WESTERN KENTUCKY UNIVERSITY

Bowling Green, Kentucky

REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2015

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Bowling Green, Kentucky

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June 30, 2015 and 2014

CONTENTS

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

President Gary A. Ransdell and
Board of Regents
Western Kentucky University
Bowling Green, Kentucky
And
Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Western Kentucky University ("University"), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2015, 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 audit. We did not audit the financial statements of Western Kentucky University Research Foundation, Inc., which represents 1.2% of the assets and 7.6% of revenues of Western Kentucky University's business-type activities for the year ended June 30, 2015. Also, we did not audit the financial statements of Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc., all of which make up the entire aggregate discretely presented component units of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Western Kentucky University Research Foundation, Inc., Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc. is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Western Kentucky University Research Foundation, Inc., Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc. were not audited in accordance with *Government Auditing Standards.*

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 entity'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 entity'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.

Opinions

In our opinion, based on our audit and the reports 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 aggregate discretely presented component units of the University, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2015, the University adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13, the Schedules of the University's Proportionate Share of the Net Pension Liability on page 90, and the Schedules of the University's Contributions on page 91, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards,* we have also issued our report dated October 5, 2015 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 5, 2015

Overview

Management's Discussion and Analysis (MD&A) of Western Kentucky University's ("WKU" or the "University") financial statements is intended to provide an overview of the financial position, changes in financial position and cash flows of the University as of and for the fiscal year ended June 30, 2015. MD&A, in addition to the financial statements and the footnote disclosures, is the responsibility of University management.

All financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

An independent audit, performed by Crowe Horwath LLP, provides an opinion on the basic financial statements taken as a whole. Crowe Horwath LLP has expressed an unqualified opinion on the financial statements stating that such statements present fairly, in all material respects, the financial position of the University as of June 30, 2015, and the changes in its financial position and its cash flows for the years then ended. Included in these financial statements are the financial statements that have not been audited by Crowe Horwath LLP, including the Research Foundation, which is a blended component unit of the University's financial statements. Also included are the financial statements of the Western Kentucky University Foundation, College Heights Foundation and the Student Life Foundation, which are each discretely presented within the financial statements of the University. Crowe Horwath LLP received and relied upon audit reports prepared and work performed by other auditors as a basis of their opinion on the University's financial statements.

Crowe Horwath LLP has applied certain limited procedures consisting principally of inquiries of management regarding the methods of measurement and presentation of MD&A, which the Governmental Accounting Standards Board (GASB) has determined to be supplementary information required to accompany but not be part of the basic financial statements. Crowe Horwath LLP, however, did not audit such information and did not express an opinion on it.

Reporting Entity

The University is a component unit of the Commonwealth of Kentucky. The financial statements of the University include the University and its blended component unit, the Western Kentucky University Research Foundation.

Financial statements have also been included for the University's discretely presented component units, in accordance with the requirements of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34.* These component units are the Western Kentucky University Foundation, Inc., College Heights Foundation, Inc. and the WKU Student Life Foundation, Inc. Financial statements for these entities consist of Statements of Financial Position (balance sheets) and Statements of Activities (income statements). These statements are prepared in accordance with the appropriate Financial Accounting Standards Board ("FASB") pronouncements.

(Continued)

Fiscal Year 2015 Highlights

The financial viability of a public university is a function of a secure and preferably growing enrollment base, solid and preferably growing private giving, and state funding. It is noted that a majority of the assets of the WKU Foundation are held and expended through the Foundation and are not recognized in the University stand-alone financial statements except for capital asset purchases transferred to the University. Per state requirements, the "Bucks for Brains" state-funded endowment funds flow through the University, but are transferred to the Foundation for investment and management purposes.

The following data is provided to help assess the financial viability of the University:

	Fall 2014	Fall 2013
Enrollment Base (Headcount)		
Undergraduate applications	8,462	9,904
Undergraduate enrollment (including returning students)	17,459	17,517
First-time freshmen	3,136	3,117
Total graduate enrollment	2,719	2,939
Total enrollment	20,178	20,456

The following data, with a comparison between the 2014/2015 and 2013/2014 school years, is provided to help assess the financial viability of the University:

	June 30, 2015	June 30, 2014
Supporting Foundations		
Endowments	$ 142.9 million	$ 132.8 million
Total cash receipts	15.2 million	15.2 million
State Appropriations		
General non-operating revenue	$ 72,649,400	$ 72,425,200
Capital appropriation	1,336,482	-
Total	$ 73,985,882	$ 72,425,200

Statement of Net Position

The Statement of Net Position presents the financial position of the University as of the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Readers of the Statement of Net Position are able to determine the assets available to continue the operations of the University. The change in net position is an indicator of whether the overall financial position has improved or worsened during the year and over time. One can think of net position as one method to measure the University's financial strength. Many non-financial factors, such as strategic planning assessments, the trend in admissions, applications and student retention, the condition of the University's capital assets and the quality of the faculty also need to be considered to assess the overall health of the University.

(Continued)

Restricted net position is subject to externally imposed restrictions governing their use. The corpus of non-expendable restricted resources is only available for investment purposes. Although unrestricted net position is not subject to externally imposed stipulations, a significant portion of these assets has been internally designated to fund encumbrances brought forward from the prior fiscal year, working capital requirements, emergency reserve and specific support of academic and support programs. Allocations of position is set by University policy or approved by the Board of Regents.

A summary of the University's assets, deferred outflows of resources, liabilities and net position, as of June 30, 2015 and 2014, are as follows:

Condensed Statement of Net Position (in Thousands)

	2015	2014 (As Restated)
ASSETS		
Current and non-current other assets	$ 118,828	$ 149,895
Capital assets, net	469,551	466,157
Total assets	588,379	616,052
DEFFERED OUTFLOWS OF RESOURCES		
Deferred penalty on refinancing	125	141
Deferred loss on bond refunding	1,893	2,084
Deferred pension funding	16,913	14,038
Total deferred outflows of resources	18,931	16,263
Total assets and deferred outflows of resources	$ 607,310	$ 632,315
LIABILITIES		
Long-term obligations (current and non-current)	$ 203,361	$ 215,383
Net pension liability	402,061	414,796
Other liabilities	19,361	25,715
Unearned revenue	9,049	10,737
Total liabilities	633,832	666,631
DEFERRED INFLOWS OF RESOURCES		
Pension investment activity	21,895	-
NET POSITION		
Net investment in capital assets	271,460	256,439
Restricted		
Non-expendable	15,843	15,992
Expendable	20,069	39,720
Unrestricted	(355,789)	(346,467)
Total net position	(48,417)	(34,316)
Total liabilities, deferred inflows or resources and net position	$ 607,310	$ 632,315

(Continued)

The University implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, in fiscal year 2015; however, for the comparative purposes of the MD&A the University has elected to show the effect of the implementation as of June 30, 2014.

Liabilities include pledges payable to the city of Bowling Green (“City”) in the amount of $25,721,513 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total $149,405,878 with final payments on the bonds scheduled for fiscal year 2034. Additionally, the university’s net pension liability was $402,064,664 as of June 30, 2015.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position summarizes all financial transactions that increase or decrease net position. The purpose of the statement is to present the revenues from providing goods and services, expenses incurred to acquire and deliver the goods and services and other revenues, expenses and gains and losses recognized by the University. Financial activities are reported as either operating or non-operating.

The most significant source of non-operating revenue is state appropriations. State appropriations are non-operating because these funds are non-exchange revenues provided by the General Assembly to the University without the General Assembly directly receiving commensurate value (goods and services) for those revenues. Other important non-operating revenue sources include non-exchange grants and contracts and investment income.

Accordingly, the University reports net operating losses of $(142,635,274) and $(134,764,547), for fiscal years 2015 and 2014, respectively.

(Continued)

A summary of the University's activities for the years ended June 30, 2015 and 2014 is as follows:

Statement of Revenues, Expenses, and Changes in Net Position (in Thousands)

	2015	2014 (As Restated)
Operating revenues		
Net tuition and fees	$ 134,272	$ 129,435
Grants and contracts	707	688
Sales and services of educational departments	16,843	16,550
Auxiliary enterprises	20,896	20,981
Other	18,914	19,457
Total operating revenues	191,632	187,111
Operating expenses	335,769	321,876
Operating loss	(144,137)	(134,765)
Non-operating revenues (expenses)		
State appropriations	72,649	72,425
State appropriations – in-kind KTRS pension	1,502	-
Grants and contracts	60,949	63,932
Investment income, net	243	578
Interest on capital asset-related debt	(6,430)	(5,257)
Other	(73)	(355)
Net non-operating revenues	128,840	131,323
Loss before capital contributions and special item	(15,297)	(3,442)
State capital appropriation	1,336	-
Disposition of World Council Gifted and Talented Children	(140)	-
Decrease in net position	(14,101)	(3,442)
Cumulative effect of GASB 68 implementation	-	(400,758)
Net position, beginning of year	(34,316)	369,884
Net position, end of year	$ (48,417)	$ (34,316)

(Continued)

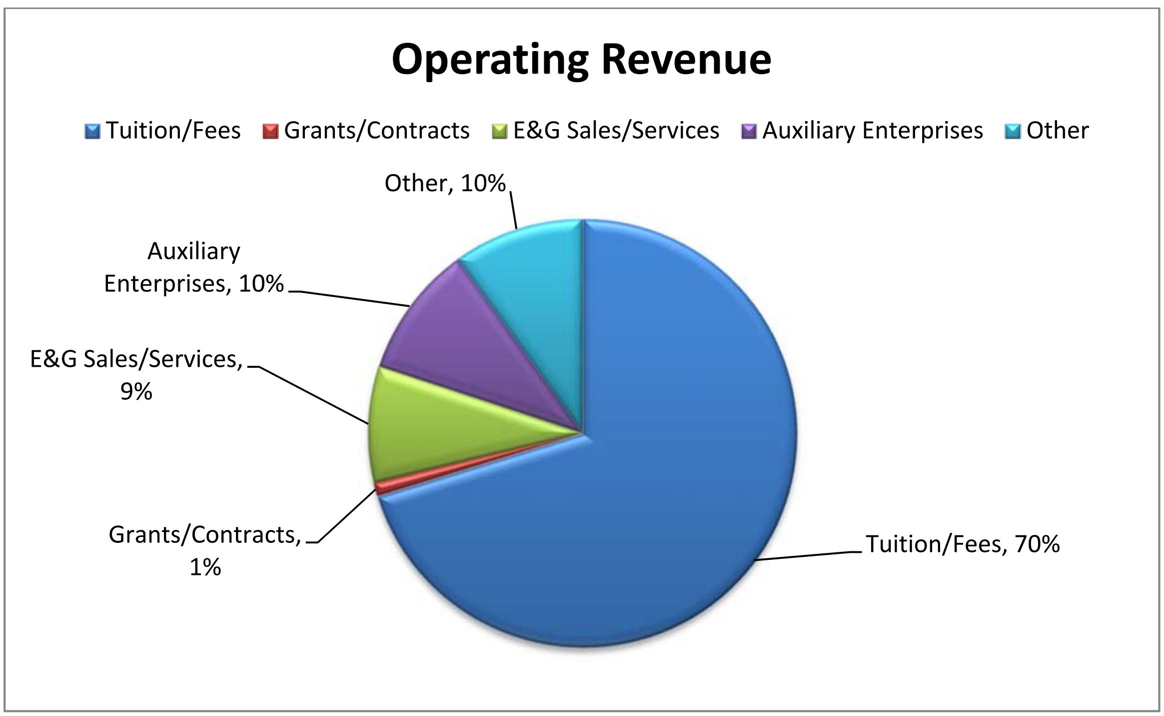
Operating Revenues

Operating revenues include all transactions that result in the sales of goods and services. For the University, the most significant operating revenue is student tuition and fees. Student tuition and fees revenue is a function of enrollment and rates approved by the University's Board of Regents. Other operating revenue is due to University operations such as the bookstore, health services, conferences and workshops, the farm, the police department and athletics.

As previously noted, the University's total headcount enrollment decreased by approximately 1.4% between fall 2013 and fall 2014. As of fall 2014, approximately 82.9% of students enrolled at the University were Kentucky residents. An additional 7.9% of the student population came from Tennessee with many coming to the University through a state reciprocity agreement (*i.e.*, enrolled at in-state rates) or in the Tuition Incentive Program.

Tuition and fees revenue is recorded in the financial statements net of scholarship allowances, gift scholarships and institutional aid. A scholarship allowance is the difference between the stated charges for goods and services provided by the institution and the amount that is billed to students and third parties making payments on behalf of students. College Access Program and KEES Program have been included in the scholarship allowance after these sources have been used to satisfy a student's fees and charges. Any excess aid disbursed to the student is recognized as a student financial aid expense. Net tuition and fees, as of June 30, 2015 and 2014, were approximately 69.4% of the gross tuition and fees with approximately $59.2 million and $53.9 million, respectively, being recorded as scholarship allowance.

The distribution of operating revenue, by source, is summarized as follows:



The University is awarded grants and contracts by various external agencies. These grants and contracts awards represent amounts that will be recognized as revenue when the service is provided regardless of when cash is exchanged. Thus, the operating and non-operating revenue generated by such grants and contracts will equal the actual expenses in a given fiscal year.

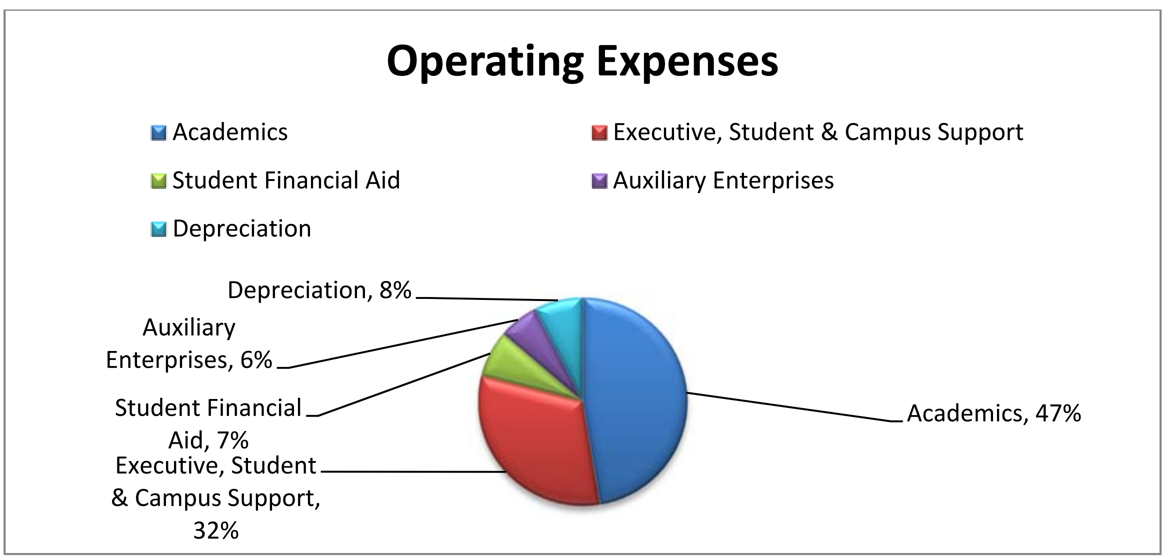
The grant and contract awards received in a given year are frequently multiyear awards for which only the current year activity related to the award will be recorded, *i.e.*, any cash received in excess of expenses incurred will be recorded as unearned revenue. Additionally, awards related to future periods are not recorded in the University's financial statements. The following chart provides a three-year comparison of total grants and contracts awarded (not received/recorded) during the 2015 and 2014 fiscal years.

Grants and Contracts Awards (Excluding Financial Aid)

	2015	2014
Federal	$ 9,962,091	$ 8,988,892
State	2,386,558	3,536,998
Other	9,119,317	8,387,189
Total	$ 21,467,966	$ 20,913,079

Operating Expenses

Operating expenses are all costs necessary to meet the University's mission, goals and objectives through a broad array of programs and activities. Expenses other than depreciation are reported by program classification (*e.g.*, instruction, research, public service, auxiliary enterprises). Depreciation is recognized as an expense and a reduction in the value of the capital assets. The following graph summarizes expenses as academics, executive, student and campus support, student financial aid, depreciation and auxiliary enterprises. Academics include the program classification categories of instruction, research, public service, libraries and academic support. Executive, student and campus support includes student services, institutional support and operation and maintenance of the plant.



Non-operating Revenues and Expenses

Non-operating revenues are all revenues that are primarily non-exchange in nature. The most significant single source of non-operating revenue for the University is state appropriations for other than capital purposes. Other sources include many grants and contracts, endowment contributions and investment income.

The University's investments consist primarily of collateralized mortgage obligations and its equity in Commonwealth of Kentucky pooled investment funds. Investment income for the years ended June 30, 2015 and 2014 is comprised of the following:

	2015	2014
Investment income	$ 481,239	$ 564,426
Net change for the year in the fair value of investments	(237,934)	13,686
	$ 243,305	$ 578,112

State appropriations were $72,649,400 and $72,425,200 for 2015 and 2014, respectively.

Change in Net Position

For the years ended June 30, 2015 and 2014, the University's net position decreased by $(14,101,874) and $(3,441,845), respectively. The year-end net position for June 30, 2015 and 2014 were $(48,417,483) and $(34,316,609) as restated, respectively.

Statements of Cash Flows

The Statements of Cash Flows presents data related to the University's cash inflows and outflows summarized by operating, noncapital financing, capital and related financing and investing activities. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments by the University that will allow for the assessment of the University's ability to generate net cash flows and to meet obligations as they come due. Under certain circumstances, such an analysis might demonstrate a university's need for external financing. The Statements of Cash Flows are broken into the following sections:

- Operating cash flows and the net cash used for the operating activities of the University
- Cash flows from noncapital financing activities
- Cash flows from capital and related financing activities
- Cash flows from investing activities
- Reconciliation of the net cash flows from operating activities to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position

(Continued)

The major sources of cash received for operating activities are tuition and fees of $130,065,983 and auxiliary enterprises of $20,895,930. Major uses of cash for operating activities were payments to employees for salaries and benefits of $200,476,451 and to suppliers and contractors of $109,993,641. A majority of the noncapital financing activities is state appropriations and grants and contracts. Principal and interest paid on capital debt and leases are recognized as capital and related financing activities. Investing activities recognize the cash flows from proceeds from sales and maturities of investments, purchases of investments and interest receipts.

The Statements of Cash Flows are summarized as follows:

Condensed Statements of Cash Flows (in thousands)

	2015	2014
Cash Provided By (Used In)		
Operating activities	$ (124,717)	$ (110,285)
Non-capital financing activities	133,468	136,438
Capital and related financing activities	(44,777)	(18,265)
Investing activities	1,966	1,718
Net increase (decrease) in cash and cash equivalents	(34,060)	9,606
Cash and cash equivalents, beginning of year	98,141	88,535
Cash and cash equivalents, end of year	$ 64,081	$ 98,141

Capital Asset and Long-term Obligations

Capital Assets

As of June 30, 2015 and 2014, the University had $469.6 million and $466.2 million invested in capital assets, net of accumulated depreciation of $304.7 million and $280.2 million, respectively. Capital assets at June 30, 2015 and 2014 are summarized below:

	2015	2014
Land	$ 11,083,687	$ 10,673,507
Buildings and improvements	539,971,780	480,794,154
Infrastructure	65,294,073	61,440,232
Furniture, fixtures and equipment	79,041,528	70,633,921
Library materials	53,767,461	51,204,810
Construction in progress	25,083,279	71,645,070
Total capital assets	774,241,808	746,391,694
Less accumulated depreciation	(304,690,708)	(280,235,121)
Capital assets, net	$ 469,551,100	$ 466,156,573

The major construction projects in progress, as of June 30, 2015, consisted of the construction of the Honors College and International Student Building.

