u>55,191,580</u>	<u>53,519,723</u>
Total operating revenues	200,594,045	196,934,662
<b>Operating Expenses</b>		
Salaries and wages	128,689,182	121,029,531
Benefits	39,988,628	37,786,101
Scholarships and fellowships	17,489,523	16,796,678
Utilities	5,515,154	5,385,944
Supplies and materials	46,298,546	48,573,820
Purchased services	6,384,324	4,694,225
Depreciation	<u>24,390,381</u>	<u>21,698,636</u>
Total operating expenses	<u>268,755,738</u>	<u>255,964,935</u>
Operating loss	(68,161,693)	(59,025,175)
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations	52,028,184	40,052,232
Federal Pell grant revenue	14,952,723	14,514,274
Investment income	712,531	628,431
Interest on indebtedness	(3,554,252)	(3,652,599)
Gain (loss) on endowments	1,674,587	1,289,455
Nonoperating rental property expense/income	<u>28,186</u>	<u>27,821</u>
Total nonoperating revenues (expenses)	<u>65,841,959</u>	<u>52,859,614</u>
Income (Loss) before other revenues	(2,319,734)	(6,165,561)
<b>Other Revenues</b>		
Capital appropriations	2,549,922	8,417,155
Other capital revenue	3,491,369	3,204,867
Pledged gift revenue from the Foundation	<u>96,732</u>	<u>5,098</u>
Total other revenues	6,138,023	11,627,120
Increase in net position	3,818,289	5,456,461
Net position, beginning of year	<u>457,853,218</u>	<u>452,396,757</u>
Net position end of year	<u>\$461,671,507</u>	<u>\$457,853,218</u>

# Foundation Statement of Activities & Changes in Net Assets

Financial Report 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total
<b>Support and Revenue:</b>				
Contributions	\$272,388	\$4,233,192	\$1,178,261	\$5,683,841
In-kind services and facilities provided by				
Western Washington University	2,913,341			2,913,341
Interest and dividends	511,714	734,954		1,246,668
Net realized and unrealized gains on investments	1,835,491	4,609,894		6,445,385
Return on annuity and life income investments		469,919		469,919
Change in valuation of annuity and life income obligations		70,378		70,378
Administrative fees	651,592			651,592
Fundraising events and other	103,527	662,264		765,791
Total support and revenue before net assets released from restrictions	6,288,053	10,780,601	1,178,261	18,246,915
Net assets released from restrictions	5,515,783	(5,515,783)		
Recovery of underwater endowments	103,025	(103,025)		
<b>Total Support and Revenue</b>	<b>11,906,861</b>	<b>5,161,793</b>	<b>1,178,261</b>	<b>18,246,915</b>
<b>Expenses:</b>				
Program services and grants	6,090,507			6,090,507
Management and general in-kind	1,661,584			1,661,584
Management and general - other	303,762			303,762
Fundraising in-kind	1,251,757			1,251,757
Fundraising - other	552,941			552,941
<b>Total Expenses</b>	<b>9,860,551</b>			<b>9,860,551</b>
<b>Change in Net Assets</b>	<b>2,046,310</b>	<b>5,161,793</b>	<b>1,178,261</b>	<b>8,386,364</b>
Net Assets, beginning of year (restated)	14,230,832	18,119,831	25,061,185	57,411,848
<b>Net Assets, end of year</b>	<b>\$16,277,142</b>	<b>\$23,281,624</b>	<b>\$26,239,446</b>	<b>\$65,798,212</b>