(Continued)

Long-Term Obligations

As of June 30, 2015 and 2014, the University had $203.4 million and $215.4 million, respectively, in long-term obligations consisting of pledges payable to the city of Bowling Green, bonds payable (Consolidated Educational Buildings Revenue Bonds and General Receipts Bonds), capital leases and other long-term obligations. The long-term obligations, including the current portion, are summarized as follows:

	2015	2014
Pledges to the City	$ 25,721,513	$ 27,382,560
General receipts bonds	149,405,878	157,612,063
Capital leases	18,955,905	19,478,197
Other long-term obligations	9,278,156	10,909,744
Total	$ 203,361,452	$ 215,382,564

Economic Factors Impacting Future Periods

The following are known facts and circumstances that may affect the future financial viability of the University:

- WKU's fall 2014 enrollment of just above 20,000 continued a trend of fewer nontraditional, part-time students partially offset by a growing number of international students (27.8% increase over fall 2013). WKU's continuing emphasis on the academic quality of the incoming class has resulted in an increase in the average ACT score to 22.7 which correlates with improved first year retention and further supports an expectation of a stable revenue base. Efforts have been increased to enroll more nontraditional students including Kentucky P-12 educators. The Board of Regents has approved a discounted graduate rate for P-12 educators effective fall 2015.

- The Council on Postsecondary Education (CPE) has the statutory responsibility to approve tuition rates. Significant emphasis continues to be placed on setting tuition rates with modest increases that will not impede economic access to postsecondary education. At its April 29, 2014 meeting, the Council on Postsecondary Education approved a resident, undergraduate tuition and mandatory fee ceiling for academic years 2014-15 and 2015-16 that equates to a maximum increase of 8.2 percent over the two years for WKU. CPE gives each institution more flexibility in determining all nonresident, online and graduate rates. WKU's 2015-16 resident, undergraduate tuition and mandatory fees increase is $171/semester for a total increase of 3.7 percent.

  The undergraduate distance learning tuition rate increased 2.4 percent and the graduate distance learning tuition rate increased 5.5 percent for fall 2015. WKU's goal is to gradually increase the graduate nonresident domestic tuition rate and eliminate the graduate nonresident international tuition rate. The rate increase for graduate nonresident domestic students is 10.4 percent.

- House Bill 235, the Executive Branch Budget, was passed by the 2014 Regular Session of the Kentucky General Assembly and provides a state expenditure plan for the 2014-16 biennium. The budget is premised on modest revenue growth of 2.6 percent in each year of the biennium. However, the fiscal plan still calls for one-time funds to balance the budget. Funding, with the exception of the Gatton Academy for Mathematics and Science, will remain at the FY 2015 level for FY 2016. $2 million is being provided in the FY 2016 budget to allow WKU expand the enrollment in the Academy by another 80 students over the next biennium for a total enrollment of 200 students.

(Continued)

- In the 2008 Special Session of the General Assembly, House Bill 1 was enacted as a first step in state retirement system (KERS, CERS and SPRS) reform. Statutes were revised especially in regard to employees hired on or after September 1, 2008. While the actuarial analysis supports the need for additional long-term funding for the retirement systems, House Bill 1 demonstrated that this is a significant funding priority of the Commonwealth. An employer rate increase was approved by the General Assembly for FY 2015 with no additional increase in FY 2016.

  Based upon the assumptions employed in the Pension Plans' June 30, 2014 actuarial valuation reports used in preparing the associated Pension Plans' 2014 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of $9,853 million, while KTRS had a UAAL of $14,010 million. The state supported portion of the Pension Plans for Fiscal Year ended June 30, 2014 had funding percentages of 24.5 percent for the Kentucky Retirement Systems and 53.6 percent for KTRS. The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year ended June 30, 2014 pension benefits was $560.2 million; $318.8 million was contributed. Fiscal Years 2015 and 2016 are the first fiscal years under a pension reform plan in which the legislature budgeted the full Annual Required Contribution to the KRS Pension and OPEB as required by Senate Bill 2 of the 2013 Regular Session.

- Under its self-funded health insurance plan, the University provides a comprehensive health insurance program for employees and their dependents. The University Benefits Committee analyzes claims history, projected health care costs, and the University's premium structure and then makes recommendations to the WKU administration regarding any rate revisions for the upcoming calendar year. In partnership with a nationally-known benefit plans consultant, WKU developed and launched a completely redesigned health plan for calendar year 2015. This new plan incorporated several options including a High Deductible Health Plan (HDHP) along with several incentives to promote employee and family wellness. The new plan encourages health assessment activities and offers various health improvement activities while providing attractive incentives for employees who choose to participate. The self-funded insurance program continues to be financially sound with a health insurance reserve of $3.6 million, which is approximately 24 percent of the previous year's claims and administrative expenses.

- During fiscal year 2016, WKU plans to issue General Receipts Refunding Bonds, Series 2015A as a refunding source for outstanding General Receipts Bonds, Series 2006A maturing on and after September 1, 2017. This sale of refunding bonds, with a par amount of $5,960,000, is scheduled to close on October 13, 2015. Additionally, pending legislative approval, the university plans to issue General Receipts Bonds in fiscal year 2017 to fund the construction of a new student parking structure. A specific student fee has been approved as the revenue stream on a future bond payment. The specific date and amount of this future project is not currently set.

Requests for Information

This financial report is designed to provide a general overview of Western Kentucky University's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Western Kentucky University, Wetherby Administration Building G-21, 1906 College Heights Blvd., #11002, Bowling Green, Kentucky 42101.

WESTERN KENTUCKY UNIVERSITY
STATEMENT OF NET POSITION
June 30, 2015

ASSETS	
Current assets	
Cash and cash equivalents	$ 54,391,245
Accounts receivable, net of allowance of $1,472,670	12,505,556
Federal and state grants receivable	8,122,068
Inventories	2,257,596
Loans to students	395,089
Lease receivable	240,000
Prepaid expenses and other	5,107,790
Total current assets	83,019,344
Noncurrent assets	
Restricted cash and cash equivalents	9,689,762
Long-term investments	157,149
Loans to students, net of allowance of $548,366 each year	2,644,056
Assets held in trust	22,262,871
Lease receivable	1,055,000
Capital assets	774,241,808
Accumulated depreciation	(304,690,708)
Total noncurrent assets	505,359,938
Total assets	588,379,282
DEFERRED OUTFLOWS OF RESOURCES	
Deferred penalty on refinancing	125,053
Deferred loss on bond refunding	1,893,430
Deferred outflows – KTRS	9,676,379
Deferred outflows – KERS Non-Hazardous	7,021,968
Deferred outflows – KERS Hazardous	214,434
Total deferred outflows of resources	18,931,264
Total assets and deferred outflows of resources	$ 607,310,546
LIABILITIES	
Current liabilities	
Accounts payable	10,379,125
Self-insured health liability	904,602
Self-insured workers' compensation liability	310,228
Accrued payroll and withholdings	2,145,257
Accrued compensated absences	3,139,459
Accrued interest	1,672,179
Unearned revenue	9,048,709
Long-term obligations - current	12,394,173
Deposits held in custody for others	811,650
Total current liabilities	40,805,382
Non-current liabilities	
Long-term obligations	190,967,279
Net pension liability – KTRS	270,082,664
Net pension liability – KERS Non-Hazardous	129,789,000
Net pension liability – KERS Hazardous	2,189,000
Total non-current liabilities	593,027,943
Total liabilities	633,833,325

See accompanying notes to financial statements.

DEFERRED INFLOWS OF RESOURCES	
Deferred inflows – KTRS	$ 19,937,704
Deferred inflows – KERS Non-Hazardous	1,668,000
Deferred inflows – KERS Hazardous	289,000
Total deferred inflows	21,894,704
NET POSITION	
Net investment in capital assets	271,460,034
Restricted	
Non-expendable - endowments	15,842,846
Expendable	
Loans	3,753,445
Capital projects	16,315,361
Unrestricted	(355,789,169)
Total net position	(48,417,483)
Total liabilities, deferred inflows and net position	$ 607,310,546

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2014

ASSETS	
Cash and cash equivalents	$ 5,135,378
Pledges receivable, net	5,471,790
Due from WKU Real Estate Corporation	154,028
Due from the Warren County Downtown Economic Development Authority	1,948,048
Other receivables	44,892
Prepaid expenses and other current assets	145,678
Investments	58,779,403
Property, net	9,636,357
Assets held for others	20,039,540
Total assets	$ 101,355,114
LIABILITIES AND NET ASSETS	
Accounts payable	$ 59,840
Notes payable	325,353
Due to Western Kentucky University	119,306
Deferred gift liabilities	956,643
Capital lease obligation	1,323,910
Liability for assets held for others	20,039,540
Total liabilities	22,824,592
Unrestricted	14,164,791
Temporarily restricted	24,261,592
Permanently restricted	40,104,139
Total net assets	78,530,522
Total liabilities and net assets	$ 101,355,114

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WKU STUDENT LIFE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2015

ASSETS	
Cash and cash equivalents	$ 8,835,765
Accounts receivable - Western Kentucky University	641,533
Accounts receivable - students - net of allowance of $183,780 for 2015	234,528
Net investment in direct financing lease - related party	1,950,388
Prepaid expenses	360,317
Assets limited as to use - restricted by bond indenture	9,587,557
Assets held for others - student deposits	596,720
Assets held by others - student deposits - cash	96,131
Derivative instruments, at fair value	1,665,814
Property and equipment, net	94,608,459
Other assets	506,143
Total assets	$ 119,083,355
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	$ 1,158,831
Accrued expenses	319,341
Student deposits	692,851
Asset retirement obligation	780,724
Derivative instruments, at fair value	9,175,498
Long-term debt	80,008,932
Total liabilities	92,136,177
Net assets, unrestricted	26,947,178
Total liabilities and net assets	$ 119,083,355

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2014

ASSETS	
Cash and cash equivalents	$ 566,112
Interest and dividends receivable	53,161
Investments	48,048,210
Beneficial interest in third-party trusts	4,313,427
Assets held for others	2,755,327
Other assets	94,697
Total assets	$ 55,830,934
LIABILITIES AND NET ASSETS	
Liabilities	
Notes payable	$ 186,407
Refundable advances and gift annuity liabilities	3,273,308
Liability for assets held for others	2,755,327
Total liabilities	6,215,042
Net assets	
Unrestricted	
Designated for perpetual scholarship fund	267,403
Temporarily restricted	1,717,111
Permanently restricted	47,631,378
Total net assets	49,615,892
Total liabilities and net assets	$ 55,830,934

See accompanying notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended June 30, 2015

REVENUES	
Operating revenues	
Tuition and fees, net of discounts and allowances of $59,203,126 and $53,918,046	$ 134,271,809
Federal grants and contracts	393,352
State grants and contracts	76,295
Local and private grants and contracts	237,152
Sales and services of educational activities	16,843,209
Auxiliary enterprise revenues, net of discounts and allowances of $1,518,029 and $1,382,514	20,895,930
Other operating revenues	18,914,447
Total operating revenues	191,632,194
EXPENSES	
Operating expenses	
Education and general	
Instruction	110,196,269
Research	7,145,927
Public service	15,190,180
Libraries	6,050,115
Academic support	19,613,296
Student services	33,688,290
Institutional support	40,545,454
Operation and maintenance of plant	33,128,725
Student financial aid	24,282,616
Depreciation	25,353,178
Auxiliary enterprises	20,575,101
Total operating expenses	335,769,151
Operating loss	(144,136,957)
Non-operating revenues (expenses)	
State appropriations	$ 72,649,400
State appropriations – in-kind KTRS pension	1,501,683
Federal grants and contracts	38,099,115
Federal grants and contracts – ARRA	142,244
State grants and contracts	18,255,611
Local and private grants and contracts	4,452,191
Net investment income	243,305
Interest on capital asset-related debt	(6,430,441)
Gain on disposal of capital assets	54,806
Income on sale of investments	6,745
Other non-operating expenses	(134,827)
Net non-operating revenues	128,839,832
Loss before other capital contributions and special item	(15,297,125)
Capital contributions	
State capital appropriation	1,336,482
Special item	
Disposition of World Council for Gifted and Talented Students	(140,231)
Decrease in net position	(14,100,874)
Net position, beginning of year	366,442,415
Cumulative effect of GASB 68 implementation	(400,759,024)
Net position, beginning of year, as restated	(34,316,609)
Net position, end of year	$ (48,417,483)

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Contribution revenue:				
Contributions	$ 400,510	$ 3,750,890	$ 2,115,856	$ 6,267,256
Non-charitable contributions	80,015	1,551,202	11,618	1,642,835
Investment income	498,422	1,781,816	-	2,280,238
Net unrealized and realized gains (losses) on investments	36,882	(5,193)	-	31,689
Management fees	9,733	-	-	9,733
Net actuarial loss from deferred gift liabilities	-	(106,649)	-	(106,649)
Rental and royalty income	-	213,554	-	213,554
Total contribution revenue	1,025,562	7,185,620	2,127,474	10,338,656
Net assets released from restriction	7,503,731	(7,503,731)	-	-
Total revenues, gains (losses) and other support	8,529,293	(318,111)	2,127,474	10,338,656
Expenses				
Expenses on behalf of WKU programs				
Salaries/wages, payroll taxes, and benefits	1,440,893	-	-	1,440,893
Scholarships and honorariums	378,552	-	-	378,552
Gifts and donations	819,912	-	-	819,912
Capital expenditures	840,720	-	-	840,720
Professional fees and other services	438,596	-	-	438,596
Travel, meals, and entertainment	751,091	-	-	751,091
Dues/subscriptions and registrations	622,439	-	-	622,439
Printing, supplies, and other office expenses	318,996	-	-	318,996
Equipment rentals and maintenance	61,813	-	-	61,813
Interest expense	69,463	-	-	69,463
Other miscellaneous expenses	146,446	-	-	146,446
Total program expenses	5,888,921	-	-	5,888,921
Management and general				
Salaries/wages, payroll taxes, and benefits	387,122	-	-	387,122
Professional fees and other services	271,368	-	-	271,368
Travel, meals, and entertainment	16,329	-	-	16,329
Printing, supplies, and other office expenses	28,469	-	-	28,469
Other miscellaneous expenses	3,384	-	-	3,384
Provision for uncollectible pledges	860,459	-	-	860,459
Total management and general expenses	1,567,131	-	-	1,567,131

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fundraising				
Professional fees and other services	$ 7,328	$ -	$ -	$ 7,328
Gifts and donations	3,964	-	-	3,964
Travel, meals, and entertainment	16,027	-	-	16,027
Printing, supplies, and other office expenses	549	-	-	549
Other miscellaneous expenses	991	-	-	991
Total fundraising expenses	28,859	-	-	28,859
Total expenses	7,484,911	-	-	7,484,911
Change in net assets	1,044,382	(318,111)	2,127,474	2,853,745
Net asset, beginning of year	13,120,409	24,579,703	37,976,665	75,676,777
Net assets, end of year	$ 14,164,791	$ 24,261,592	$ 40,104,139	$ 78,530,522

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WKU STUDENT LIFE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2015

OPERATING REVENUES	
Rent	$ 21,383,560
Interest income – direct financing lease	131,869
Other	1,207,496
Total operating revenues	22,722,925
OPERATING EXPENSES	
Salaries, benefits and related expenses	5,994,323
Utilities	2,085,217
Repairs, maintenance and supplies	1,556,746
Management fees	84,500
Professional fees	128,997
Insurance	682,641
Depreciation and amortization	3,950,834
Bad debt expense	114,751
Other	710,197
Total operating expenses	15,308,206
Change in net assets from operations	7,414,719
NONOPERATING REVENUES (EXPENSES)	
Interest income	399,588
Interest expense and fees	(748,275)
Change in fair value of derivative instruments, net of settlement payments of $2,948,453	(2,047,795)
Total non-operating expenses	(2,396,482)
Change in unrestricted net assets	5,018,237
Unrestricted net assets, beginning of year	21,928,941
Unrestricted net assets, end of year	$ 26,947,178

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	$ -	$ 2,902,677	$ 5,740,732	$ 8,643,409
Investment income	211,545	1,169,367	-	1,380,912
Net realized and unrealized gains on investments	158,752	1,868,386	-	2,027,138
Net change in value of split-interest agreements	-	(69,367)	-	(69,367)
Other revenue	4,095	-	-	4,095
Net assets released from restrictions:				
Satisfaction of program restrictions	5,774,470	(5,774,470)	-	-
Loss on exchange of assets	-	(7,030)	-	(7,030)
Total revenues, gains and other support	6,148,862	89,563	5,740,732	11,979,157
EXPENSES				
Program:				
Scholarships and awards	5,017,204	-	-	5,017,204
Other	274,437	-	-	274,437
	5,291,641	-	-	5,291,641
Management and general:				
Salaries and benefits	435,645	-	-	435,645
Interest expense	8,878	-	-	8,878
Other	360,409	-	-	360,409
	804,932	-	-	804,932
Total expenses	6,096,573	-	-	6,096,573
CHANGE IN NET ASSETS	52,289	89,563	5,740,732	5,882,584
NET ASSETS, BEGINNING OF YEAR	215,114	1,627,548	41,890,646	43,733,308
NET ASSETS, END OF YEAR	$ 267,403	$ 1,717,111	$ 47,631,378	$ 49,615,892

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS
Year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 130,065,983
Grants and contracts	(1,307,394)
Payments to employees	(191,592,848)
Payments to suppliers	(97,628,027)
Collection of loans issued to students, net	340,848
Sales and services of educational departments	16,843,209
Other operating revenues	18,914,447
Auxiliary enterprise revenues	20,895,930
Auxiliary enterprise payments	
Payments to employees	(8,883,603)
Payments to suppliers	(12,365,614)
Net cash used in operating activities	(124,717,069)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	72,649,400
Grants and contracts receipts	60,806,917
Grants and contracts receipts – ARRA	142,244
Student organization agency receipts (disbursements) - net	(130,406)
Net cash provided by noncapital financing activities	133,468,155
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from sale of capital assets	94,062
Purchases of capital assets	(27,643,261)
Principal paid on capital debt and leases	(11,652,722)
Interest paid on capital debt and leases	(6,911,673)
State appropriations for capital acquisition	1,336,482
Net cash used in capital and related financing activities	(44,777,112)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	1,620,957
Purchase of investments	(9,277)
Investment income	353,757
Net cash provided by investing activities	1,965,437
Net change in cash and cash equivalents	(34,060,589)
Cash and cash equivalents, beginning of year	98,141,596
Cash and cash equivalents, end of year	$ 64,081,007

See accompanying notes to financial statements.

Reconciliation of net operating loss to net cash used in operating activities	
Operating loss	$ (144,136,957)
Depreciation expense	25,353,178
Changes in operating assets and liabilities	
Accounts receivable, net	(4,404,670)
Federal and state grants receivable	(633,711)
Assets held in trust	376,659
Inventories	(674,116)
Loans to students, net	340,848
Prepaid expenses and other	(9,962)
Accounts payable and other current liabilities	(6,319,272)
Health insurance liability	4,726
Accrued payroll and payroll withholdings	(659,629)
Accrued compensated absences	(51,410)
Deferred outflows – pension liability	(2,875,678)
Deferred inflows – pension liability	21,894,704
Net pension liability	(11,233,780)
Unearned revenue	(1,687,999)
Net cash used in operating activities	$ (124,717,069)
Supplemental cash flows information	
In-kind KTRS pension contribution	$ 1,501,683
Construction in process included in accounts payable	1,143,700
Reconciliation of cash and cash equivalents to the statement of net position	
Cash and cash equivalents	$ 54,391,245
Restricted cash and cash equivalents	9,689,762
Total cash and cash equivalents	$ 64,081,007

See accompanying notes to financial statements.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Western Kentucky University (the "University") is a state supported institution of higher education located in Bowling Green, Kentucky, and accredited by the Southern Association of Colleges and Schools. The University awards graduate and undergraduate degrees and serves a student population of approximately 20,200 in 2015. The University is operated under the jurisdiction of a board of regents and is a component unit of the Commonwealth of Kentucky. Major federally funded student financial aid programs in which the University participates include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study, Federal Family Education Loan, Federal Direct Loan and Federal Perkins Loan Programs. The University extends unsecured credit to students.

Reporting Entity: The financial reporting entity includes Western Kentucky University, as the primary government, and the accounts of the Western Kentucky University Research Foundation, Inc. ("Research Foundation"), collectively referred to as the University.

The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* under which these basic financial statements include all organizations, activities, functions and component units for which the University is financially accountable, consists of the organizations for which exclusion could cause the financial statements to be misleading or incomplete. The determination of financial accountability includes consideration of a number of criteria including (1) the University's ability to appoint a voting majority of another entity's governing body and to impose its will on that entity; (2) the potential for that entity to provide specific financial benefits or to impose specific financial burdens on the University; and (3) that entity's fiscal dependency on the University.

The Research Foundation is included in the University's financial statements as a component unit based on the above criteria. The Research Foundation is a legally separate not-for-profit corporation that is, in substance, a part of the University's operations. It is organized exclusively to benefit the University by generating funding for and performing many of the University's research activities.

The Research Foundation's financial data is combined with the University for financial reporting purposes by the blended component unit method. Transactions between the University and the Research Foundation are eliminated upon consolidation.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* requires certain organizations be reported as component units of a primary government based on the nature and significance of that organization's relationship to the primary government. Western Kentucky University Foundation, Inc., College Heights Foundation, Inc. and WKU Student Life Foundation, Inc. (the "Foundations") are discretely presented component units of the University. The Foundations are private nonprofit organizations that report under Financial Accounting Standards Board ("FASB") Accounting Standards Codifications ("ASC"), including FASB ASC No. 958, *Not-for-Profit Entities.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations' financial information in the University's financial report for these differences.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANTACCOUNTING POLICIES (Continued)

The financial information included for each foundation noted above is derived from the respective foundation's annual audited financial statements. WKU Foundation, Inc. and College Heights Foundation, Inc. operate on a calendar year. Thus, the information included for each of these foundations is as of and for the year ended December 31, 2014. The Student Life Foundation, Inc. operates on a fiscal year beginning July, 1 and extending through June 30; likewise the information contained herein is as of and for the year ended June 30, 2015.

Basis of Accounting and Presentation: The financial statements of the University have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated non-exchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific (such as state appropriations), investment income and interest on capital asset-related debt are included in non-operating revenues and expenses.

The University routinely incurs expenses for which both restricted and unrestricted net position is available. The University's policy is to allow departmental units the flexibility to determine whether to first apply restricted or unrestricted resources based on the most advantageous application of resources.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The University considers all highly liquid investments with an original maturity of three months or less that are immediately available to the University to be cash equivalents. Funds held by the Commonwealth of Kentucky are also considered cash equivalents.

The University currently uses commercial banks and the Commonwealth of Kentucky as depositories. Deposits with commercial banks are covered by federal depository insurance or collateral held by the banks in the University's name. At the Commonwealth level, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are covered by federal depository insurance or by collateral held by the bank in the Commonwealth's name.

Restricted Cash and Cash Equivalents: Externally restricted cash and cash equivalents are classified as restricted assets. Restricted cash and cash equivalents includes cash and cash equivalents used to purchase or construct capital or other noncurrent assets.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANTACCOUNTING POLICIES (Continued)

Investments and Investment Income: The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investment income consists of interest income and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable: Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, staff and external entities, and include reimbursement of costs from external entities and related foundations. Accounts receivable also include amounts due from the federal government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Bond Issuance Costs: The bond issuance costs are expensed in the year of the bond issuance.

Inventories: Inventories, consisting principally of bookstore merchandise, are stated at the lower of cost, determined using the FIFO (first-in, first-out) method, or market.

Loans to Students: The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset and is not allocated to functional expense categories. Equipment with an estimated useful life of greater than one year and a cost of $5,000 is capitalized and depreciated with one-half year's depreciation taken during the year of purchase or donation. Library materials are capitalized in total for the year with one-half year's depreciation taken during the year of purchase or donation. Construction in progress is capitalized when incurred. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred or when the project was closed and is identified as projects less than $100,000. The University continues to track equipment with a cost of $500 or more for insurance purposes consistent with applicable Kentucky Revised Statutes but does not capitalize items at these lower thresholds.

The following estimated useful lives are being used by the University:

Buildings and building improvements	15 - 40 years
Furniture, fixtures and equipment	3 - 15 years
Land improvements and infrastructure	20 years
Library materials	10 years

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANTACCOUNTING POLICIES (Continued)

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowings. Total interest capitalized was:

	2015
Total interest expense incurred on borrowings for project	$ 482,894
Interest income from investment of proceeds of borrowings for project	(71,941)
Net interest cost capitalized	410,953
Interest capitalized	410,953
Interest charged to expense	6,430,441
Total interest incurred	$ 6,841,394

Historical Collections: The University owns historical collections housed throughout the campus that it does not capitalize, including collections in the Kentucky Building & Museum. These collections adhere to the University's policy to (1) maintain them for public exhibition, education or research; (2) protect, keep unencumbered, care for and preserve them; and (3) require proceeds from their sale to be used to acquire other collection items. GAAP permits collections maintained in this manner to be charged to operations at time of purchase rather than capitalized.

Compensated Absences: University policies permit employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized when vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes which are computed using rates in effect at that date.

Unearned Revenue: Tuition and fee revenues collected during the fiscal year, which relate to the period after June 30, 2015, have been recognized as unearned revenues. Unearned revenues arise when resources are received by the University before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the University has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and revenue is recognized. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been earned and unexpended state capital appropriations.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky Employees' Retirement System and Kentucky Teachers' Retirement System (referred to collectively as "the Plans") and additions to/deductions from the Plans fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANTACCOUNTING POLICIES (Continued)

Classification of Revenues: The University has classified its revenues as either operating or non-operating revenues 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; and (3) interest on student loans. Operating revenues also include certain federal, state, local, and private grants and contracts.

Non-operating Revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements – Management's Discussion & Analysis – for State & Local Governments*, such as state appropriations and investment income.

Scholarship Discounts and Allowances: Student tuition and fee revenues and certain other revenues from students are reported net of scholarship allowances in the Statements of Revenues, Expenses, and Changes in Net Position. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition, fees, and other student charges, the University has recorded a scholarship allowance.

Net Position: The University's net position is classified as follows:

Net Investment in Capital Assets: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted Net Position – Expendable: Restricted expendable net position includes resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted Net Position – Non-expendable: Non-expendable restricted net position consists 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 net position represents resources derived from student tuition and fees and sales and services of educational activities, intercollegiate athletics, and auxiliary enterprises. These resources are used at the discretion of the governing board to meet current expenses for any purpose.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANTACCOUNTING POLICIES (Continued)

Income Taxes: As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

Recent Accounting Pronouncements Adopted/Implemented:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* Issued June 2012. This statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The University adopted the Statement during the year ended June 30, 2015 and the adoption resulted in a decrease in net position at July 1, 2014 of $400,759,024.

  Governmental employers participating in a cost-sharing plan are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. Refer to Note 9 for the following required note disclosures:

  - Descriptions of the plan and benefits provided
  - Significant assumptions employed in the measurement of the net pension liability
  - Descriptions of benefit changes and changes in assumptions
  - Assumptions related to the discount rate and impact on the total pension liability of a 1 percentage point increase and decrease in the discount rate
  - Net pension assets and liabilities

- GASB Statement No. 69, Government Combinations and Disposals of Government Operation - In January 2013, this Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. This Statement also requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of this Statement are effective for the University's fiscal year ended June 30, 2015. The implementation of this statement did not have a material effect on the financial position of the University, although the University did dispose of World Council for Gifted and Talented Students during the year, which resulted in a loss of $140,231. This is disclosed as a special item on the Statement of Revenues, Expenses, and Changes in Net Position.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANTACCOUNTING POLICIES (Continued)

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* The objective of Statement No. 71 is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement were required to be applied simultaneously with the provisions of Statement 68.

Recent Accounting Pronouncements: As of June 30, 2015, the GASB has issued the following statements not yet implemented by the University.

- GASB Statement No. 72, *Fair Value Measurement and Application,* issued on November 2013. The provisions of this Statement are effective for periods beginning after June 15, 2015. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements.* The University's management has not yet determined the effect this statement will have on the University's financial statements.

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* issued on June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The University's management has not yet determined the effect this statement will have on the University's financial statements.

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* issued on June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The University's management anticipates no effect to the University's financial statements.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANTACCOUNTING POLICIES (Continued)

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* issued on June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The University's management has not yet determined the effect this statement will have on the University's financial statements.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* issued on June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The University's management has not yet determined the effect this statement will have on the University's financial statements.

- GASB Statement No. 77, *Tax Abatement Disclosures,* issued on August 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both 1 (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements. The University's management has not yet determined the effect this statement will have on the University's financial statements.

NOTE 2 - ASSETS HELD IN TRUST

Assets held in trust as of June 30, 2015 consisted of:

Cash equivalents	$ 2,883,355
Common equity, common fixed income and mutual funds	19,379,516
Fair value of assets held in trust	$ 22,262,871

Assets held with the City of Bowling Green, Kentucky (the "City") and the WKU Student Life Foundation, Inc. are held pursuant to sinking fund requirements of pledges to the City and notes payable to the WKU Student Life Foundation, Inc. as further described in Note 7. Funding received through the Regional University Excellence Trust Fund is further described in Note 12.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash

The carrying amount of cash and cash equivalents was $64,081,007 at June 30, 2015, while the bank balances was $66,867,414. All account balances at banks were either insured by the Federal Deposit Insurance Corporation (FDIC) for $250,000, or collateralized with securities of the U.S. Government or with letters of credit issued by the Federal Home Loan Bank held in the University's name by financial institutions acting as the University's agent.

Investments (excluding 457(f) Incentive Plan)

The investments that the University may purchase are limited by Commonwealth of Kentucky law to the following: (1) U.S. Treasury Obligations; (2) U.S. Government Agency securities including collateralized mortgage obligations; (3) certificates of deposit or time deposits of banks and savings and loan associations that are insured by a Federal corporation; and (4) fully collateralized repurchase agreements.

457(f) Incentive Plan Investments

Pursuant to plan documents, the investments included in this plan are directed by the beneficiaries of the account and consist of money market mutual funds. The beneficiaries of these investments vest a certain percentage of the account balance on an annual basis. The vested balance is paid to the beneficiary subsequent to the University's fiscal year end. The total amount vested and payable as of June 30, 2015 was $119,429. The investments in this plan, by plan agreement, may be liquidated at any time and, as such, have been classified with maturities of less than one year.

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the University's investments at June 30, 2015:

Investment Type	Fair Value	One Year	One to Five Years	Six to Ten Years	Greater than Ten Years
457(f) Incentive Plan	$ 154,378	$ 154,378	$ -	$ -	$ -
Cambridge Holdings EURO	2,771	2,771	-	-	-
Total	$ 157,149	$ 157,149	$ -	$ -	$ -

Interest Rate Risk: The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, bond resolutions govern the investment of bond reserves.

Credit Risk: The University's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The University's investment policy allows investments in U.S. Agency securities if such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services.

The University did not have any investment in debt securities as of June 30, 2015. Therefore, the University is not considered to have credit risk.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Foreign Currency Risk: As of June 30, 2015, the University was holding $2,771 in Euros for the KIIS program. Any such exchange rate risk is deemed immaterial. The University was not exposed to foreign currency risk as of June 30, 2015.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's investment policy requires that all amounts in excess of any insurance limits be collateralized by securities eligible for University investment. The market value of the pledged securities shall equal or exceed the portion of the deposit requiring collateralization. The University is fully collateralized as of June 30, 2015.

Of the University's cash and investment balance as of June 30, 2015, $500,000 is secured by FDIC insurance, and $51,070,219 is secured by U.S. Treasury Notes held in the University's name, collateralized by the pledging institution. Additionally, as of June 30, 2015, $15,797,195 is held within various accounts with the Commonwealth of Kentucky.

Concentration of Credit Risk: The Commonwealth of Kentucky places no limit on the amount the University may invest in any one issuer. More than 90% percent of the University's investments are U.S. Treasury Obligations. The investments reported in the University's 457(f) Incentive Plan are beneficiary-directed money-market mutual funds.

Investment Income

Investment income for the year ended June 30, 2015 consisted of:

Interest income, including interest earned on cash equivalents	$ 481,239
Net decrease in fair value of investments	(237,934)
	$ 243,305

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of June 30, 2015:

Tuition, fees, sales and services	$ 11,975,989
Credit memos	394,878
Miscellaneous, other	1,607,359
	13,978,226
Less allowance for doubtful accounts	(1,472,670)
Accounts receivable, net	$ 12,505,556

(Continued)

NOTE 5 - CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2015 are summarized as follows:

	Balance July 1, 2014	Additions	Disposals	Transfers	Balance June 30, 2015
Non-depreciable capital assets:					
Land	$ 10,673,507	$ 410,180	$ -	$ -	$ 11,083,687
Construction in progress	71,645,070	21,993,747	-	(68,555,538)	25,083,279
	82,318,577	22,403,927	-	(68,555,538)	36,166,966
Depreciable capital assets:					
Buildings and improvements	480,794,154	-	-	59,177,626	539,971,780
Infrastructure	61,440,232	-	-	3,853,841	65,294,073
Furniture, fixtures and equipment	70,633,921	3,475,441	(591,905)	5,524,071	79,041,528
Library materials	51,204,810	2,907,593	(344,942)	-	53,767,461
	664,073,117	6,383,034	(936,847)	68,555,538	738,074,842
Less accumulated depreciation:					
Buildings and improvements	173,654,444	15,188,416	-	-	188,842,860
Infrastructure	18,400,677	2,887,877	-	-	21,288,554
Furniture, fixtures, and equipment	49,570,188	4,930,092	(552,649)	-	53,947,631
Library materials	38,609,812	2,346,793	(344,942)	-	40,611,663
	280,235,121	25,353,178	(897,591)	-	304,690,708
Net capital assets	$ 466,156,573	$ 3,433,783	$ (39,256)	$ -	$ 469,551,100

A summary of construction in progress at June 30, 2015 is as follows:

Science Campus – Phase IV	$ 1,620,827
Honors/International Building	16,980,834
Others under $1,000,000	6,481,618
	$ 25,083,279

Contractual commitments in connection with all projects totaled $11,288,814 at June 30, 2015.

NOTE 6 - UNEARNED REVENUE

Unearned revenue consisted of the following items as of June 30, 2015:

Unexpended state capital appropriations	$ 120,322
Summer school tuition and fees	4,925,101
Grants and contracts	1,976,982
Advance sale of football tickets	330,678
University master plan	122,765
Advanced capital improvement contribution	1,200,000
Miscellaneous	372,861
Total unearned revenue	$ 9,048,709

(Continued)

NOTE 7 - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Current Portion
Capital lease obligations	$ 19,478,197	$ -	$ (522,292)	$ 18,955,905	$ 569,749
General receipts bonds payable, net of discounts	157,612,063	-	(8,206,185)	149,405,878	8,436,185
Other long-term debt	10,909,744	-	(1,631,588)	9,278,156	1,602,192
Pledges payable, net of discount premiums	27,382,560	-	(1,661,047)	25,721,513	1,786,047
Total bonds, pledges and capital leases	$ 215,382,564	$ -	$ (12,021,112)	$ 203,361,452	$ 12,394,173

General Receipts Bonds Payable

Bonds payable as of June 30, 2015 and 2014, are composed of General Receipts Bonds, Series 2006A, 2007A, 2009A, 2011A, 2012A, 2012B, and 2013A. The bonds mature in varying amounts through September 1, 2033, with interest payable at annual rates ranging from 2.00% to 5.00%. Buildings and revenues from student registration fees are pledged as collateral against the Consolidated Educational Buildings Revenue Bond payable, whereas general receipts of the University are pledged as collateral against the General Receipts Bonds payable.

The total bonds payable as of June 30, 2015 were as follows:

General Receipts Bonds, Series 2006A, dated December 19, 2006, with interest rates from 3.625% to 3.80%. Final principal payment date is September 1, 2026.	$ 6,826,388
General Receipts Bonds, Series 2007A, dated May 30, 2007, with interest rates from 4.00% to 4.20%. Final principal payment date is September 1, 2026.	28,528,120
General Receipts Bonds, Series 2009A, dated February 18, 2009, with interest rates from 2.50% to 5.00%. Final principal payment date is September 1, 2028.	36,825,888
General Receipts Bonds, Series 2011A, dated November 15, 2011, with interest rates from 2.00% to 3.00%. Final payment date is May 1, 2023.	4,991,453
General Receipts Bonds, Series 2012A, dated June 6, 2012, with interest rates from 2.00% to 5.00%. Final principal payment date is May 1, 2032.	32,262,769
General Receipts Bonds, Series 2012B, dated June 6, 2012, with interest rates from 2.00% to 3.00%. Final principal payment date is May 1, 2023.	4,919,485

(Continued)

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

General Receipts Bonds, Series 2013A, dated October 29, 2013, with interest rates from 2.00% to 4.75%. Final principal payment date is September 1, 2033.	35,051,774
Total bonds payable	$ 149,405,877

The debt service requirements for the bonds payable as of June 30, 2015 are as follows:

	Principal	Interest	Total
2016	$ 8,375,000	$ 5,332,010	$ 13,707,010
2017	8,620,000	5,087,806	13,707,806
2018	8,880,000	4,827,675	13,707,675
2019	9,155,000	4,547,564	13,702,564
2020	9,460,000	4,253,718	13,713,718
2021-2025	49,775,000	16,024,920	65,799,920
2026-2030	40,140,000	6,751,908	46,891,908
2031-2034	14,030,000	1,208,466	15,238,466
	148,435,000	48,034,067	196,469,067
Add: unamortized premiums, net of discounts	970,877	-	970,877
	$ 149,405,877	$ 48,034,067	$ 197,439,944

On December 19, 2006, the University issued Western Kentucky University General Receipts Bonds, Series 2006A. The $10,000,000 proceeds generated from the bond issue were used for a portion of the renovation/expansion of Academic Athletic Complex #2, South Campus Parking and Dining, Math and Science Academy, Student Health Services Center and for Information Technology Infrastructure improvements.

On May 30, 2007, the University issued Western Kentucky University General Receipts Bonds, Series 2007A. The $43,180,000 proceeds generated from the bond issue were used to fund a portion of the renovation/expansion of Academic Athletic Complex #2, South Campus Parking and Dining, Math and Science Academy, Student Health Services Center and for Information Technology Infrastructure improvements.

On February 18, 2009, the University issued Western Kentucky University General Receipts Bonds, Series 2009A. The $46,900,000 proceeds generated from the bond issue were used to fund a portion of the renovation/expansion of Van Meter Hall, Preston Center, Ivan Wilson Center, Science Campus, Grise Hall and various parking lots across campus.

On November 15, 2011, the University issued Western Kentucky University General Receipts Bonds, Series 2011A. The $6,905,000 proceeds were used as a refunding source for the Western Kentucky University Consolidated Educational Buildings Revenue Bond, Series P.

On June 6, 2012, the University issued Western Kentucky University General Receipts Bonds, Series 2012A. The $35,860,000 proceeds generated from the bond issue are being used for the Phase 3 renovation of Downing University Center.

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

On June 6, 2012, the University issued Western Kentucky University General Receipts Bonds, Series 2012B. The $6,450,000 proceeds were used as a refunding source for Western Kentucky University Consolidated Educational Buildings Revenue Bond, Series Q.