# Foundation Statement of Activities & Changes in Net Assets

Financial Report 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total (Restated)
<b>Support and Revenue:</b>				
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	<u>69,379</u>	<u>493,932</u>	<u>      </u>	<u>563,311</u>
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	<u>31,292</u>	<u>(31,292)</u>	<u>      </u>	<u>      </u>
<b>Total Support and Revenue</b>	<b>12,410,536</b>	<b>1,158,440</b>	<b>1,729,532</b>	<b>15,298,508</b>
<b>Expenses:</b>				
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	<u>782,843</u>	<u>      </u>	<u>      </u>	<u>782,843</u>
<b>Total Expenses</b>	<b>9,083,925</b>	<b>      </b>	<b>      </b>	<b>9,083,925</b>
<b>Change in Net Assets</b>	<b>3,326,611</b>	<b>1,158,440</b>	<b>1,729,532</b>	<b>6,214,583</b>
Net Assets, beginning of year (restated)	<u>10,904,221</u>	<u>16,961,391</u>	<u>23,331,653</u>	<u>51,197,265</u>
<b>Net Assets, end of year</b>	<b><u>\$14,230,832</u></b>	<b><u>\$18,119,831</u></b>	<b><u>\$25,061,185</u></b>	<b><u>\$57,411,848</u></b>

	2014	2013
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$113,938,036	\$110,396,695
Grants and contracts	27,573,882	26,458,925
Payments to vendors	(75,847,247)	(71,522,472)
Payments to employees for salaries and benefits	(163,902,435)	(157,737,351)
Loans issued to students	(1,894,366)	(1,422,760)
Collection of loans to students	1,441,709	1,400,371
Sales of auxiliary enterprises	55,182,549	53,464,583
Sales and services of educational activities	6,440,765	4,787,788
Interest received on loans to students	<u>356,600</u>	<u>354,877</u>
Net cash used by operating activities	(36,710,507)	(33,819,344)
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	51,644,304	40,081,177
Direct Lending proceeds	67,846,851	68,933,156
Direct Lending disbursements	(67,828,397)	(68,844,444)
Federal Pell grant receipts	<u>14,952,723</u>	<u>14,514,274</u>
Net cash provided by noncapital financing activities	66,615,481	54,684,163
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(21,893,668)	(37,558,009)
Net proceeds from sales of investments	16,530,556	23,156,049
Interest received on investments	<u>602,861</u>	<u>547,281</u>
Net cash (used)/provided by investing activities	(4,760,251)	(13,854,679)
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from capital debt		9,374,908
Interest earned on bond proceeds		3,103
Capital appropriations	2,644,362	8,860,599
Other capital (expense)/revenue	(875,147)	8,076,563
Contributions and gifts in-kind	3,496,467	733,670
Proceeds from disposal of capital assets	11,917	8,768
Purchases of capital assets	(17,476,246)	(24,283,368)
Principal paid on capital debt	(3,565,748)	(12,800,256)
Interest paid on capital debt	(3,469,308)	(2,848,471)
Other activities	<u>28,186</u>	<u>33,280</u>
Net cash used by capital and related financing activities	(19,205,517)	(12,841,204)
Net increase/(decrease) in cash and cash equivalents	5,939,206	(5,831,064)
Cash and cash equivalents, beginning of year	<u>36,721,452</u>	<u>42,552,516</u>
Cash and cash equivalents, end of year	<u>\$42,660,658</u>	<u>\$36,721,452</u>

# Reconciliation of Operating Loss to Net Cash used by Operating Activities

Financial Report 2014

	<b>2014</b>	<b>2013</b>
Operating loss	(\$68,161,693)	(\$59,025,175)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	24,390,381	21,698,636
Gain on disposal of fixed assets	1,235,116	2,621,739
Changes in assets and liabilities:		
Funds with the State Treasurer		
Accounts receivable	926,387	(2,511,815)
Student loans receivable	(209,589)	66,323
Inventories	(85,027)	(83,754)
Prepaid expenses	165,644	(97,246)
Accounts payable and accrued expenses	2,130,361	279,536
Deferred revenue	836,973	835,113
Student and other deposits	(131,290)	225,304
Deposits held in custody	(212,467)	(105,438)
Compensated absences	200,260	(20,598)
Net pension obligation expense	<u>2,204,437</u>	<u>2,298,031</u>
Net cash used by operating activities	<u>(\$36,710,507)</u>	<u>(\$33,819,344)</u>
Supplemental disclosure of cash flow information		
Acquisition of capital assets through accounts payable	<u>\$2,061,036</u>	<u>\$2,258,069</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, 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.