On October 29, 2013, the University issued Western Kentucky University General Receipts Bonds, Series 2013A. The $36,095,000 proceeds generated from the bond issue are being used to construct the Honors College/International Student Building and to complete the renovation of the Downing Student Union.

Capital Lease Obligations

The University has acquired certain equipment under various lease-purchase contracts and other capital lease agreements. The costs of University assets held under capital leases totaled $18,282,681 at June 30, 2015, net of accumulated depreciation of $1,422,636. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 2.23% to 6.42% together with the present value of the future minimum lease payments as of June 30, 2015:

	Total to be Paid	Present Value of Future Minimum Lease Payments	Interest Portion
Year ending June 30			
2016	$ 1,328,262	$ 569,749	$ 758,513
2017	1,339,362	602,664	736,698
2018	1,349,462	636,066	713,396
2019	1,368,362	679,984	688,378
2020	1,380,962	719,450	661,512
2021-2025	5,699,810	2,710,903	2,988,907
2026-2030	5,381,992	2,970,186	2,411,806
2031-2035	5,211,365	3,344,749	1,866,616
2036-2040	5,669,687	4,609,749	1,059,938
2041-2042	2,218,530	2,112,405	106,125
	$ 30,947,794	$ 18,955,905	$ 11,991,889

Other Long-Term Debt

During fiscal year-ended June 30, 2005, the University acquired certain property from the Western Kentucky University Real Estate Corporation (“WKU Real Estate Corporation”). In connection with this property acquisition, the University agreed to make future payments to the WKU Real Estate Corporation. These payments represent the principal and interest payments of the present value of a life trust held by the WKU Real Estate Corporation, to which this property once belonged. The present value of the liability was determined using the IRS actuarial tables for an ordinary life annuity assuming an implied interest rate of 5.00%. The future payments consist of monthly installments of $2,000 for the life of the annuitant.

On December 11, 2009, the University entered into a Master Lease agreement with First & Farmer’s National Bank. The original financing arrangement was refinanced with PNC on November 18, 2010. Under the provisions of this agreement, Johnson Controls will perform certain energy-saving capital upgrades to several campus buildings. The annual percentage rate for this financing is 3.49%. Principal and interest payments of $77,394 are due monthly, beginning on June 18, 2011. The final principal payment is due on February 14, 2023.

(Continued)

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

On September 11, 2011, the University entered into a Master Lease Agreement with PNC Bank. Under the provisions of this agreement, the total principal balance was drawn and held in an escrow account and dispersed as needed to pay costs associated with the acquisition of a Television Production Truck. The annual percentage rate for this financing is 3.49%. Payments of principal and interest of $278,898 are due annually, beginning on October 23, 2011. The final principal payment is due on October 23, 2017.

Debt service requirements on the other long-term debt at June 30, 2015, were as follows:

	Total to be Paid	Principal	Interest
Year ending June 30			
2016	$ 1,772,387	$ 1,602,192	$ 170,195
2017	1,771,387	1,633,870	137,517
2018	1,641,376	1,535,217	106,159
2019	1,179,146	1,103,971	75,175
2020	968,301	912,875	55,426
2021-2025	2,544,298	2,474,932	69,366
2026-2028	15,575	15,099	476
	$ 9,892,470	$ 9,278,156	$ 614,314

Pledges Payable

The University has pledged certain future revenues consisting of student athletic fees to the City. The University has signed a Memorandum of Agreement dated April 15, 2002, and amended by supplement No. 1 dated June 1, 2002, between the City, Hilltopper Athletic Foundation (the "HAF") and the University. Under this agreement, the University and the HAF have agreed to pledge certain future revenues in exchange for the renovation of E. A. Diddle Arena, financed by General Obligation and Special Revenues Bonds Series 2002B and 2002C issued by the City. These bonds constitute general obligations of the City and the full faith, credit and taxing power of the City.

In the signed Memorandum of Agreement, as amended, the University has agreed to (a) pledge the student athletic fees to the City for the payment of principal and interest on Series 2002B bonds and on a subordinated basis on Series 2002C bonds and (b) the University and HAF pledge the suite rentals (defined as annual suite rental minus annual HAF contributions) to the City on Series 2002C bonds. Additionally, the University has agreed to pay to the City the proceeds from the sale of naming rights to Diddle Arena (if any) for Series 2002B bonds. The University has also covenanted and agreed to maintain the student athletic fees in amounts not less than the principal and interest of the bonds.

(Continued)

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

During 2011, the City issued Series 2010 and Series 2011 General Obligation Bonds for the purpose of refunding the City's General Obligation and Special Revenue Series 2002B and 2002C Bonds. The new Series 2010 and Series 2011 effectively refund a portion of the original 2002B and 2002C issues. With the refunding issue, the University has recorded the principal of both the Series 2010 and 2011 City Bonds as pledges payable to the City. Financing for both issues was used to refund a portion of the original 2002B and 2002C issues, and likewise, an effective refinancing of the original pledges payable to the City. As described above, under the Memorandum of Agreement, as amended, the University has agreed to (a) pledge the student athletic fees to the City for the payment of principal and interest on the Series 2010 Bonds and on a subordinated basis on Series 2011 Bonds and (b) the University and HAF pledge the suite rentals (defined as annual suite rental minus annual HAF contributions) to the City on Series 2011 Bonds. The University has covenanted and agreed to maintain the student athletic fees in amounts not less than the principal and interest of the bonds.

The University has recorded the un-refunded principal balance of both Series 2002B and 2002C City Bonds and the principal balances of both refunding issues Series 2010 and 2011 City Bonds as pledges payable to the City. Financing for both original issues was used for the improvement of University facilities. Financing for both refunding issues was used to refund/refinance a portion of each original issue. Related to the remaining principal and interest amounts due on the 2002C and 2011 issues, the University has an obligation to make up any difference that is not received from suite rental; therefore, HAF payments of interest and debt will be recorded as revenue when received and a reduction of bond principal or interest expense when paid. Series 2011 City Bonds were paid off in fiscal year June 30, 2014.

The following is a schedule, by year, of future minimum pledge payments under the signed Memorandum of Agreement reimbursing the City for renovation costs:

Year ending June 30	Total to be Paid	Principal Series 2010	Interest Series 2010
2016	$ 2,647,980	$ 1,775,000	$ 872,980
2017	2,743,605	1,915,000	828,605
2018	2,816,155	2,045,000	771,155
2019	2,894,805	2,185,000	709,805
2020	2,984,255	2,340,000	644,255
2021-2025	14,537,690	12,585,000	1,952,690
2026-2027	2,861,756	2,755,000	106,756
	31,486,246	25,600,000	5,886,246
Add unaccreted premium	121,514	121,514	-
	$ 31,607,760	$ 25,721,514	$ 5,886,246

NOTE 8 - OPERATING LEASES

The University leases certain equipment under operating lease agreements. The operating leases expire in various years through 2032. These leases generally do not transfer equipment or assets at the end of the lease term. Periods on these leases range from two to twenty years and require the University to pay all executor costs (property taxes, maintenance and insurance).

(Continued)

NOTE 8 - OPERATING LEASES (Continued)

Future minimum lease payments at June 30, 2015, were:

2016	$ 1,325,504
2017	1,099,355
2018	1,009,079
2019	1,001,879
2020	987,704
Thereafter through 2032	24,242,818
	$ 29,666,339

Lease expense was $1,379,980 for the year ended June 30, 2015.

NOTE 9 - PENSION PLANS

Employees of the University are covered by one of three pension plans:

Optional Retirement Plan:
Plan Description -University faculty and administrative staff hired after July 1, 1996, have the option of participating in the Optional Retirement Program, a defined contribution pension plan. The plan is administered by one of three providers chosen by the employee. The plan provides retirement benefits to plan members. Benefit provisions are contained in the plan document and were established and may be amended by action of the Commonwealth of Kentucky. Contribution rates for plan members and the University expressed as a percentage of covered payrolls were 6.16% and 13.84%, respectively. Of the University's 13.84% contribution, 5.10% is paid to Kentucky Teachers' Retirement System for unfunded liabilities. Covered payroll totaled $44,888,393 for the year-ended June 30, 2015. The University's contributions to the Optional Retirement Program for the year ended June 30, 2015 and 2014 were $3,927,859 and $3,862,191, respectively. Employees' contributions to the Optional Retirement Program for the year ended June 30, 2015 and 2014 were $2,289,310 and $2,722,497, respectively.

Kentucky Employees' Retirement System - Defined Benefit Plan:
Plan Description – The University contributes to the Kentucky Employees' Retirement System (KERS), a cost sharing - multiple employer public employee retirement system. KERS is a defined benefit plan providing for retirement, disability, death benefits and health insurance. Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124 or by calling (502) 696-8800.

NOTE 9 – PENSION PLANS (Continued)

Benefits Provided

Non-Hazardous

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 91/2008 through 12/31/13	Tier 3 Participation 1/1/2014
Benefit Formula	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor	1.97% or 2.0% for those retiring with service for all months between 1/1998 and 1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 – 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA)	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit	Any age with 27 years of service. Age 65 with 48 months of service. Money purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No month purchased calculations.	
Reduced Retirement Benefit	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

Hazardous

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 91/2008 through 12/31/13	Tier 3 Participation 1/1/2014
Benefit Formula	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation	Highest 3 fiscal years (must contain at least 24 months). Includes lump-sum compensation payments (before and at retirement).	3 highest salaries; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor	2.49%	10 years or less = 1.30%. Greater than 10 years, but no more than 20 years = 1.50%. Greater than 20 years, but no more than 26 years = 2.25%. Greater than 25 years = 2.50%.	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA)	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit	Any age with 20 years of service. Age 55 with 60 months of service.	Any age with 25 years of service. Age 60 with 60 months of service.	Any age with 25 years of service. Age 60 with 60 months of service.
Reduced Retirement Benefit	Age 50 with 15 years of service.	Age 50 with 15 years of service.	No reduced retirement benefit.

(Continued)

NOTE 9 – PENSION PLANS (Continued)

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS Board. For the fiscal year ended June 30, 2015, University non-hazardous and hazardous employees were required to contribute 5 percent and 8 percent, respectively, of their annual covered salary for retirement benefits. Non-hazardous and hazardous employees with a participation date after 9/1/2008 were required to contribute an additional 1 percent of their covered salary for retiree healthcare benefits. The University was contractually required to contribute 38.77 percent of annual covered payroll for non-hazardous pay and 26.34 percent for hazardous pay. Actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The University's total contributions to KERS for the year ending June 30, 2015 was $9,172,585, equal to the required contributions for the year.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2015,the University reported a liability of $129,789,000 for its proportionate share of the non-hazardous net pension liability and $2,189,000 for hazardous. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the University's proportion was 1.4466 percent for non-hazardous and 0.8570 percent for hazardous.

For the year ended June 30, 2015, the University recognized non-hazardous pension expense of $9,809,000 and $153,000 for hazardous. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Non-hazardous		
Net difference between projected and actual earnings on investments	$ -	$ 1,668,000
University contributions subsequent to measurement date	7,021,968	-
Hazardous		
Net difference between projected and actual earnings on investments	-	289,000
University contributions subsequent to measurement date	214,434	-
	$ 7,236,402	$ 1,957,000

At June 30, 2015, the University reported $7,236,402 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Deferred inflows of resources at June 30, 2015, related to pensions will be recognized in pension expense as follows:

2016	$ 489,250
2017	489,250
2018	489,250
2019	489,250
	$ 1,957,000

(Continued)

NOTE 9 – PENSION PLANS (Continued)

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement for non-hazardous and hazardous pensions.

Inflation	3.50%
Salary increases	4.50%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

The rates of mortality, for both non-hazardous and hazardous, for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006; and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period and after the disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2008.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KERS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption Including long-term historical data, estimates inherent in current market data, and a log - normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long- term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected Inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Domestic Equity	30%	8.45%
International Equity	22	8.85
Emerging Market Equity	5	10.50
Private Equity	7	11.25
Real Estate	5	7.00
Core U.S. Fixed Income	10	5.25
High Yield U.S. Fixed Income	5	7.25
Non U.S. Fixed Income	5	5.50
Commodities	5	7.75
TIPS	5	5.00
Cash	1	3.25
Total	100%	

(Continued)

NOTE 9 – PENSION PLANS (Continued)

Discount rate - The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long–term assumed investment return of 7.75%. The long–term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The University's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents the University's proportionate share of the net pension liability (in thousands) calculated using a discount rate 1% higher and 1% lower than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Non-Hazardous			
Proportionate of the Collective Net Pension Liability	$ 146,009	$ 129,789	$ 115,166
Hazardous			
Proportionate share of the Collective Net Pension Liability	$ 2,937	$ 2,189	$ 1,548

Kentucky Teachers' Retirement System - Defined Benefit Plan

Plan Description – Faculty and professional staff that do not participate on the aforementioned Optional Retirement Plan are required to participate in the Kentucky Teachers' Retirement System (KTRS), a cost sharing - multiple employer public employee retirement system. KTRS is a defined benefit plan providing for retirement, disability, death benefits and health insurance. Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service. KTRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky, 40601 or by calling (502) 573-3266.

(Continued)

NOTE 9 – PENSION PLANS (Continued)

Benefits Provided

	Tier 1 Participation Prior to July 1, 2008	**Tier 2** Participation on or After July 1, 2008
Covered Employees:	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service	
Final Compensation:	Average of the highest 5 annual salaries reduced 5% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is $440 multiplied by credited service.	Average of the highest 5 annual salaries reduced 6% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is $440 multiplied by credited service.
Benefit Factor:	Non-University members: 2.00% for service prior to 7/1/1983; 2.50% for service after 7/1/1983; 2.00% if participation after 7/1/2002 and less than 10 years; 2.50% if participation after 7/1/2002 and more than 10 years; 3.00% if retire after 7/1/2004 with more than 30 years. University members: 2.0% for each year of service.	Non-University members: 1.70% if less than 10 years; 2.00% if greater than 10 years, but no more than 20 years; 2.30% if greater than 20 years, but no more than 26 years; 2.50% if greater than 26 years, but no more than 30 years; 3.00% for service greater than 30 years. University members: 1.50% if less than 10 years; 1.70% if greater than 10 years, but less than 20 years; 1.85% if greater than 20 years, but less than 27 years; 2.00% if greater than 27 years.
Cost of Living Adjustment (COLA):	1.5% annually additional ad hoc increases must be authorized by the General Assembly.	
Unreduced Retirement Benefit:	Any age with 27 years of Kentucky service. Age 55 with 5 years of Kentucky service.	Any age with 27 years of Kentucky service. Age 60 with 5 years of Kentucky service. Age 55 with 10 years of Kentucky service.
Reduced Retirement Benefit:	Must be retired for service or disability to be eligible. Retired members are given a supplement based upon a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.	

(Continued)

NOTE 9 – PENSION PLANS (Continued)

Contributions: Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.540, 161.550 and 161.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. For the fiscal year ended June 30, 2015, University employees were required to contribute 7.68 percent of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.36 percent of covered payroll. The actuarially determined amount, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The University's total contributions to KTRS for the years ending June 30, 2015 and 2014 were $9,676,379 and $9,717,683, respectively, and were equal to the required contributions for the year. In addition, the Commonwealth of Kentucky contributes ad hoc annual cost of living adjustments provided by the General Assembly for KTRS retirees. These contributions totaled $1,102,652 for the year ending June 30, 2014 and are approximately $1,400,000 for the year ending June 30, 2015.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions: At June 30, 2015, the University reported a liability for its proportionate share of the net pension liability that reflected a reduction for pension support provided to the University by the Commonwealth of Kentucky. The amount recognized by the University as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the University were as follows:

University's proportionate share of the net pension liability	$ 270,082,664
Commonwealth of Kentucky's proportionate share of the net pension Liability associated with the University	30,645,908
	$ 300,728,572

The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the University's proportion was 1.251 percent and the Commonwealth of Kentucky's proportion associated with the University was 0.142 percent.

For the year ended June 30, 2015, the University recognized pension expense of $13,234,344 and revenue of $1,501,683 for support provided by the Commonwealth of Kentucky. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred In flows of Resources
KTRS		
Net difference between projected and actual earnings on investments	$ -	$ 19,937,704
Contributions subsequent to the measurement date	9,676,379	-

NOTE 9 – PENSION PLANS (Continued)

At June 30, 2015, the University reported $9,676,379 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Deferred inflows of resources at June 30, 2015, related to pensions will be recognized in pension expense as follows:

2016	$ 4,832,146
2017	4,832,146
2018	4,832,146
2019	4,832,146
2020	609,120
	$ 19,937,704

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement;

Inflation:	3.50%
Salary Increases	4.00% – 8.20%, including inflation
Investment Rate of Return	7.50%, net pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table for Males and Females, as appropriate with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a set back of 1 year for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005- June 30, 2010 adopted by the Board on December 19, 2011.

The long-term expected return on plan was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Unity Equity	45.0%	6.4%
Non U.S. Equity	17.0	6.5
Fixed Income	24.0	1.6
High Yield Bonds	4.0	3.1
Real estate	4.0	5.8
Alternatives	4.0	6.8
Cash	2.0	1.5
Total	100.0%	

(Continued)

NOTE 9 – PENSION PLANS (Continued)

Discount rate - The discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The following table presents the net pension liability of the University, calculated using the discount rate of 5.23%, as well as what the University's net pension liability (in thousands) would be if it were calculated using a discount rate that is 1-percentage-point lower (4.23%) or 1-percentage-point higher (6.23%) than the current rate:

	1% Decrease (4.23)	Current Discount Rate (5.23%)	1% Increase (6.23%)
Proportionate share of the Collective Net Pension Liability	$ 339,249	$ 270,083	$ 212,984

Summary Pension Plan Information:

	KERS Non-hazardous	KERS Hazardous	KTRS	Total
Net pension liability	$ 129,789,000	$ 2,189,000	$ 270,082,664	$ 402,060,664
Deferred outflows of resources	7,021,968	214,434	9,676,379	16,912,781
Deferred inflows of resources	1,668,000	289,000	19,937,704	21,894,704
Pension expense	9,809,000	153,000	13,234,344	23,196,344

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Claims and Litigation: The University is currently involved in various claims and pending legal actions related to matters arising from the ordinary conduct of business. The University administration believes the ultimate disposition of the actions will not have a material effect on the financial statements of the University.

Government Grants: The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

(Continued)

NOTE 11 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, employee health and certain natural disasters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Commonwealth of Kentucky self-insures workers' compensation benefits for all state employees, including University employees. Risk Management Services Corporation administers workers' compensation claims.

Prior to 2006, the University had joined together with other Kentucky governmental entities to form a public entity risk pool currently operating as a common risk management and insurance program for its members. The University paid an annual premium to the pool for its workers' compensation insurance coverage. The pool's governing agreement specified that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts. In 2006, the University began self-insuring workers' compensation claims.

Under its self-insured health plan, the University accrued the estimated costs of health care claims based on claims filed subsequent to year end and an additional amount for incurred but not yet reported claims based on prior experience.

Changes in the balance of the self-insured health liability as of June 30, 2015 and 2014 are summarized as follows:

	2015	2014
Balance, beginning of year	$ 952,201	$ 1,247,421
Claims and changes in estimates	13,850,771	14,771,627
Claims payments	(13,898,370)	(15,066,847)
Balance, end of year	$ 904,602	$ 952,201

Under its self-insured workers' compensation plan, the University accrued the estimated costs of workers' compensation claims based on claims filed subsequent to year end and an additional amount for incurred but not yet reported claims.