On July 1, 2013, WWU adopted GASB Statement No. 67 "Financial Reporting for Pension Plans-an amend-

ment of GASB Statement No. 25". The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year.

The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates, when such rates are determined. In that circumstance, it also will provide information about whether employers and non-employer contributing entities, if applicable, are keeping pace with actuarially determined contribution measures. In addition, new information about rates of return on pension plan investments will inform financial report users about the effects of market conditions on the pension plan's assets over time and provide information for users to assess the relative success of the pension plan's investment strategy and the relative contribution that investment earnings provide to the pension plan's ability to pay benefits to plan members when they come due.

As Statement No. 67 sets the standards for the retirement plans to follow which are held at the state level, there is no impact to the FY 2014 statements.

On July 1, 2013, WWU adopted GASB Statement No. 66 "Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62". The requirements of this Statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports.

This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans,

and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate.

On July 2, 2013, WWU adopted GASB Statement No. 70 "Accounting and Financial Reporting for Non-exchange Financial Guarantees". The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend non-exchange financial guarantees and by those governments that receive non-exchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending non-exchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee.

This Statement specifies the information required to be disclosed by governments that extend non-exchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive non-exchange financial guarantees.

## 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 2014 and fiscal 2013, \$0 and \$38,374 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 report-

ing 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 producing present and future income, which may either be expended or added to principal.

#### *Unrestricted net position*

Unrestricted represent resources derived from student tuition and fees, State appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of 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



### 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 in-

come 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, 2014 and 2013, the carrying amount of cash and cash equivalents is \$42,660,658 and \$36,721,452, respectively. These balances include restricted cash and cash equivalents of \$883,514 and \$825,604 in Recreation Center renewal and replacement funds at June 30, 2014 and 2013, respectively. 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 \$6,036,446 in certificates of deposits in pooled investments at June 30, 2014 and 2013, respectively. WWU held \$55,025,950 and \$49,662,050 in U.S. Agency and Treasury securities in the investment pool at June 30, 2014 and 2013, respectively.

The Housing and Dining System Renewal and Replacement fund held \$3,050,772 and \$3,048,012 as of June 30, 2014 and 2013, 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, 2014, WWU's Endowment funds are comprised of \$6,801,482 in donor restricted and unrestricted funds and \$5,588,660 in Quasi-endowments. As of June 30, 2013, the balances were \$5,942,281 and \$4,776,823 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, 2014 WWU had \$56,555,159 in US Agencies and Treasuries 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 3 years. WWU generally does not invest operating funds in securities maturing more than 5 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, 2014, WWU held the following in cash, cash equivalents and investments:

Description	Fair Value	Weighted Average Maturity (in Years)
WWU Investment Pool:		
Cash & Cash Equivalents	\$42,660,658	0.001
Time Certificates of Deposits (CDs)	6,036,447	2.033
U.S. Treasuries	5,005,250	1.085
U.S. Agencies	50,020,700	2.657
WWU Endowment Funds:		
Cash & cash equivalents	105,792	
Fixed income investments:		
U.S. Treasuries	108,741	14.600
U.S. Agencies	524,885	4.700
Other fixed income	1,457,548	n/a
Equity investments	8,064,962	n/a
Real estate	600,105	n/a
Alternative investments	1,528,109	n/a
Other Investments:		
Renewal and Replacement Time CDs	1,521,563	2.241
Renewal and Replacement U.S. Agencies	1,529,209	0.907
Miscellaneous	1,010	n/a
<b>TOTAL CASH AND INVESTMENTS</b>	<b>\$119,164,979</b>	

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)	6,036,446	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	1,010	n/a
<b>TOTAL CASH AND INVESTMENTS</b>	<b>\$106,188,074</b>	

**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 sources

of new principal for the Normal School Permanent fund are revenues, primarily timber sales, from certain State lands. The State lands include 100,000 acres granted by the United States government for state normal schools and are managed by the State Department of Natural Resources. In addition to the Permanent Fund, the Office of the State Treasurer held \$116,828 in remaining Certificate of Participation (COP) funds during fiscal 2013, which were used for an energy saving capital project.

WWU's combined earnings and distributions on the fund for the years ending June 30, 2014 and 2013 are \$2,721,735 and \$2,466,100, respectively, which are reported as other capital revenue along with any capital gifts or contributions.

**6. ACCOUNTS RECEIVABLE, NET**

At June 30, 2014 and 2013, the major components of accounts receivable are as follows:

	2014	2013
Student tuition and fees	\$4,037,992	\$2,780,861
Federal, State and private grants and contracts	1,653,891	2,598,992
Auxiliary enterprises and other operating activities	<u>1,741,380</u>	<u>2,667,501</u>
Total accounts receivable	7,433,263	8,047,354
Less allowance for doubtful accounts	<u>(861,864)</u>	<u>(644,470)</u>
Accounts receivable, net	<u>\$6,571,399</u>	<u>\$7,402,884</u>

**7. STUDENT LOANS RECEIVABLE, NET**

At June 30, 2014 and 2013, student loans receivable are as follows:

	2014	2013
Federal Perkins student loans	\$8,790,081	\$8,577,935
Other long-term loans	41,387	34,662
Institutional loans	<u>51,295</u>	<u>51,020</u>
Total student loans	8,882,763	8,663,617
Less allowance for doubtful accounts	<u>(961,461)</u>	<u>(951,904)</u>
Student loans receivable, net	<u>\$7,921,302</u>	<u>\$7,711,713</u>



**8. INVENTORIES**

At June 30, 2014 and 2013, inventories, stated at cost using various methods: retail, first-in, first-out (FIFO), or average cost, consist of the following:

	Valuation Method	2014	2013
Location			
Bookstore	Retail	\$975,475	\$941,848
Central Stores	Average Cost	19,001	21,393
Facilities Maintenance	FIFO	136,895	132,720
Lock Shop	FIFO	191,920	144,156
Other inventory	FIFO	<u>132,195</u>	<u>130,342</u>
Total inventory		<u>\$1,455,486</u>	<u>\$1,370,459</u>

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

The depreciation expense for the fiscal years ended June 30, 2014 and 2013 was \$24,390,381 and \$21,698,636, respectively.

Following are the changes in land and capital assets for the year ended June 30, 2014:

	6/30/2013	Additions/ Transfers	Retirements	6/30/2014
Non-depreciable Capital Assets				
Land	\$12,772,593		\$723,276	\$12,049,317
Construction in progress	<u>23,727,877</u>	<u>\$(13,926,199)</u>		<u>9,801,678</u>
Total non-depreciable capital assets	<u>\$36,500,470</u>	<u>\$(13,926,199)</u>	<u>\$723,276</u>	<u>\$21,850,995</u>
Depreciable Capital Assets				
Infrastructure	\$52,945,934			\$52,945,934
Buildings	\$397,986,330	17,994,547	828,472	415,152,405
Furniture, fixtures and equipment	\$37,821,788	2,310,198	879,262	39,252,724
Library materials, art collection	\$53,131,868	177,566		53,309,434
Improvements	<u>\$132,878,741</u>	<u>10,731,603</u>		<u>143,610,344</u>
Total depreciable capital assets	<u>674,764,661</u>	<u>31,213,914</u>	<u>1,707,734</u>	<u>704,270,841</u>
Less Accumulated Depreciation				
Infrastructure	26,045,261	1,344,597		27,389,858
Buildings	143,792,256	10,617,826	304,714	154,105,368
Furniture, fixtures and equipment	26,328,086	3,712,698	879,262	29,161,522
Library materials, art collection	41,813,999	1,605,020		43,419,019
Improvements	<u>31,789,283</u>	<u>7,110,240</u>		<u>38,899,523</u>
Total accumulated depreciation	<u>269,768,885</u>	<u>24,390,381</u>	<u>1,183,976</u>	<u>292,975,290</u>
Capital Assets, Net of depreciation	<u>\$404,995,776</u>	<u>\$6,823,533</u>	<u>\$523,758</u>	<u>\$411,295,551</u>