Changes in the balance of the self-insured workers' compensation liability as of June 30, 2015 and 2014 are summarized as follows:

	2015	2014
Balance, beginning of year	$ 257,903	$ 166,455
Claims and changes in estimates	462,519	271,518
Claims payments	(410,194)	(180,070)
Balance, end of year	$ 310,228	$ 257,903

NOTE 12 - REGIONAL UNIVERSITY EXCELLENCE TRUST FUND (RUETF)

The Kentucky General Assembly appropriated funds to the RUETF with the passage of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The purpose of this fund is to encourage private investment in public higher education activities within the Commonwealth of Kentucky. These funds were made available when matched dollar-for-dollar from external sources. The Commonwealth's Council on Postsecondary Education (CPE) was designated to oversee the distribution and use of these funds.

(Continued)

NOTE 12 - REGIONAL UNIVERSITY EXCELLENCE TRUST FUND (RUETF) (Continued)

The University, under Kentucky House Bill 502, enacted by the 2000 General Assembly, included the provisions that "the proceeds of the endowment program authorized under Part X, Section I of this Act shall be deposited in the Regional University Excellence Trust Fund Account and invested at the direction of the CPE. Upon receipt of certification, the Council shall transfer the endowment funds from the account to the respective universities for management and investment by the university foundations if the foundations have been previously created to manage and invest private gifts and donations on behalf of the universities over time, otherwise by the university itself."

The University transfers these state match funds to the Western Kentucky University Foundation, Inc. and the College Heights Foundation for investment purposes. The Western Kentucky University Foundation, Inc. and the College Heights Foundation are non-affiliated foundations under the governing laws of the Commonwealth of Kentucky. These Foundations are responsible for managing some of the fund raising and investing activities of the University. The University has recorded the state appropriated RUETF as assets held in trust in the Regional University Excellence Trust Fund (see Note 2 for the fair value of assets held in trust).

Following is a summary of the funding for the RUETF as of June 30, 2015:

	CPE Funding Received	- - External Matched Pledges - - Received	Pledged
Balance, July 1, 2014	$ 14,185,709	$ 15,734,987	$ 401,919
New Pledges	-	-	256,267
Current year collections	-	285,273	(285,273)
Balance, June 30, 2015	$ 14,185,709	$ 16,020,260	$ 372,913

The University's externally matched pledges, both received and outstanding, have not been recorded on the University's financial statements.

NOTE 13 - NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

The University's operating expenses by functional classification on June 30, 2015, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	$ 95,587,513	$ 13,978,630	$ 4,774	$ 625,352	$ -	$ -	$ 110,196,269
Research	4,142,126	2,834,557	13,833	155,411	-	-	7,145,927
Public service	9,703,703	5,004,870	6,055	475,552	-	-	15,190,180
Libraries	5,274,820	756,015	-	19,280	-	-	6,050,115
Academic support	15,196,124	4,013,461	7,491	396,220	-	-	19,613,296
Student services	20,272,716	13,214,569	7,966	193,039	-	-	33,688,290
Institutional support	32,489,681	7,601,959	10,724	443,090	-	-	40,545,454
Operation and maintenance of plant	16,097,107	10,172,606	6,997,211	(138,199)	-	-	33,128,725
Student financial aid	157,927	718,097	-	2,809	23,403,783	-	24,282,616
Depreciation	-	-	-	-	-	25,353,178	25,353,178
Auxiliary enterprise	8,883,603	9,088,844	2,532,686	69,968	-	-	20,575,101
Total operating expenses	$ 207,805,320	$ 67,383,608	$ 9,580,740	$ 2,242,522	$ 23,403,783	$25,353,178	$ 335,769,151

(Continued)

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES

Nature of Operations: Western Kentucky University Foundation, Inc. (the “Foundation”) is a Kentucky nonprofit corporation formed to receive, invest, and expend funds for the enhancement and improvement of Western Kentucky University. The Foundation’s fiscal year ends on December 31. It is a legally separate, tax-exempt component unit of the University that manages certain endowments and investments on behalf of the University. The Foundation has a Board of Trustees separate from that of the University; however, the President and certain other officers of the University are also officers of the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the use of a majority of the resources, or income thereon, which the Foundation holds and invests is restricted by the donors to the activities of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University’s financial statement package.

Complete financial statements for the Foundation can be obtained from the WKU Foundation Office, Alumni House, 1906 College Heights Blvd., Bowling Green, Kentucky, 42101.

Cash Equivalents: The Foundation generally considers all highly liquid investments (money market funds) to be cash equivalents. Certificates of deposit are designated for investment and are not considered to be cash equivalents.

Contributions: Gifts of cash and other assets received without donor stipulation are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted net assets and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their realizable value. Unconditional gifts expected to be collected in future years are recorded at the present value of estimated future cash flows. The resulting discount is computed using risk-free interest rates applicable to the years in which the promises are received. Amortization using the level-yield method is included in contribution revenue. Conditional gifts are not included as support until the conditions are substantially met.

Spending Policy: The annual distribution goal of the Foundation is 3.00% of the endowment fund’s trailing twelve-month calendar quarter moving market average. The annual distribution goal for an individual endowment in its initial year is 4.50% of the beginning market value of the endowment asset. The annual distribution goal for the second and third years of an individual endowment is based on the average market value of the endowment asset for the preceding four calendar quarters and eight calendar quarters, respectively.

(Continued)

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The annual distribution may be made at any time during the fiscal year, at the account administrator's request. Annual distributions may not be carried over between fiscal years, unless a prior approval is granted by the Foundation's Board of Trustees.

Related Party Transactions: Accounts receivable from the Foundation and accounts payable to the Foundation as of the University's fiscal year ended June 30, 2015 and 2014 were insignificant.

Concentration of Credit Risk: Effective October 3, 2008, the federal deposit insurance coverage provided by the FDIC temporarily increased from $100,000 to $250,000 per depositor. Effective December 19, 2008, the FDIC enacted the Transaction Account Guarantee Program. Under the Transaction Account Guarantee Program, any non-interest bearing account at a participating bank is fully guaranteed by the FDIC for the account's entire balance.

The banks at which the Foundation maintains its cash deposits participate in the Transaction Account Guarantee Program. Accordingly, the Foundation's applicable cash balances are thus fully insured under the Transaction Account Guarantee Program.

Investments

As of December 31, 2014, investments consist of the following:

Certificates of deposit	$ 2,618,372
Mutual funds	65,427,831
Corporate bonds/notes and other fixed income securities	15
Equity securities	519,793
Real estate and other alternative investments	10,252,932
	78,818,943
Less: investments included above which are held for WKU	18,367,402
Less: investments included above which are held for the Research Foundation	773,457
Less: investments included above which are held for HAF	898,681
	$ 58,779,403

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Investments (Continued)

As previously indicated, investments include vested beneficial interests in various charitable remainder unitrusts and charitable remainder annuity trusts, all for which the Foundation acts as the trustee. One such charitable remainder annuity trust is invested in real estate. The carrying value of the related real estate investment is $1,610,000 as of both December 31, 2014 and 2013, which approximates fair value.

Pledges Receivable

As of December 31, 2014, net pledges receivable consist of the following:

Estimated to be collected in less than one year	$ 2,305,349
Estimated to be collected in one to five years	3,308,376
Estimated to be collected thereafter	961,553
	6,575,278
Less: allowance for uncollectible pledges	476,884
	6,098,394
Less: discounts to net present value	626,604
	$ 5,471,790

Discount rates on outstanding pledges due in more than one year range from 1.01% to 6.10%.

During 2011, the Foundation received a conditional pledge in the amount of up to $500,000. The receipt of such funds, which are temporarily restricted to be used for a specific program, is conditional upon the Foundation raising matching funds.

In 2014, the Foundation raised $105,070 of matching funds. As of December 31, 2013, the Foundation had recorded a contribution receivable for the conditional pledge in the amount of $150,000. In 2014, the donor funded $255,070 of the conditional pledge.

Conditional pledge	$ 500,000
Less amounts recognized:	
2011	150,000
2012	94,930
2013	150,000
2014	105,070
Remaining conditional pledge	$ -

(Continued)

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Due from the Warren County Downtown Economic Development Authority

In 2009, under the terms of a promissory note, the Foundation loaned $3,800,000 to the Warren County Downtown Economic Development Authority (the Authority), the proceeds of which were to be used by the Authority to purchase property in conjunction with the development of "blocks 12A and 14 in the WKU Gateway to Downtown Bowling Green tax increment financing (TIF) district." The loan bears interest at a fixed rate of 8%. Semi-annual interest payments began in April 2010. The Authority has pledged as security for the loan the TIF revenue generated from "blocks 12A and 14."

In 2012, the Foundation and the Authority formally renegotiated the loan's repayment terms under the terms of a "forbearance agreement." As a result, interest only payments had been deferred until October 1, 2014, and unpaid accrued interest was paid in 2014. The Authority did not make any payments in 2013. Thereafter, the Authority is required to make quarterly interest only payments beginning January 1, 2015. Repayments of the outstanding principal amount are due to the extent the TIF revenue received by the Authority exceeds the amounts otherwise first applied to the interest under the loan.

Effective January 1, 2012, the Foundation placed the loan on non-accrual status. Subsequent interest income under the loan will be recognized only to the extent interest is collected by the Foundation.

As of December 31, 2014, the amount due from the Authority totals $1,948,048. Management believes this amount is fully collectible.

Property, Net

Effective November 27, 2013, the Foundation entered into a capital lease agreement to purchase property. Under this agreement, the Foundation made an initial payment of $4,000,000 to the lessor and agreed to lease the property for a period of six years, maturing on November 1, 2019. At the end of the lease term, the title of the property will transfer to the Foundation in exchange for $100. The fair market value of the property on November 27, 2013 was $9,897,810. As part of the agreement, the Foundation recorded a gift-in-kind contribution of $4,337,129, which represents the fair value of the property less the downpayment and present value of the capital lease payments.

As of December 31, 2014, property consists of the following:

Land	$ 485,500
Building	9,412,310
	9,897,810
Accumulated depreciation	(261,453)
	$ 9,636,357

(Continued)

NOTE 14 – WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Assets Held for Others

Assets held for others represent resources in the possession of, but not under the control of the Foundation. As of December 31, 2014, assets held for others consist of the following:

WKU – Regional University Excellence Trust Fund	$ 14,420,850
WKU – Self-insurance program funds	3,502,668
Hilltopper Athletic Foundation	898,681
Research Foundation – quasi-endowment funds	773,457
Green River	18,815
Basketball Support Fund	425,069
	$ 20,039,540

Accordingly, the accompanying statements of financial position as of December 31, 2014 reflect a liability for assets held for others in the amount of $20,039,540.

Notes Payable

As of December 31, 2014, bank notes payable consist of the following:

Note payable to bank bearing interest at a fixed rate of 3.25%, quarterly interest and principal payments totaling $114,324 through July 2015, balloon payment due at maturity (October 2015), secured by an assignment of the collections on all pledges receivable.	$ 229,785
Note payable to bank bearing interest at a fixed rate of 4.04%, quarterly interest and principal payments totaling $48,186 through September 2015, balloon payment due at maturity (December 2015), secured by an assignment of the collections on all pledges receivable.	33,647
Note payable to bank bearing interest at a fixed rate of 2.7%, interest paid quarterly, principal and unpaid interest accrued thereon due at maturity (June 2016), collateralized by security interest in a certificate of deposit.	61,921
	$ 325,353

As of December 31, 2014, the aggregate maturities required on the notes payable are as follows:

2015	$ 263,432
2016	61,921
	$ 325,353

(Continued)

NOTE 14 – WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Notes Payable (Continued)

The Foundation has access to borrowings under a $100,000 bank line of credit. As of December 31, 2014 and 2013, no borrowings are outstanding under the line of credit. When applicable, outstanding borrowings under the line of credit bear interest at the prime rate minus .50%, not to result in an interest rate of less than 3.25%. Interest is paid quarterly. If applicable, the outstanding principal amount, and the unpaid interest accrued thereon, is due at maturity in December 2015. The line of credit is subject to a $100,000 compensating balance requirement.

Capital Lease

Effective November 27, 2013, the Foundation leased a building under an agreement that expires November 1, 2019.

Minimum future lease payments for the next five years are as follows:

2015	$ 292,013
2016	292,413
2017	287,413
2018	292,213
2019	291,413
	1,455,465
Less: amounts representing interest	(131,555)
	$ 1,323,910

Deferred Gift Liabilities

The Foundation is party to various irrevocable split-interest agreements. A split-interest agreement is a gift that is partially for the Foundation's benefit and partially for the benefit of the respective donor or their designated beneficiaries. Upon acceptance of a split-interest agreement, the Foundation records the contributed asset and the actuarially determined present value of the liability payable to the beneficiary. Such split-interest agreements include charitable gift annuities and charitable remainder trusts.

A charitable gift annuity is an arrangement between a donor and the Foundation in which the donor contributes assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount to the donor or to others designated by the donor for a specified period of time. Obligations continue until the death of the beneficiary. The accompanying statements of financial position reflect liabilities totaling $162,914 and $148,975 as of December 31, 2014 and 2013, respectively, relative to the estimated present value of the future annuity obligations calculated using discount rates ranging from 1.53% to 7.96%. As of December 31, 2014 and 2013, cash, cash equivalents, and investments relative to charitable gift annuities total $173,693 and $165,054, respectively.

(Continued)

NOTE 14 – WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Deferred Gift Liabilities (Continued)

Charitable remainder trusts are arrangements in which a donor establishes and funds a trust with specified distributions to be made to the donor or designated beneficiaries over the trust's term. Upon the termination of the trust, the Foundation receives the assets remaining in the trust. Obligations to the beneficiaries are limited to the trust's assets. The accompanying statements of financial position reflect liabilities totaling $793,729 and $954,862 as of December 31, 2014 and 2013, respectively, relative to the estimated present value of the future obligations calculated using discount rates ranging from 6% to 7.2%. As of December 31, 2014 and 2013, cash, cash equivalents, and investments relative to charitable remainder trusts total $2,633,569 and $2,644,318, respectively.

Trust assets are reported at fair value in the same manner as are all Foundation investments. The income or loss recognized under these trusts is included in temporarily restricted net assets. Discount rates are determined in accordance with the Internal Revenue Code and represent the rate at the date of the contribution. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancies using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

The carrying amount of the deferred gift liabilities estimates fair value and is calculated using Level 3 inputs.

Fair Value Measurements

Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using level 3 inputs are valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability.

The following is a description of the valuation methodologies used for the assets and liabilities measured at fair value. There have been no changes in the methodologies used to determine fair value as of December 31, 2014 and 2013.

Certificates of deposit: Carried at cost adjusted for accumulated interest earned through year-end, which approximates fair value.

Mutual funds: Valued at the net asset value of the shares held by the Foundation at year-end.

Exchange traded funds and equity securities: Valued at the quoted market price of the shares held by the Foundation at year-end.

Real estate: Valued at the carrying values of the respective real estate investments, which approximate fair value. Management considers the carrying value of the two real estate investments to approximate fair value as of year-end.

(Continued)

NOTE 14 – WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Fair Value Measurements (Continued)

Marketable alternatives: Valued at the net asset value as provided by the "fund" portfolio at year-end and if they are considered to have sufficient activity or liquidity within the respective "fund" portfolio at year-end.

Limited partnerships: The estimated fair values are based on information provided by the general partners of each of the respective partnerships. One of the limited partnerships invests primarily in marketable securities with a readily determinable fair value. The fair value of this limited partnership is determined by allocating the aggregate fair values of the underlying securities to each limited partner based on the number of units held by the partner. The other limited partnerships invest primarily in securities for which there is no public market or readily determinable fair value. Therefore, the fair values of such limited partnerships are estimated based on the initial cost of the investments adjusted for changes in the general partners' estimates of the fair values of the underlying assets, and are equivalent to net asset values.

The Foundation is a limited partner in all of these investments. None of the investments is considered to have sufficient activity or liquidity within the respective "fund." Under the terms of the respective limited partnership agreements, the limited partners are only liable for losses to the extent of their capital invested.

Deferred gift liabilities: The estimated fair value is based on the present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancies using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout schedule, and the discount rate.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(Continued)

NOTE 14 – WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Fair Value Measurements (Continued)

The following table sets forth by level the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2014:

	Level 1	Level 2	Level 3	Fair Value
Certificates of deposit	$ 2,618,372	$ -	$ -	$ 2,618,372
Mutual funds				
Equities	40,641,098	-	-	40,641,098
Fixed income	13,024,820	-	-	13,024,820
Alternative investments	11,347,964	-	-	11,347,964
Stocks and EFTs	194,771	-	-	194,771
Open end mutual funds	219,178	-	-	219,178
Corporate bonds				
Rated C	-	15	-	15
Equity securities				
Consumer discretionary	39,000	-	-	39,000
Consumer staples	35,657	-	-	35,657
Energy	26,196	-	-	26,196
Financial	56,880	-	-	56,880
Health care	40,792	-	-	40,792
Industrials	32,857	-	-	32,857
Information technology	63,748	-	-	63,748
Materials	12,433	-	-	12,433
Telecommunication services	4,703	-	-	4,703
EFT	116,069	-	-	116,069
Utilities	9,661	-	-	9,661
Other	81,797	-	-	81,797
Real estate and other alternative investments				
Real estate	-	-	1,610,000	1,610,000
Marketable alternatives	-	7,143,487	-	7,143,487
Limited partnership – private equity	-	-	1,499,445	1,499,445
	$ 68,565,996	$ 7,143,502	$ 3,109,445	$ 78,818,943

The 2014 activity with respect to the investments included above under Level 3 is as follows:

Beginning of the year	$ 2,693,805
Purchases	420,000
Sales	(197,171)
Net unrealized and realized appreciation	192,811
End of the year	$ 3,109,445

(Continued)

NOTE 14 – WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The following table sets forth by level within the fair value hierarchy, the Foundation's deferred gift liabilities at fair value as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
Charitable remainder trusts				
Unitrusts	$ -	$ -	$ 455,894	$ 455,894
Annuity trusts	-	-	337,835	337,835
Charitable gift annuities	-	-	162,914	162,914
	$ -	$ -	$ 956,643	$ 956,643

The 2014 activity with respect to the deferred gift liabilities included above under Level 3 is as follows:

Beginning of the year	$ 1,103,837
Payments	(253,843)
Net actuarial loss	106,649
End of year	$ 956,643

The following table provides additional information as of December 31, 2014 relative to alternative investments for which the fair values are determined using a net asset value per share (or its equivalent):

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Marketable alternatives	$ 7,143,487	$ -	Yearly	30 days
Limited partnership – private equity	1,337,747	180,000	N/A	N/A
Limited partnership – private equity	161,698	-	N/A	N/A

Restricted Net Assets

As of December 31, 2014, temporarily restricted net assets consist of the following:

Academic support/WKU programs	$ 17,192,378
Athletics	3,956,089
Public services	2,751,174
Scholarship funds	361,951
	$ 24,261,592

(Continued)

NOTE 14 – WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Restricted Net Assets (Continued)

As of December 31, 2014, permanently restricted net assets consist of the following:

Academic support/WKU programs	$ 21,227,132
Scholarship funds	4,644,778
Professorships	14,232,229
	$ 40,104,139

Endowment Funds

On July 15, 2010, The Commonwealth of Kentucky adopted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). The Foundation follows UPMIFA and its own governing documents. The Foundation has interpreted UPMIFA as requiring the preservation of the corpus of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, and other amounts as deemed necessary by the board of trustees. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Foundation has determined that the balance of its endowments includes funds on which there is no restriction on the use of the investment income or net appreciation, as well as funds that require that the income and net appreciation be restricted to certain uses for the benefit of participants.

The Foundation currently classifies as permanently restricted net assets the original value of contributions to the permanent endowment and the original value of any such subsequent contributions.

Endowment net asset composition by type of fund as of December 31, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 5,495,002	$ 40,104,139	$ 45,599,141
Board designated endowment funds	6,076,492	-	-	6,076,492
	$ 6,076,492	$ 5,495,002	$ 40,104,139	$ 51,675,633

(Continued)

NOTE 14 – WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Endowment Funds (Continued)

Changes in endowment net assets during the year ended December 31, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ 5,649,039	$ 6,550,273	$ 37,976,665	$ 50,175,977
Contributions	312,291	-	2,127,474	2,439,765
Investment return	484,773	1,507,621	-	1,992,394
Realized and unrealized gains(losses)	(51,969)	71,355	-	19,386
Amounts appropriated of expenditure	(317,642)	(2,634,247)	-	(2,951,889)
Endowment net assets, end of year	$ 6,076,492	$ 5,495,002	$ 40,104,139	$ 51,675,633

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets when they occur. As of December 31, 2014, funds were deficient by approximately $406,000.

Return objectives and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through the diversification of asset classes. The current long-term return objective is to return 7.5% net of related investment management fees. Actual returns in any given year may vary from this objective.

Strategies employed for achieving return objectives:

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on mutual funds and equity-based investments to achieve its long-term return objectives within prudent risk parameters.

(Continued)

NOTE 14 – WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Spending policy and how the investment objectives relate to the spending policy:

Effective July 1, 2012, the Foundation's annual distribution goal is 3% of the endowment fund's trailing twelve-month calendar quarter moving market value average (prior to July 1, 2012, the annual distribution goal was 4.5%). The annual distribution goal for an individual endowment in its initial year shall be 3% of the beginning market value of the endowment. In the second and third years, the annual distribution goal shall be based on the average market value of the endowment for the preceding four and eight calendar quarters, respectively. The annual distribution from accumulated earnings may be made at any time during the fiscal year. Annual distributions may not be carried over between fiscal years unless the Foundation's Board of Trustees grants prior approval to do so.

The Foundation's objective is to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns.

Pension Plans

Through WKU, the Foundation participates in the Kentucky Employees' Retirement System (KERS) and the Kentucky Teachers' Retirement System (KTRS), both of which are cost-sharing, multiple-employer, defined benefit pension plans administered by the respective KERS and KTRS Boards of Trustees. Both KERS and KTRS provide retirement, disability, and death benefits to the Foundation's eligible employees. The Foundation reimburses WKU for the Foundation's share of the contributions made on behalf of eligible employees. As of December 31, 2014, contributions under KERS and KTRS made on behalf of eligible employees represent 21.20% and 11.30% of annual covered wages, respectively (17.44% and 11.12% as of December 31, 2013, respectively). Employer contributions made under KERS and KTRS on behalf of Foundation employees total approximately $40,000 for the year ended December 31, 2014.

Deferred Compensation Arrangement

In 2008, the Foundation implemented a non-qualified deferred compensation plan whereby the President of WKU earns deferred compensation in the amount of $50,000 annually for a period of fifteen years through 2022. The Foundation funds a "rabbi" trust (for which a third party will act as the trustee) with the annual $50,000. All such amounts allocated to the employee shall be deferred for payment to the employee on, or beginning on, the employee's retirement date. Should the employee leave WKU prior to the end of the fifteen year arrangement, such employee would only receive the amount of deferred compensation relative to the number of years employed.

Related Party Transactions

Over time, the Foundation has advanced funds to the WKU Real Estate Corporation (Corporation) for various campus improvement and construction projects. No formal loan agreement exists. Accordingly, there are no formal repayment terms. The advances are non-interest bearing and are uncollateralized/unsecured. During 2014, the Foundation did not make any advances to the Corporation, while the Corporation repaid a total of $315,258. During 2013, the Foundation did not make any advances to the Corporation and the Corporation did not repay any amount outstanding. As of December 31, 2014, the amount due from the Corporation totals $154,028.

(Continued)

NOTE 14 – WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Accounts payable as of December 31, 2014 include approximately $10,830, respectively, which are payable to WKU.

During 2010, the Hilltopper Athletic Foundation (HAF) advanced to the Foundation a total of $504,013 for a specific campus construction project. No formal loan agreement exists. Accordingly, there are no formal repayment terms and the outstanding amount is non-interest bearing and uncollateralized/unsecured. During 2014, the HAF forgave the remaining balance of $251,647. Accordingly, as of December 31, 2014, there is no outstanding balance due to HAF.

The Foundation leases to WKU the real estate owned by a charitable remainder annuity trust, for which the Foundation is the trustee and the remainder beneficiary. Under the lease, the amount of the quarterly rent payments represents the quarterly payments to the donor or to others designated by the donors under the trust agreement. Under the lease, the Foundation annually receives $180,000 ($45,000 each quarter) of rental income. This lease expires in September 2019. Accordingly, rental income from WKU for the years ended December 31, 2014 totals $180,000 per year and is recognized as rental income in the accompanying statements of activities. Rental income under the lease for 2015 through 2018 totals $180,000 annually, and $135,000 for 2019.

Prior to June 2013, the Foundation received the benefit of the facilities in which its general and administrative offices were located, for which no rent was charged to the Foundation by WKU. Management believes there is no objective basis for determining the value of the donated office space.

From June 2013 through November 2014, the Foundation leased facilities from WKU for office space. The amount due to WKU totals $119,306. There is no formal repayment terms and the amount is non-interest bearing.

Subsequent Events

On September 25, 2014, WKU Alumni Square Development, LLC (Alumni Square), was formed as a wholly-owned subsidiary of the Foundation. Alumni Square was established to own, develop, and operate the Alumni Garage Wrap, Courtyard, and parking lot across from the Alumni Garage. There was no activity recorded in 2014 for this entity. On February 13, 2015, Alumni Square received, without restriction, the property partially surrounding the Alumni Square parking garage valued at $663,698 and unspent construction funds of $168,592 from SPE II, the former owner

(Continued)

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES

Nature of Operations: WKU Student Life Foundation, Inc. ("Student Life") is a Kentucky nonprofit corporation formed to facilitate the re-capitalization and renovation of the student residential facilities of the University. Student Life is a legally separate, tax-exempt component unit of the University that manages renovations of the student residential facilities (15 residence halls and 4,950 beds on the main campus) on behalf of the University. Student Life has a board of directors separate from that of the University; however, the chair and other members of the Western Kentucky University Foundation's board of trustees are also board members of Student Life. Because Student Life and the Foundation have common boards of trustees, and as the purpose of Student Life is to operate exclusively in support of the Foundation, which is a component unit created to benefit the University as described above, Student Life is considered a component unit of the University and is discretely presented in the University's financial statement package. Student Life's revenues and other support are derived principally from rental of living space to students of the University.

Complete financial statements for Student Life can be obtained from the WKU Student Life Foundation, Inc. office, P.O. Box 8290, Bowling Green, Kentucky, 42101.

Cash and Cash Equivalents: Student Life considers all liquid investments with original maturities of three months or less, not included in assets limited as to use, to be cash equivalents. At June 30, 2015, cash equivalents consisted primarily of money market funds. At June 30, 2015, the Foundation's cash accounts exceeded federally insured limits by approximately $12.7 million.

Assets Limited as to Use and Investment Return: Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value and realized gains and losses on other investments.

Loans and Accounts Receivable: Student Life's loans and accounts receivable consist primarily of amounts due from the University. The majority of the amounts due from the University are student housing rental fees paid to Student Life through the University, as well as debt service payments paid to Student Life by the University.

Property and Equipment: Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset.

Student Life capitalizes interest costs as a component of construction-in-progress, based on interest costs of borrowings specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowings.

(Continued)

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Net Investment in Direct Financing Lease – Related Party

A food service building is leased to the University through June 2033. The lease is accounted for as a direct financing lease. The net investment in direct financing lease consists of the following at June 30, 2015:

Total minimum lease payments to be received	$ 2,523,945
Estimated residual value of building (unguaranteed)	873,095
Less: unearned income	1,446,652
Net investment in direct financing lease	$ 1,950,388

Future minimum lease payments to be received by the Foundation are as follows:

2016	$ 194,149
2017	194,149
2018	194,149
2019	194,149
2020	194,149
Thereafter	1,553,200
	$ 2,523,945

At June 30, 2015, the carrying amount of the direct financing lease is a reasonable estimate of its fair value. The Foundation annually reviews the unguaranteed residual value of the leased building.

Assets Limited as to Use

Assets limited as to use at June 30, 2015, consisted of the following:

Cash	$ 76
Money market accounts	3,122,209
Commercial paper	6,465,272
	$ 9,587,557

Assets Held for Others – Student Deposits

Assets held for others, which represent student deposits, at June 30, 2015 consisted of the following:

Money market accounts	$ 305,741
Bonds	290,979
Total	$ 596,720

(Continued)

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Property and Equipment

Property and equipment at June 30, 2015, consisted of:

Land	$ 4,058,993
Land improvements	1,331,637
Buildings	45,206,556
Building improvements	73,993,264
Vehicles	170,877
Furnishings and fixtures	8,946,404
Construction in progress	661,126
	134,368,857
Less accumulated depreciation and amortization	39,760,398
	$ 94,608,459

Asset Retirement Obligation

The Foundation has recognized an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Foundation's conditional AROs primarily relates to asbestos contained in buildings the Foundation owns. Environmental regulations exist in Kentucky requiring the Foundation to handle and dispose of asbestos properly if a building undergoes renovations or is demolished.

A summary of changes in AROs is included in the table below.

	2015
Balance, July 1	$ 789,415
Liabilities settled	(50,000)
Accretion expense	41,309
Balance, June 30	$ 780,724

Long-Term Debt and Letter of Credit

Long-term debt consisted of the following:

	2015
Series 2000 tax-exempt bond payable – floating weekly rate as determined by the remarketing agent to produce, as nearly as possible, a par bid for the bonds; 0.08% at June 30, 2015; payable in monthly installments of interest, plus annual principal payments of $1,905,000 to $3,645,000 through 2029; with $10,120,000 due in 2030; collateralized by all real estate. In August 2015, these bonds were paid in full.	$ 47,795,000

(Continued)

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Long-Term Debt and Letter of Credit (Continued)

Series 2008 Tax Exempt Bonds Floating weekly rate as determined by the remarketing agent to produce, as nearly as possible, a par bid for the bonds; 2.20% as of June 30, 2008; payable in monthly installments of interest plus principal payments of $895,000 to $1,885,000 through 2030; collateralized by all real estate.	$ 20,955,000
Construction loan with JP Morgan Chase obtained in December 2013. Maximum loan value of $12.5 million. Loan maturity date of August 31, 2015. Interest rate is adjusted one-month LIBOR rate, plus 1.25%, plus unused loan fees of 0.375%. Interest rate as of June 30, 2015 was 1.4375%. Loan is secured by collateral assignment of architect's and contractor's construction contracts. In August 2015, this loan was paid in full.	11,397,206
	80,147,206
Les unamortized discount	138,274
	$ 80,008,932

The Foundation had a $69,925,343 letter of credit, which expires on June 15, 2016, securing all principal and interest payments due on the Series 2000 and 2008 bonds payable. The provisions of the letter of credit required that should the bonds fail to be remarketed and, therefore, the letter of credit is drawn upon, such amounts drawn against the letter of credit will be due in five annual installments, beginning 90 days after such remarketing failure. This letter of credit was not required to be renewed.

The Foundation is required to maintain certain financial ratios and debt reserve and repair and replacement account balances in accordance with the bond agreement.

Aggregate annual maturities of long-term debt, adjusted for August 2015 activity were:

2016	$ 5,188,932
2017	4,000,000
2018	4,160,000
2019	4,330,000
2020	4,505,000
Thereafter	57,825,000
	$ 80,008,932

Derivative Financial Instruments

The Foundation entered into the following agreements to limit its exposure to changes in cash flows resulting from changes in the interest rate on its variable rate bonds.

(Continued)

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Derivative Financial Instruments (Continued)

1. Simultaneously, with the issuance of the 2000 bonds payable, the Foundation entered into a collar agreement with a bank. The collar agreement was based on 70% of the 30-day U.S. LIBOR rate on a notional amount equal to 67% of the outstanding amount of bonds payable. This agreement expired on June 1, 2015.

2. Simultaneously, with the issuance of its 2006 bonds payable (paid off in 2008), the Foundation entered into an interest rate swap agreement with a bank. The Foundation receives interest from the counterparty based on 70% of the 30-day U.S. LIBOR rate and pays interest to the counterparty at 3.69% on notional amounts of $3,570,000, as of June 30, 2015, which is reduced periodically over the term of the swap.

3. Simultaneously, with the issuance of its 2008 bonds payable, the Foundation entered into an interest rate swap agreement with a bank. The Foundation receives interest from the counterparty based on 68% of the 30-day U.S. LIBOR rate and pays interest to the counterparty at 3.63% on notional amounts of $16,932,825 as of June 30, 2015, which is reduced periodically over the term of the swap.

4. In June 2010, the Foundation entered into two agreements with a bank. Effective June 1, 2012, the Foundation began participating in a cap agreement at the rate of 4.67%. The cap agreement is based on 67% of the 30-day U.S. LIBOR rate (0.1495% at June 30, 2014), and a notional amount beginning at $52,990,000 that reduces periodically over the term of the agreement ($49,610,000 at June 30, 2014). This agreement expired on June 1, 2015. Additionally, the Foundation entered into a swap agreement effective June 1, 2015. The Foundation will pay 3.285% on notional amounts beginning at $47,795,000 that reduces periodically over the term of the swap agreement ($47,795,000 at June 30, 2015). The Foundation received interest from the counterparty at 67% of the 30-day U.S. LIBOR rate (0.1495% at June 30, 2015). This agreement has a termination date of June 1, 2025.

5. In August 2000, the Foundation entered into a forward sale agreement with a bank in conjunction with its Series 2000 Bonds. This agreement provides for a guaranteed rate of return of 6.3% annually on the balance of commercial paper or other investments (minimum required balance of $6,275,000) held in the debt reserve fund of the 2000 series bonds. This agreement has a termination date of May 1, 2022. Balances of $6,465,272 and $6,470,245 were on deposit as of June 30, 2015 and 2014, respectively.

    1.

(Continued)

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Derivative Financial Instruments (Continued)

The estimated fair value of these derivative arrangements at June 30, 2015 was:

Type	Effective Date	Maturity Date	Underlying Index	Fair Value June 30, 2015
(1) – Floor	May 25, 2000	June 1, 2015	LIBOR	$ -
(2) – Swap	February 1, 2006	February 1, 2016	LIBOR	(83,211)
(3) – Swap	January 25, 2008	June 3, 2024	LIBOR	(2,415,874)
(4) – Swap	June 1, 2015	June 1, 2025	LIBOR	(6,676,413)
Liabilities				$ (9,175,498)
(5) – Forward Sale Agreement	August 8, 2000	May 1, 2022	Return on Sale Underlying Investments	$ 1,665,814
Assets				$ 1,665,814

The statements of activities reflect the following components:

	2015
Net cash payments made under the collar agreement	$ (2,093,714)
Net cash payments made under the interest rate swap agreements	(854,739)
Change in fair value of the derivative agreements	900,658
	$ (2,047,795)

The table below presents certain information regarding the Foundation's derivative instruments:

	2015
Fair value of derivative instruments	$ 1,665,814
Statement of financial position location of fair value amount	Asset
Fair value of derivative instruments	$ 9,175,498
Statement of financial position location of fair value amount	Liability

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Related Party Transactions

The Foundation and University are related parties as described in Note 1. The financial statements include the following amounts related to the University:

		2015
Accounts receivable from WKU – student housing and related fees	$	641,533
Accounts receivable from WKU – other		234,528
Net investment in direct financing lease		1,950,388
Accounts payable – operating expenses		1,061,021
Interest income – direct financing lease		131,869
Operating lease income		41,940
Chilled water service fees		690,568
Management fees		84,500

The University has designated certain employees to work exclusively or partially for the Foundation. Salaries, benefits and related expenses on the statements of activities represent amounts reimbursed to the University for these individuals. The Foundation has no employees of its own and its board of directors serves on a voluntary, noncompensatory basis.

Accounts receivable relate to student housing fees collected by the University, which are due to the Foundation, as well as amounts due from the University for work-study programs, vending contracts and chilled water plant services. The University processes all accounts receivable and payables for the Foundation. The Foundation reimburses the University on a monthly basis for all expenses incurred by the University on the Foundation's behalf, which is represented by the accounts payable amounts noted above.

The Foundation receives rent revenue from the University for the lease of retail space at one of the Foundation's residence halls. The lease will expire on June 30, 2017. The rent was $41,940 for the year ended June 30, 2015. The revenue from this lease is included in other revenues.

The Foundation receives fees from the University relating to chilled water services. The fees were $690,568 for the year ended June 30, 2015. These fees are included in other revenues.

The University provides certain direct and indirect support to the Foundation and the Foundation provides certain direct and indirect support to the University. Both organizations have no objective basis for determining the value of these activities. However, as a part of the management agreement, the Foundation does provide an annual amount to the University to help offset such related costs. The management fees were $84,500 in fiscal year 2015, respectively.

(Continued)

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Disclosures about Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of inputs that may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2015:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative instruments				
Swap – 2000 bond series	$ (6,676,413)	$ -	$ (6,676,413)	$ -
Swap – 2006 bond series	(83,211)	-	(83,211)	-
Swap – 2008 bond series	(2,415,874)	-	(2,415,874)	-
Forward sale agreement – 2000 bond series	1,665,814	-	-	1,665,814
	$ (7,509,684)	$ -	$ (9,175,498)	$ 1,665,814
Cash equivalents – money market accounts	$ 7,730,696	$ 7,730,696	$ -	$ -
Assets limited as to use – money market accounts	3,122,209	3,122,209	-	-
Assets limited as to use – commercial paper	6,465,272	-	6,465,272	-
Assets held for others – student deposits – bonds	290,979	-	290,979	-
Assets held for others – student deposits – money market accounts	305,741	305,741	-	-

(Continued)

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Disclosures about Fair Value of Financial Instruments (Continued)

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2015. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the fair value is described below.

Derivative Instruments

Derivative instruments are classified within both Level 2 and Level 3 of the valuation hierarchy. For derivative instruments in Level 2, the fair values are estimated using standard pricing models, forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

For derivative instruments in Level 3, the fair values are estimated by the counterparties using proprietary calculations for which the inputs are not observable and, therefore, are classified within Level 3 of the valuation hierarchy.

Fair value determinations for Level 3 measurements of the derivative instruments are the responsibility of management. Management receives the fair value determined by the counter-parties on a monthly or annual basis. Management challenges the reasonableness of the fair values by comparing them to historical results and forward-looking expectations.

Money Market Funds

Money market funds are stated at cost, plus accrued interest, which approximates market value and are based on quoted prices in active markets for identical investments. Therefore, these investments are classified within Level 1 of the valuation hierarchy.

Bonds and Commercial Paper

Bonds and commercial paper are stated at fair market value and are based on quoted prices for similar assets and are therefore classified within Level 2 of the valuation hierarchy.

(Continued)

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Disclosures about Fair Value of Financial Instruments (Continued)

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable Level 3 inputs:

	Asset – Forward Sale Agreement 2000 Bond Series
Balance, July 1, 2013	$ 1,970,250
Total realized and unrealized losses included in change in unrestricted net assets	(170,992)
Balance, June 30, 2014	1,799,258
Total realized and unrealized losses included in change in unrestricted net assets	(133,444)
Balance, June 30, 2015	$ 1,665,814

Unobservable (Level 3) Inputs

The fair values of the Foundation's derivative instruments are determined by the counterparties to the instruments, which are third parties, using proprietary pricing models and they do not provide the inputs to the Foundation. The Foundation does not make any adjustment to that value.

Fair Value of Financial Instruments

The following table presents estimated fair values of the Foundation's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2015:

	2015	
	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	$ 8,835,765	$ 8,835,765
Net investment in direct financing lease	1,950,388	1,950,388
Derivative instruments	1,665,814	1,665,814
Financial liabilities		
Long-term debt	$ 80,008,932	$ 80,008,932
Derivative instruments	9,175,498	9,175,498

(Continued)

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Cash and Cash Equivalents

The carrying amount approximates fair value.