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
<b>Non-depreciable Capital Assets</b>				
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>
<b>Depreciable Capital Assets</b>				
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>
<b>Less Accumulated Depreciation</b>				
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>

## 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, 2014 and 2013 are \$7,968,633 and \$7,768,373, 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 2014 and fiscal 2013, \$167,268 and \$86,263, 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
2015	517,910	163,507
2016	503,798	148,053
2017	509,692	133,604
2018	375,000	115,555
2019	385,000	107,955
2020-2024	2,125,000	331,418
2025-2029	545,000	37,353
Total	4,961,400	1,037,445

**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 8,455,000 at June 30, 2014, which is reported net of the original issue premium of \$445,561.

Series 2009 A and B Revenue Bonds with interest rates ranging from 4.0% to 7.4% and an aggregate face value of \$13,145,000 at June 30, 2014, which is reported net of the original issue premium of \$1,334.

Series 2006 Revenue Bonds with an interest rate of 4% and an aggregate face value of \$6,690,000 at June 30,

2014, which is reported net of the original issue premium of \$24,114.

Series 2005 Revenue and Refunding Bonds with interest rates ranging from 3.375% to 4.5% and an aggregate face value of \$9,685,000 at June 30, 2014, which is reported net of the unamortized original discount of \$83,144.

Series 1998 Junior Lien Revenue and Refunding Bonds with interest rate of 5.5% and an aggregate face value of \$9,230,000 at June 30, 2014, which is reported net of the unamortized original issue premium of \$93,178.

**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, 2014, which is reported net of the unamortized original issue premium of \$371,000.

**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 out-

standing 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
2015	3,035,000	2,361,314	700,000	925,350
2016	3,145,000	2,236,702	725,000	904,350
2017	3,285,000	2,097,400	750,000	882,600
2018	3,430,000	1,951,583	770,000	860,100
2019	3,560,000	1,798,652	795,000	837,000
2020-2024	18,325,000	6,389,315	4,375,000	3,765,825
2025-2029	7,350,000	3,013,280	5,305,000	2,846,000
2030-2034	5,075,000	1,132,540	5,060,000	1,696,600
2035-2037			5,905,000	366,000
Total	\$47,205,000	\$20,980,786	24,385,000	\$13,083,825
Unamortized premium/ (discount)	481,043		371,000	
Total	\$47,686,043	20,980,786	24,756,000	13,083,825

#### 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	\$68,185,786	Housing and Dining bonds issued in 1998, 2005, 2006, 2009, 2012	Construction and renovation of student housing projects	2034	86.2%
Student Recreation Center gross revenues	\$37,468,825	Student Recreation Center bonds issued in 2012	Construction of the Student Recreation Center	2037	21.4%
* 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, 2014 and 2013:

	6/30/13	Additions/ Amortization	Retirements	6/30/14	Current Portion
Bonds and notes payable					
Revenue and refunding bonds	\$75,482,723	(26,393)	\$3,014,287	\$72,442,043	\$3,735,000
Notes payable	5,512,862		551,462	4,961,400	517,910
Net pension obligation	<u>7,760,970</u>	<u>2,449,000</u>	<u>244,562</u>	<u>9,965,408</u>	<u>376,000</u>
Total long term liabilities	<u>\$88,756,555</u>	<u>\$2,422,607</u>	<u>\$3,810,311</u>	<u>\$87,368,851</u>	<u>\$4,628,910</u>

	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	<u>5,462,938</u>	<u>2,449,000</u>	<u>150,968</u>	<u>7,760,970</u>	<u>376,000</u>
Total long term liabilities	<u>\$89,245,057</u>	<u>\$12,462,722</u>	<u>\$12,951,224</u>	<u>\$88,756,555</u>	<u>\$3,837,463</u>

**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, 2014, future payments under these operating leases are as follows:

Fiscal Year	Lease Payment
2015	413,757
2016	1,110,007
2017	264,559
2018	240,430
2019	241,982
2020-2021	<u>464,231</u>
Total minimum lease payments	<u>\$2,734,966</u>

**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, 2014 and 2013 are as follows:

Operating Expenses	2014	2013
Instruction	\$101,503,895	\$94,906,845
Research	5,333,465	4,969,498
Academic Support	13,685,703	14,911,524
Student Services	18,069,416	16,470,143
Institutional Support	19,669,297	19,168,694
Operation and Maintenance of Plant	47,436,065	42,411,775
Scholarships and other student aid	17,620,538	16,796,678
Auxiliary enterprise expenditures	<u>45,437,358</u>	<u>46,329,778</u>
Total operating expenses	<u>\$268,755,737</u>	<u>\$255,964,935</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, 2014 and 2013 is \$33,728,574 and \$32,233,297; the payroll for employees covered by TRS is \$1,060,622 and \$876,331; the payroll covered by WWURP is \$70,445,521 and \$71,497,672; the payroll for LEOFF is \$957,148 and \$853,100, respectively.

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

The 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 provisions.

Contributions to the plan are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have at all times a 100% vested interest in their accumulations.

*Funding Policy*

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

The WWURP contributions for the years ending June 30, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Employee	\$6,221,794	\$5,906,235	\$5,436,281
University	6,219,353	5,938,412	5,427,185

### 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 \$70,445,521 and \$71,497,672 of WWU's payroll were covered under this plan during fiscal 2014 and fiscal 2013, respectively.

The following table reflects the activity in the Net Pension Obligation for the year ended June 30, 2014:

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	7,760,970
Annual Required Contribution FY14	2,449,000
Payments to Beneficiaries FY14	(244,562)
Balance as of June 30, 2014	<u>\$9,965,408</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, 2014 are as follow:

	Employee	University
<b>PERS</b>		
Plan I	6.00%	9.21%
Plan II	4.92%	9.21%
Plan III	5% - 15%	9.21%
<b>TRS</b>		
Plan I	6.00%	8.05% - 10.39%
Plan II	4.69%	8.05% - 10.39%
Plan III	5% - 15%	8.04% - 8.05%
<b>LEOFF</b>		
Plan II	8.41%	8.57% - 8.59%

The required contributions for the years ending June 30, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
<b>PERS</b>			
Employee	\$1,756,832	\$1,604,739	\$1,603,586
University	3,074,774	2,297,067	2,289,213
<b>TRS</b>			
Employee	45,491	31,890	29,631
University	61,753	36,137	33,660
<b>LEOFF</b>			
Employee	80,496	72,180	66,086
University	82,185	73,545	67,336

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 2014, 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 actuarial accrued liability of the State of Washington at January 1, 2013 to be \$3.7 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 \$17.2 million for active and retiree health care expense during fiscal 2014 and \$17.3 million during fiscal 2013.

## 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.

Goods and services for operating and capital projects, contracted for but not yet received, are considered commitments at year end. The amount of these commitments at June 30, 2014 and 2013 are:

	2014	2013
Operating	\$5,699,850	\$3,605,931
Research	665,598	524,672
Capital projects	<u>12,513,683</u>	<u>9,820,775</u>
Total commitments	<u>\$18,879,131</u>	<u>\$13,951,378</u>



**23. JOINT VENTURE**

In FY 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. During FY 2014, WWU transferred \$723 thousand in land and \$524 thousand in buildings, net to the WCDC to facilitate WWU development on the waterfront.

**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 Harrington 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. During FY 2014, the Foundation made an additional pledge of \$92 thousand to help support the Harrington Field project. The pledge is expected to be paid as follows:

For the year ending June 30,

2015	\$141,634
2016	50,000
2017	150,000
2018	150,000
Thereafter	<u>500,000</u>
	991,634
Less present value discount (0.71%)	<u>(30,588)</u>
Pledged gift receivable from the Foundation, net	<u>\$961,046</u>





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