Net Investment in Direct Financing Lease

The carrying amount approximates fair value.

Long-Term Debt

Fair value is estimated based on the borrowing rates currently available to the Foundation for bank loans with similar terms and maturities.

Pension Plans

As described previously, the Foundation has no employees; however, the University has designated certain employees to work exclusively or partially for the Foundation. The University participates in three multi-employer pension plans maintained by the state of Kentucky. The plans provide defined benefits to eligible University employees providing services to the Foundation. The Foundation reimburses the University for the Foundation's share of the actuarially determined contributions to the plans, which currently range from 15.36% to 28.98% of its covered payroll based upon the individual's retirement category. Contributions reimbursed to the University were $815,242 for the year ended June 30, 2015.

Functional Allocation of Expense

Costs have been allocated among the student housing program and management and general expenses as of June 30, 2015, as follows:

Student housing program	$ 14,079,299
Management and general	1,228,907
	$ 15,308,206

Commitments

As of June 30, 2015, the Foundation had ongoing commitments to expand and renovate the following residence halls and construct additional rental offerings with the corresponding estimated costs:

	Estimated Cost
Chill Water Plant upgrades	$ 540,000
Gilbert Hall bathroom upgrades	200,000
Gilbert Hall window replacement	280,000
Rodes Harlin window replacement	140,000
Gilbert Hall maintenance room upgrade	115,000
	$ 1,275,000

(Continued)

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Subsequent Events

On August 11, 2015, the Foundation closed a $78,675,000 variable rate Industrial Building Refunding Revenue Bonds offering. Principal payments ranging from $3.8 million to $5.5 million are due annually beginning June 2016 through 2029, with $12.0 million due 2030, and interest is due monthly based on 67% of LIBOR, plus 80 basis points.

The proceeds were used to refund the Series 2000 and the Series 2008 bonds and the construction loan as discussed previously.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES

Nature of Operations: College Heights Foundation, Inc., ("College Heights") is a Kentucky nonprofit corporation that is a legally separate, tax-exempt component unit of the University that manages certain investments on behalf of the University. College Heights operates on a calendar year ending December 31. College Heights has a board of directors separate from that of the University. The president of the University is also a board member of College Heights. Although the University does not control the timing or amount of receipts from College Heights, the use of a majority of the resources, or income thereon, which College Heights holds and invests is restricted by the donors to the activities of the University. Because these restricted resources held by College Heights can only be used by, or for the benefit of, the University, College Heights is considered a component unit of the University and is discretely presented in the University's financial statements. A substantial portion of the donations received consists of endowment gifts from which the corpus is not available to be distributed.

Complete financial statements for College Heights can be obtained from the College Heights Foundation Office, Alumni House, 1906 College Heights Blvd., Bowling Green, Kentucky, 42101.

Contributions and Nature of Restrictions: Unrestricted revenues and net assets result from receiving contributions without donor stipulations, earnings on investments and the release of restricted assets, less program and administrative expenses incurred. Temporarily restricted revenues and net assets result from contributions and other inflows of assets whose use by College Heights is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of College Heights pursuant to those stipulations; and from reclassifications to/from other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of College Heights pursuant to those stipulations. Permanently restricted revenues and net assets result from contributions and other inflows of assets whose use by College Heights is permanently restricted by donor-imposed stipulations.

Cash Equivalents: The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014, cash equivalents consisted primarily of checking accounts and money market accounts held at brokerage houses.

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Investments: Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investment income, gains, and losses are reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Investments in certificates of deposit are stated at cost, which approximates fair value.

Investments consist of the following at December 31, 2014:

Certificates of deposit	$ 1,081,424
Mutual funds	23,389,027
Equity securities	11,507,993
U. S. government and government agency obligations	369
Exchange traded funds	9,485,003
Exchange traded notes	34,655
Corporate bonds and other fixed income securities	3,567,413
Futures	238,530
Real estate and real estate investment trusts	1,297,541
	50,601,955
Investments included above held for:	
University	(2,027,728)
WKU Foundation	(526,017)
	$ 48,048,210

As indicated above, at year-end, the Foundation is invested in various types of investment securities. Investments are exposed to various risks such as interest rate risk, credit risk, and market risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statement of financial position.

Management considers the carrying value of real estate to approximate fair value at December 31, 2014. Real estate investment trust values are reported at fair value based upon an independent valuation performed at least annually.

Investment advisory fees for the year ended December 31, 2014 were $154,906.

Assets Held In Trust, Gift Annuities and Refundable Advances

The Foundation is party to various split-interest agreements. A split-interest agreement is a gift that is partially for the Foundation's benefit and partially for the benefit of the respective donor or their designated beneficiaries. When the Foundation is the trustee and upon acceptance of a split-interest agreement, the Foundation records the contributed asset and the actuarially determined present value of the liability payable to the beneficiary. When the Foundation is not the trustee of the split-interest agreement, the beneficial interest and contribution is recorded at the actuarially determined present value when notified. These agreements include charitable gift annuities and charitable remainder unitrusts.

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Assets Held In Trust, Gift Annuities and Refundable Advances (Continued)

A charitable gift annuity is an arrangement between a donor and the trustee in which the donor contributes assets to the trustee in exchange for a promise by the trustee to pay a fixed amount to the donor or to others designated by the donor for a specific period of time. Obligations continue until the death of the beneficiary. The accompanying statements of financial position as of December 31, 2014 reflect liabilities totaling $2,479,186, relative to the estimated present value of the future annuity obligations calculated using discount rates ranging from 1.09% to 11.5% for the annuities which the Foundation acts as the trustee. At December 31, 2014, investments relative to charitable gift annuities totaled $4,291,476.

Charitable remainder trusts are arrangements in which a donor establishes and funds a trust with specified distributions to be made to the donor or designated beneficiaries over the trust's term. Upon the termination of the trust, the Foundation receives the assets remaining in the trust. Obligations to the beneficiaries are limited to the trust's assets. The accompanying statements of financial position as of December 31, 2014 reflect liabilities totaling $794,122, relative to the estimated present value of the future obligations calculated using discount rates ranging from 5.3% to 8%. At December 31, 2014, investments relative to charitable remainder trusts totaled $1,604,098.

Trust assets are reported at fair value in the same manner as are all Foundation investments. The income or loss recognized under these trusts is included in temporarily restricted net assets. Discount rates are determined in accordance with the Internal Revenue Code and represent the rate at the date (month and year) of the contribution. Actuarial assumptions used in calculating present values, include the beneficiary's age and life expectancies using the applicable mortality tables, the date of the gift, the fair market value of the principal donated, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

The carrying amount of the deferred gift liabilities estimates fair value and is calculated using Level 3 inputs.

Assets Held For Others

Assets held for others represent resources in the possession of, but not under the control of, the Foundation and represent funds received for investment by the Foundation through the Commonwealth of Kentucky's Regional University Excellence Trust Fund, funds held by the Foundation on behalf of the WKU Foundation for an employee deferred compensation benefit plan, and funds held by the Foundation at year end for the benefit of other beneficiaries. Assets held for others at December 31, 2014 consist of the following:

WKU - Regional University Excellence Trust Fund	$ 2,027,727
WKU Foundation trust	526,017
Assets held – other beneficiaries	201,583
	$ 2,755,327

Accordingly, the statement of financial position reflects liabilities for assets held for others in the amounts of $2,755,327 as of December 31, 2014.

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Notes Payable

Notes payable at December 31, 2014 consist of the following:

U.S. Bank amended promissory note, dated December 31, 2012; principal due in quarterly installments of $17,383 plus interest at 2.95%; outstanding principal and accrued interest due June 30, 2016; unsecured.	$ 93,907
U.S. Bank installment note, dated December 13, 2005; Amendment to Note dated December 29, 2010; principal due in quarterly installments of $4,500, plus interest at 4.53%; outstanding principal and accrued interest due December 13, 2015; unsecured.	92,500
	$ 186,407

At December 31, 2014, aggregate principal payments required on notes payable for each of the succeeding five years are:

2015	$ 162,032
2016	24,375
	$ 186,407

At December 31, 2014, temporarily restricted net assets consist of the following:

Scholarship funds	$ 1,704,411
Other program support	12,700
	$ 1,717,111

At December 31, 2014, permanently restricted net assets consist of the following:

Scholarship funds	$ 44,528,523
Other program support	3,102,855
	$ 47,631,378

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Fair Value Measurements

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs such as quoted prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active or unobservable inputs that are derived principally from or corroborated by observable market data.
- Level 3 - Unobservable inputs that are based on the Foundation's own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

The following is a description of the valuation methodologies used for the assets and liabilities measured at fair value. There have been no changes in the methodologies used to determine fair value at December 31, 2014.

Certificates of deposit: Carried at cost, which approximates fair value.

Mutual funds: Valued at the net asset value of the shares held by the Foundation at year-end.

U. S. government and government agency obligations: Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

Corporate bonds/notes and other fixed income securities: Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

Exchange traded funds: Valued at the quoted market price of the shares held by the Foundation at year-end.

Exchange traded notes: Valued at the quoted market price of the shares held by the Foundation at year-end.

Equity securities: Valued at the quoted market price of the shares held by the Foundation at year end.

Real estate: Valued at the carrying values of the respective real estate investments, which approximate fair value.

Real estate investment trusts: Valued at the net asset value of the shares held by the Foundation at year-end.

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Fair Value Measurements (Continued)

Futures: Valued at the quoted market price of the shares held by the Foundation at year-end.

Beneficial interest in third party trusts: The estimated fair value is based on the present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancy using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

Deferred gift liabilities: The estimated fair value is based on the present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancy using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Fair Value Measurements (Continued)

The following table sets forth by level within the fair value hierarchy, the Foundation's assets (investments) at fair value at December 31, 2014:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ 1,081,424	$ -	$ -	$ 1,081,424
Mutual funds				
Equities	13,572,957	-	-	13,572,957
Fixed income	9,634,351	-	-	9,634,351
Other	181,719	-	-	181,719
	23,389,027	-	-	23,389,027
U. S. government and government agency obligations - not rated	-	369	-	369
Corporate bonds/notes and other fixed income securities				
Rated Aaa	-	799,808	-	799,808
Rated Aa1 to Aa3	-	949,134	-	949,134
Rated A1 to A3	-	1,334,696	-	1,334,696
Rated Baa1 to Baa3	-	483,775	-	483,775
	-	3,567,413	-	3,567,413
Exchange traded funds	9,485,003	-	-	9,485,003
Exchange traded notes	34,655	-	-	34,655
Equity securities				
Consumer discretionary	2,643,666	-	-	2,643,666
Consumer staples	859,229	-	-	859,229
Energy	305,863	-	-	305,863
Financial	2,523,952	-	-	2,523,952
Health care	1,573,669	-	-	1,573,669
Industrials	1,060,457	-	-	1,060,457
Information technology	2,427,970	-	-	2,427,970
Materials	60,357	-	-	60,357
Telecommunications	18,173	-	-	18,173
Services	34,657	-	-	34,657
	11,507,993	-	-	11,507,993
Real estate	-	-	1,057,214	1,057,214
Real estate investment trusts	240,327	-	-	240,327
Futures	238,530	-	-	238,530
Total investments	$ 45,976,959	$ 3,567,782	$ 1,057,214	$ 50,601,955

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Fair Value Measurements (Continued)

At December 31, 2014, investments included above under Level 3 represent Foundation investments in real estate. The 2014 activity, with respect to the investments included above under Level 3, is as follows:

Beginning of the year	$ 1,107,214
Investments sold	(50,000)
End of the year	$ 1,057,214

Realized gains (losses) on the sale of real estate totaled ($25,027) for 2014, and are reported in net realized and unrealized gains (losses) on investments in the statement of activities.

The following table sets forth by level within the fair value hierarchy, the Foundation's beneficial interest in third party trusts at fair value at December 31, 2014:

	Level 1	Level 2	Level 3	Total
Trusts held by third party	$ -	$ -	$ 4,313,427	$ 4,313,427

The 2014 activity, with respect to the third party trusts included above under Level 3, is as follows:

Beginning of the year	$ -
New deferred gifts	4,230,188
Net actuarial gain	83,239
End of the year	$ 4,313,427

The following table sets forth by level within the fair value hierarchy, the Foundation's liabilities (deferred gift liabilities) at fair value at December 31, 2014:

	Level 1	Level 2	Level 3	Total
Charitable remainder unitrusts	$ -	$ -	$ 794,122	$ 794,122
Charitable gift annuities	-	-	2,479,186	2,479,186
	$ -	$ -	$ 3,273,308	$ 3,273,308

The 2014 activity, with respect to the liabilities (deferred gift liabilities) included above under Level 3, is as follows:

Beginning of the year	$ 3,463,511
New deferred gifts	24,493
Payment obligations	(483,471)
Reduction attributable to death of donors	(19,153)
Net actuarial (gain) loss	287,928
End of the year	$ 3,273,308

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Endowment Funds

In 2008, the FASB issued ASC 958-205-45-28, *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*. This pronouncement provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The pronouncement also improved disclosures about an organization's endowment funds, both donor restricted endowment funds and board designated endowment funds.

In 2010, the state of Kentucky enacted UPMIFA legislation, the effective date of which was July 15, 2010. Accordingly, the Foundation adopted the enacted state of Kentucky UPMIFA legislation for the year ending December 31, 2010.

Currently, the Foundation classifies as permanently restricted net assets the original value of contributions to the permanent endowment and the original value of any such subsequent contributions.

At December 31, 2014, endowment net assets consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	$ 4,189,577	$ -	$ -	$ 4,189,577
Donor restricted endowment funds	-	-	47,631,378	47,631,378
	$ 4,189,577	$ -	$ 47,631,378	$ 51,820,955

Changes in endowment net assets during the year ended December 31, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of the year	$ 4,520,634	$ -	$ 41,890,646	$ 46,411,280
Contributions	826,140	-	5,740,732	6,566,872
Investment return				
Investment income	211,545	-	-	211,545
Net appreciation (unrealized and realized)	289,547	-	-	289,547
Appropriation of endowment assets for expenditure	(1,658,289)	-	-	(1,658,289)
End of the year	$ 4,189,577	$ -	$ 47,631,378	$ 51,820,955

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Endowment Funds (Continued)

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets when they occur. There are no such deficiencies as of December 31, 2014 and 2013.

Return objectives and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Foundation’s spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through the diversification of asset classes. The current long-term return objective is to return 4.5% above CPI (consumer price index). Actual returns in any given year may vary from this objective.

Strategies employed for achieving return objectives:

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on mutual funds and equity-based investments to achieve its long-term objectives within prudent risk parameters.

Spending policy and how the investment objectives relate to the spending policy:

The Foundation’s annual distribution target is 4% of the endowment fund’s trailing three-year (twelve calendar quarters) moving market value average. The annual distribution from accumulated earnings may be made at any time during the fiscal year. Annual distributions may not be carried over between fiscal years unless the Foundation’s Board of Directors grants prior approval to do so.

Related Party Transactions

Western Kentucky University provides the facilities in which the Foundation offices are located and also processes the Foundation's payroll. No rent or administrative expenses are charged to the Foundation by the University and the Foundation does not recognize revenue and expense related to these transactions, as the amounts thereof are immaterial. The Foundation also owns a parking lot which is used by the University for which no rent is charged.

During 2014, the Foundation and Western Kentucky University Foundation, Inc. (WKUF), a separate WKU related foundation, exchanged the management and administrative responsibilities for certain scholarship and special project funds. The total funds gross asset fair value received by the Foundation from the WKUF was $7,030 less than the total funds gross asset fair value transferred from the Foundation to the WKUF in 2014. These differences are reported as an unusual gain / (loss) in the statements of activities in accordance with FASB ASC 225-20-45-16.

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Employees' Retirement Plans

Through the University, the Foundation participates in the Kentucky Employees' Retirement System (KERS) and the Kentucky Teachers Retirement System (KTRS), both of which are cost sharing, multiple-employer, defined benefit pension plans administered by the respective KERS and KTRS boards of trustees. The Foundation is not represented on either of the boards of trustees. Both KERS and KTRS provide retirement, disability, and death benefits to the Foundation's eligible employees. The service retirement benefit is a lifetime benefit. The Foundation reimburses the University for the Foundation's share of the contributions made on behalf of eligible Foundation employees. Both multiple employer plans pay a defined amount upon retirement based on the length of service and the final average salary of the employee, along with a retirement multiplier. Retirement eligibility is determined by the employee's age and years of service. Total contributions of $46,099 in 2014 were expensed to salaries and benefits for ongoing participation in these plans.

The risks of participating in these multiple employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multiple employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (c) if the Foundation chooses to stop participating in one of the multiple employer plans, it may be required to pay a withdrawal liability to the plan. The Foundation has no plans to withdraw from its multiple employer retirement plans.

The following presents information about the Foundation's multiple employer plans.

Pension Fund	EIN and Plan # (if available)	Total Plan Assets June 30, 2014	Accumulated Benefit Obligations June 30, 2014	% Funded 2014	Total Plan Assets June 30, 2013	Accumulated Benefit Obligations June 30, 2013	% Funded 2013
KERS	61-0600439	$2,951,853,977	$12,366,960,287	23.9%	$3,141,779,660	$12,170,582,753	25.8%
KTRS	61-0600439	16,174,199	30,184,404	53.6%	14,962,758	28,817,232	51.9%

Pension Fund	EIN and Plan # (if available)	Foundation Contributions 2014	Foundation Contributions 2013	Surcharge Imposed	Funding Improvement Plan / Rehab Plan	Expiration of Collective Bargain Agreement
KERS	61-0600439	$ 21,484	$ 15,012	no	no	n/a
KTRS	61-0600439	24,615	20,233	no	no	n/a
		$ 46,099	$ 35,245			

Current year contributions under KERS made on behalf of eligible employees represent 26.79% of covered wages for January through June, 2014 and 38.77% of covered wages for July through December, 2014. Employer contributions made under KERS on behalf of Foundation employees totaled $21,484 for the years ended December 31, 2014. The employer contribution rate is expected to remain at 38.77% through June 30, 2016. The KERS participants contribute 5% of their covered wages if their participation date is prior to September 1, 2008 or 6% if the date is after September 1, 2008.

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Employees' Retirement Plans (Continued)

Current year contributions under KTRS made on behalf of these eligible employees represent 14.84% of covered wages for January through June, 2014 and 15.97% of covered wages for July through December, 2014. Employer contributions made under KTRS on behalf of Foundation employees totaled $24,615 for the year ended December 31, 2014. The KTRS participants contribute 6.5% of their covered wages if their participation date is prior to July 1, 2008 or 7.16% if the date is after July 1, 2008.

The Foundation is not obligated for any minimum contributions for either the KERS or KTRS plan. Based on the most recent annual financial report of each plan, the Foundation did not contribute more than 5% of the total contributions to either plan.

Additional Cash Flow Information

	2014
Cash paid for interest during the year	$ 8,878
Noncash Investing and Financing Activities	
Investment securities received as contributions	$ 101,948

REQUIRED SUPPLEMENTAL INFORMATION

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(in thousands)
June 30, 2015

KERS – Non-Hazardous		2015
University's proportion of the net pension liability		1.45%
University's proportionate share of the net pension liability	$	128,789
University's covered-employee payroll	$	23,946
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll		537.83%
Plan fiduciary net position as a percentage of the total pension liability		22.32%

KERS – Hazardous		2015
University's proportion of the net pension liability		0.86%
University's proportionate share of the net pension liability	$	2,189
University's covered-employee payroll	$	1,203
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll		181.96%
Plan fiduciary net position as a percentage of the total pension liability		68.74%

KTRS		2015
University's proportion of the net pension liability		1.25%
University's proportionate share of the net pension liability	$	270,083
State's proportionate share of the net pension liability associated with the University		30,646
Total	$	300,729
University's covered-employee payroll	$	56,329
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll		479.47%
Plan fiduciary net position as a percentage of the total pension liability		45.59%

* The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

** This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE UNIVERSITY'S CONTRIBUTIONS
(in thousands)
June 30, 2015

KERS – Non-Hazardous	2015
Contractually required contribution	$ 7,022
Contributions in relation to the contractually required contribution	(7,022)
Contribution deficiency (excess)	$ -
University's covered-employee payroll	$ 22,769
Contributions as a percentage of covered-employee payroll	38.77%

KERS – Hazardous	2015
Contractually required contribution	$ 214
Contributions in relation to the contractually required contribution	(214)
Contribution deficiency (excess)	$ -
University's covered-employee payroll	$ 1,310
Contributions as a percentage of covered-employee payroll	26.34%

KTRS	2015
Contractually required contribution	$ 9,676
Contributions in relation to the contractually required contribution	(9,676)
Contribution deficiency (excess)	$ -
University's covered-employee payroll	$ 56,089
Contributions as a percentage of covered-employee payroll	17.25%

** This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

President Gary A. Ransdell
and Board of Regents
Western Kentucky University
Bowling Green, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of Western Kentucky University ("the University") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 5, 2015. Our report includes a reference to other auditors who audited the financial statements of Western Kentucky University Research Foundation, Inc. (a blended component unit), Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc. and College Heights Foundation, Inc. (discretely presented component units), as described in our report on the University's financial statements. The financial statements of the blended and discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 5, 2015

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND THE REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

President Gary A. Ransdell
and Board of Regents
Western Kentucky University
Bowling Green, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Western Kentucky University's ("the University") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2015. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the University as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 5, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 5, 2015

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015

Federal Agency Cluster/Program	Pass Through Number	CFDA No.	Amount Expended
Student Financial Aid Cluster			
U. S. Department of Education			
Direct Programs			
Federal Supplemental Educational Opportunity Grants		84.007	$ 396,446
Federal Work Study		84.033	739,962
Federal Perkins Loan Program		84.038	3,582,871
Federal Pell Grant Program		84.063	26,251,183
Federal Direct Student Loans		84.268	97,055,982
TEACH Grants		84.379	24,754
Total Student Financial Aid Cluster			128,051,198
Research and Development Cluster			
U. S. Department of Agriculture			
Direct Programs			
Agricultural Research Basic and Applied Research		10.001	778,074
Agriculture and Food Research Initiative (AFRI)		10.310	91,365
Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)		10.326	2,326
Total U.S. Department of Agriculture			871,765
U. S. Department of Commerce			
Pass Through Programs			
Global Science & Technology Inc.			
Contract (NOAA Sci Tech Mesonet)	SA 12-WKU01-003-001	11.CON	90,046
U. S. Department of Defense			
Direct Programs			
Basic and Applied Scientific Research		12.300	40,149
Contract (ACEWA)		12.CON	33,621
			73,770
Pass Through Programs			
Xavier University			
Military Medical Research and Development	OSP 12-211218	12.420	23,792
Clinical Research Foundation Inc.			
Military Medical Research and Development	LETTER DATED 2/16/15	12.420	4,421
EWA, GSI			
Basic Scientific Research	EWA GSI-12-sc-0001	12.431	4,560
			32,773
Total U. S. Department of Defense			106,543
U. S. Department of Interior			
Direct Programs			
Coop. Research & Training Prog.-Resources of the NPS		15.945	12,498
Pass Through Programs			
University of Kentucky Research Foundation			
Assist to State Water Resources Research Inst.	UKRF 3048108119-14-149	15.805	2,131
Total U. S. Department of Interior			14,629
U. S. Department of Justice			
Pass Through Programs			
KY Justice & Public Safety Cabinet			
Juvenile Justice & Delinquency Prev. Allocation	2011-JF-FX-0037 (DMC-WKU)	16.540	18,704
U. S. Department of Transportation			
Pass Through Programs			
Montgomery County Emergency Management Agency			
Interagency Hazard Materials Public-Sector	LETTER DATED 5/27/14	20.703	16,044

Research and Development Cluster (Continued)
U. S. Department of Transportation (Continued)

See accompanying notes to the schedule of expenditures of federal awards.

Federal Agency Cluster/Program	Pass Through Number	CFDA No.	Amount Expended
Rowan County Emergency Management			
Interagency Hazard Materials Public-Sector	EMAIL DATED 05/05/14	20.703	$ 13,891
Madison County LEPC			
Interagency Hazard Materials Public-Sector	LETTER DATED 7/3/14	20.703	11,156
Shelby County EMS			
Interagency Hazard Materials Public-Sector	EMAIL DATED 6/3/15	20.703	10,092
Total U. S. Department of Transportation			51,183
National Aeronautics and Space Administration			
Direct Programs			
Science.		43.001	21,169
Program Unknown (Cold Diffuse Clouds)	RSA NO. 1377599	43.UNK	16,742
Program Unknown (Spectroscopy of Solar Flares)	NNX10AT78G	43.UNK	25,699
			63,610
Pass Through Programs			
University of Louisville			
Education	ULRF-14-0315	43.008	36,572
Total National Aeronautics and Space Administration			100,182
National Science Foundation			
Direct Programs			
Engineering Grants		47.041	185,000
Mathematical and Physical Sciences		47.049	213,953
Biological Sciences		47.074	164,956
Social Behavioral and Economic Sciences		47.075	28,977
Education and Human Sciences		47.076	112,550
Office of International and Integrative Activities		47.079	64,294
			769,730
Pass Through Programs			
University of Kentucky Research Foundation			
Education and Human Resources	3048111054-14-128	47.076	16,078
Office of International and Integrative Activities	3048111570-15-021	47.079	25,778
KY NSF EPSCoR			
Office of International and Integrative Activities	3048111570-15-094	47.079	22,348
Office of International and Integrative Activities	3048111570-15-147	47.079	14,039
Office of International and Integrative Activities	3048111570-15-130	47.079	6,220
Office of International and Integrative Activities	3048111570-15-148	47.079	16,344
Office of International and Integrative Activities	3048111570-15-152	47.079	5,501
Office of International and Integrative Activities	3048111570-15-146	47.079	4,718
Office of International and Integrative Activities	3048111570-15-151	47.079	13,926
Office of International and Integrative Activities	3048111570-15-197	47.079	4,077
Office of International and Integrative Activities	3048111570-15-215	47.079	5,443
Office of International and Integrative Activities	3048111570-15-199	47.079	6,041
Office of International and Integrative Activities	3048111570-15-228	47.079	6,090
KY NSF EPSCoR			
Office of Experimental Program to Stimulate Competitive Research	3048108525-14-046	47.081	38
Office of Experimental Program to Stimulate Competitive Research	3048108525-14-049	47.081	4,274
Office of Experimental Program to Stimulate Competitive Research	3048108525-14-096	47.081	3,566
Office of Experimental Program to Stimulate Competitive Research	3048108525-14-047	47.081	1,462
Office of Experimental Program to Stimulate Competitive Research	3048108525-14-100	47.081	3,940
			159,883
Pass Through Programs **ARRA**			
ARRA			
ARRA: Trans-NSF Recovery Act Research Supp.	DUE – 0934804	47.082	$ 118,380
Total National Science Foundation			1,047,993

See accompanying notes to the schedule of expenditures of federal awards.

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015

Federal Agency Cluster/Program	Pass Through Number	CFDA No.	Amount Expended
Research and Development Cluster (Continued)			
U. S. Department of Veteran Affairs			
Direct Programs			
Contract (Expanding Stroke Rehab Veterans)	OBL #508-5C0309 DTD 1/28/15	64.CON	$ 6,595
Contract (Systems Eval)	PO#583-C59098, AGMT DTD 2/4/15	64.CON	14,393
Total U. S. Department of Veteran Affairs			20,988
Environmental Protection Agency			
Direct Programs			
P3 Award: National Student Design Competition for Sustainability (B)		66.516	1,698
U. S. Department of Education			
Pass Through Programs			
Kentucky Cabinet for Workforce Development			
Career and Technical Ed.-Basic Grants to States	PON2 540 1400003440 1	84.048	28,983
Green River Regional Ed Coop			
Race to the Top-District Grants	AGREEMENT DATED 03/20/13	84.416	415,317
Total U. S. Department of Education			444,300
U. S. Department of Health and Human Services			
Pass Through Programs			
University of Louisville			
Pharmacology Physiology and Biological Chemistry	ULRF 09-0109D1-03	93.859	2,739
Pharmacology Physiology and Biological Chemistry	ULRF 13-1493-01	93.859	326,048
Pharmacology Physiology and Biological Chemistry	ULRF 14-1393A-07	93.859	43,881
Pharmacology Physiology and Biological Chemistry	ULRF 14-1393A-08	93.859	10,155
Total U. S. Department of Health and Human Services			382,823
U. S. Department of Homeland Security			
Direct Programs			
Program Unknown (Best Practice-Water Systems)	09-09 WKU	97.UNK	11,384
Program Unknown (Hydraulics-WDS)	3048108070-11-356	97.UNK	28,900
			40,284
Pass Through Programs			
National Institute for Hometown Security			
Pilot Demonstration or Earmarked Projects	05-07-WKU	97.001	1,661
Homeland Security Adv Research Projects Agency (B)	06-07-WKU	97.065	3,334
Contract (Disruptions in Water Service)	HSHQDC07-3-00005	97.CON	311,217
Contract (Risk Assessment-Telehealth Systems)	SUBCONTRACT 01-12-WKU	97-CON	42,407
			358,619
Total U. S. Department of Homeland Security			398,903
Agency for International Development			
Pass Through Programs			
Engility/International Resources Group			
Contract (Tropical Andean Climate Change)	CCRDACD0002	98.CON	18,502
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			3,568,259

See accompanying notes to the schedule of expenditures of federal awards.

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015

Federal Agency Cluster/Program	Pass Through Number	CFDA No.	Amount Expended
Highway Planning and Construction Cluster			
U. S. Department of Transportation			
Pass Through Programs			
Kentucky Transportation Cabinet			
Highway Planning and Construction	PO2 628 1100003434	20.205	$ 370,545
Federal Transit Cluster			
U. S. Department of Transportation			
Pass Through Programs			
Kentucky Transportation Cabinet			
Federal Transit Capital Improvement Grants	GRANT KY-04-0035	20.500	60,271
TRIO Cluster			
U. S. Department of Education			
Direct Programs			
TRIO Student Support Services		84.042	300,237
TRIO Talent Search		84.044	581,754
TRIO Upward Bound		84.047	555,836
TRIO Educational Opportunity Centers		84.066	223,219
Total TRIO Cluster			1,661,046
School Improvement Grants Cluster			
U. S. Department of Education			
Pass Through Programs			
Kentucky Department of Education			
School Improvement Grants	PON2 540 130000 2516 1	84.377	27,450
TANF Cluster			
U. S. Department of Health and Human Services			
Pass Through Programs			
University of Kentucky Research Foundation			
Temporary Assistance for Needy Families	3048111816-15-037	93.558	130,000
CCDF Cluster			
U. S. Department of Health and Human Services			
Pass Through Programs			
Zero to Three			
Child Care Development Block Grant	2014100224	93.575	82,374
Other Federal			
U. S. Department of Agriculture			
Direct Programs			
Agricultural Research Basic and Applied Research		10.001	39,116
Farmer's Market and Local Food Promotion Program		10.168	5,047
Public Television Station Digital Transition Grant Program (B)		10.861	36,710
Total U. S. Department of Agriculture			80,873
U.S. Department of Commerce			
Direct Programs			
Manufacturing Extension Partnership		11.611	366,427
U.S. Department of Defense			
Pass Through Programs			
Institute of International Education			
The Language Flagship Grants to Institutions of Higher Education	NSEP-U631033-WKU-CHN	12.550	281,020
U. S. Housing and Urban Development			
Pass Through Programs			
Housing Authority of Bowling Green			
Community Development Block Grants/ Entitlement Grants	MO DATED 7/21/14	14.218	37,747

See accompanying notes to the schedule of expenditures of federal awards.

Federal Agency Cluster/Program	Pass Through Number	CFDA No.	Amount Expended
Other Federal (Continued)			
U. S. Department of Interior			
Direct Programs			
Outdoor Recreation Acquisition Development and Planning		15.916	$ 87,515
Rivers Trails and Conservation Assistance		15.921	3,045
Cooperative Research & Training Programs-Resources of the NPS		15.945	119,570
Total U. S. Department of Interior			210,130
U. S. Department of Justice			
Pass Through Programs			
Kentucky Justice & Public Safety Cabinet			
Crime Victim Assistance/Discretionary Grants	DG-2011-KASAP-00010	16.582	4,822
National Association of VOCA Assistance Admin.			
Crime Victim Assistance/Discretionary Grants	SUBGRANT #15-111	16.582	4,833
Total U. S. Department of Justice			9,655
National Aeronautics and Space Administration			
Pass Through Programs			
University of Kentucky Research Foundation			
Science	3049024102-15-118	43.001	1,881
Science	3048107336-15-142	43.001	4,197
Northern Kentucky University			
Education	4000972-S6	43.008	3,201
Total Aeronautics and Space Administration			9,279
National Endowment for the Arts			
Direct Programs			
Promotion of the Arts-Grants to Organizations and Individuals		45.024	12,266
National Science Foundation			
Direct Programs			
Education and Human Resources		47.076	62,506
Small Business Administration			
Pass Through Programs			
University of Kentucky Research Foundation			
Small Business Centers	3048111056-14-094	59.037	23,174
Small Business Centers	3048112328-15-221	59.037	46,242
Total Small Business Administration			69,416
U.S. Department of Energy			
Pass Through Programs **ARRA**			
University of Illinois			
ARRA: Geologic Sequestration Training and Research Grant Program	SUB# 2010-00326-03	81.133	23,864
U. S. Department of Education			
Direct Programs			
Teacher Quality Enhancement Grants		84.336	191,705
Pass Through Programs			
Kentucky Department of Education			
Special Education Grants to States	PON2 540 150000051 1	84.027	340,200
University of Kentucky Research Foundation			
Special Education Grants to States	304111589-15-092	84.027	15,000
Kentucky Cabinet for Workforce Development			
Career and Technical Ed.-Basic Grants to States	PON2 540 1300002855 1	84.048	1,474
Career and Technical Ed.-Basic Grants to States	PON2 540 1400001775 1	84.048	625
Career and Technical Ed.-Basic Grants to States	PON2 540 1400003450 1	84.048	7,512
Career and Technical Ed.-Basic Grants to States	PON2 540 1400003730 1	84.048	143,552
Career and Technical Ed.-Basic Grants to States	PON2 540 1500001173 1	84.048	8,702

See accompanying notes to the schedule of expenditures of federal awards.

Federal Agency Cluster/Program	Pass Through Number	CFDA No.	Amount Expended
Other Federal (Continued)			
U. S. Department of Education (Continued)			
Pass Through Programs			
Education Professional Standards Board			
Career and Technical Ed.-Basic Grants to States	PO2 183 1500000950 1	84.048	$ 3,343
Kentucky Council on Postsecondary Education			
Gaining Early Awareness & Readiness for Undergraduate Programs	PO2 415 1400006071 1	84.334	32,197
National Writing Project Corporation			
Improving Teacher Quality State Grants	92-KY06-SEED2012	84.367	4,573
Green River Regional Ed. Coop			
Race to the Top-District Grants	FFSA DATED 5/16/14	84.416	48,416
			605,594
Total U.S. Department of Education			797,299
U.S. Department of Health and Human Services			
Direct Programs			
Occupational Safety and Health Program		93.262	44,580
Advanced Education Nursing Traineeships		93.358	229,230
Head Start		93.600	1,415,084
			1,688,894
Pass Through Programs			
University of Louisville			
Area Health Education Centers-Model Programs	SUBCONTRACT DATED 11/19/13	93.107	15,758
Area Health Education Centers-Model Programs	SUBCONTRACT DATED 12/14/14	93.107	58,577
University of Kentucky Research Foundation			
Occupational Safety and Health Program	3049025295-14-069	93.262	5,999
Occupational Safety and Health Program	3049025657-15-081	93.262	15,765
Murray Head Start			
Head Start	04CH2692/46	93.600	206,741
Eastern Kentucky University			
Foster Care Title IV-E	EKU SUB# 452825-15-127	93.658	7,536
Foster Care Title IV-E	EKU SUB# 452820-15-128	93.658	167,690
			478,066
Total U. S. Department of Health and Human Services			2,166,960
Executive Office of the President			
Pass Through Programs			
Appalachia HIDTA			
High Intensity Drug Trafficking Areas Program	G15AP0001A	95.001	1,465
Total Other Federal			4,128,907
TOTAL FEDERAL EXPENDITURES			$ 138,080,050

Subtotals of Multiple Awards

Science	43.001	6,078
Special Education Grants to States	84.027	355,200
Career and Technical Ed.-Basic Grants to States (Non Research and Development)	84.048	165,209
Area Health Education Centers-Model Programs	93.107	74,335
Occupational Safety and Health Program	93.262	66,343
Head Start	93.600	1,621,824
Foster Care Title IV-E	93.658	175,226

See accompanying notes to the schedule of expenditures of federal awards.

NOTE 1 – BASIS OF ACCOUNTING

This schedule includes the federal awards activity of Western Kentucky University (the "University") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – LOANS

The University participates in the Federal Direct Loan Programs (including Stafford Loans, Supplemental Loans for Students, and Parents Loans for Undergraduate Students) and the Federal Direct Sub Loan Program.

The University administers the Federal Perkins Loan Program (CFDA Number 84.038). At June 30, 2015, the University had loans outstanding in the amount of $3,582,871 with an allowance for doubtful accounts of $548,366.

NOTE 3 – SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the University provided federal awards to the following subrecipients:

CFDA Number/Federal Program	Subrecipient	Fiscal 2015 Expenditures
98.CON Agency for International Dev.	Fundation Para el Desarrollo Agrari	$ (1,280)
98.CON Agency for International Dev.	Western Washington University	10,384
97.CON National Inst. for Hometown Security	University of Alabama	50,000
97.CON National Inst. for Hometown Security	University of Missouri	261,217
47.076 Education and Human Resources	KWWOA	1,456
47.076 Education and Human Resources	Adler Planetarium Corp	18,629
47.076 Education and Human Resources	Cornell University	8,400
93.600 Head Start	Audubon Area Community Services, Inc.	219,852
93.600 Head Start	Murray Head Start	355,179
10.310 Agriculture and Food Research Initiative	West Virginia University Research	7,249
11.611 Manufacturing Ext Partnership	Northern Kentucky University	86,207
12.300 Basic and Applied Scientific Research	University of Idaho	31,060
Total Federal Awards Paid to Subrecipients		$ 1,048,353

NOTE 4 – FEDERAL INSURANCE

The University had no federal insurance in force during the year.

PART I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified			
Internal control over financial reporting: Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified not considered to be material weaknesses?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs: Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified not considered to be material weakness(es)?		Yes	X	None Reported
Type of auditors' report issued on compliance for major programs	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?		Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster Number
	Total Federal Student Aid Cluster (consisting of):
84.007	SEOG
84.033	Federal Work Study
84.033	America Reads
84.038	Federal Perkins Loan Program
84.063	Pell Grants 2012-2013
84.063	Pell Grants 2013-2014
84.268	Federal Direct Student Loans
84.379	TEACH Grants
84.027	Special Education Grants to States
11.611	Manufacturing Extension Partnership
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs	$ 300,866			
Auditee qualified as low-risk auditee?	X	Yes		No

PART II – FINANCIAL STATEMENT FINDINGS

None

PART III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS

None

PART IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None