

**WESTERN KENTUCKY UNIVERSITY**

**REPORT ON AUDIT OF INSTITUTION  
OF HIGHER EDUCATION  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
June 30, 2010 and 2009**

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of the business-type activities of Western Kentucky University (the "University") as of and for the years ended June 30, 2010 and 2009, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Western Kentucky University Research Foundation, Inc., which represents 2% of the assets and 6% of revenues of Western Kentucky University's business-type activities for the years ended June 30, 2010 and 2009. 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 are 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 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 for 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 of material misstatement. The financial statements of Western Kentucky University Research Foundation, Inc. and the discretely presented component units were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component units of Western Kentucky University as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows, as applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2010 on our consideration of Western Kentucky 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Western Kentucky University taken as a whole. The accompanying schedule of expenditures of federal awards on pages 71 through 77 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
Crowe Horwath LLP

Louisville, Kentucky  
September 30, 2010

**WESTERN KENTUCKY UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2010**

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**Overview**

Management's Discussion and Analysis (MD&A) of Western Kentucky University's (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 years ended June 30, 2010 and 2009. 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, 2010 and 2009, 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 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 for a basis of their opinion on the University's financial statements. Furthermore, Crowe Horwath LLP has issued a report required by *Government Auditing Standards* that addresses its consideration of the University's internal control over financial reporting and tests of the University's compliance with certain provisions of laws, regulations, contracts and grants.

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*. 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.

## ***Fiscal Year 2010 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:

<b><u>Enrollment Base (Headcount)</u></b>	<b><u>Fall 2009</u></b>	<b><u>Fall 2008</u></b>	<b><u>Fall 2007</u></b>
Undergraduate applications	11,803	11,222	10,587
Undergraduate enrollment (including returning students)	17,645	16,966	16,508
First-time freshmen	3,229	3,187	3,063
Total graduate enrollment	3,067	2,795	2,757
Total enrollment	20,712	19,761	19,265

The following data, with a comparison between 2008/2009 and 2007/2008, is provided to help assess the financial viability of the University:

<b><u>WKU Foundation</u></b>	<b><u>June 30, 2010</u></b>	<b><u>June 30, 2009</u></b>	<b><u>June 30, 2008</u></b>
Endowments	\$ 102.8 million	\$ 95.8 million	\$104.5 million
Total cash receipts	18.9 million	13.6 million	17.7 million
<b><u>State Appropriations</u></b>			
General nonoperating revenue	\$ 73,597,700	\$ 79,013,801	\$ 82,562,101
State fiscal stabilization funds (SFSF)	5,416,100	-	-
Retirement of debt obligations	<u>473,700</u>	<u>1,669,999</u>	<u>1,280,599</u>
Total	<u>\$ 79,487,500</u>	<u>\$ 80,683,800</u>	<u>\$ 83,842,700</u>

## ***Statement of Net Assets***

The Statement of Net Assets presents the financial position of the University as of the end of the fiscal year and includes all assets and liabilities. Readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the University. The change in net assets is an indicator of whether the overall financial position has improved or worsened during the year and over time. One can think of net assets 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.

Restricted net assets are subject to externally imposed restrictions governing their use. The corpus of nonexpendable restricted resources is only available for investment purposes. Although unrestricted net assets are 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 net assets are set by University policy or approved by the Board of Regents.

A summary of the University's assets, liabilities and net assets, as of June 30, 2010, 2009 and 2008, are as follows:

**Condensed Statements of Net Assets (in Thousands)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>			
Current assets	\$ 102,920	\$ 82,500	\$ 78,650
Capital assets, net	382,105	337,724	276,260
Other noncurrent assets	<u>44,884</u>	<u>64,017</u>	<u>35,299</u>
Total assets	<u>\$ 529,909</u>	<u>\$ 484,241</u>	<u>\$ 390,209</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 39,329	\$ 32,774	\$ 26,006
Noncurrent liabilities	<u>137,600</u>	<u>142,274</u>	<u>99,990</u>
Total liabilities	<u>\$ 176,929</u>	<u>\$ 175,048</u>	<u>\$ 125,996</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 238,356	\$ 189,109	\$ 171,529
Restricted			
Nonexpendable	14,314	11,159	12,644
Expendable	40,959	56,788	32,135
Unrestricted	<u>59,351</u>	<u>52,137</u>	<u>47,905</u>
Total net assets	<u>\$ 352,980</u>	<u>\$ 309,193</u>	<u>\$ 264,213</u>

Liabilities include pledges payable to the city of Bowling Green ("City") in the amount of \$30,199,434 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$109,678,759 with final payments on the bonds scheduled for fiscal year 2027.

**Statement of Revenues, Expenses and Changes in Net Assets**

The Statement of Revenue, Expenses and Changes in Net Assets summarizes all financial transactions that increase or decrease net assets. 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 nonoperating.

The most significant source of nonoperating revenue is state appropriations. State appropriations are nonoperating 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 nonoperating revenue sources include non-exchange grants and contracts and investment income.

Accordingly, the University reports net operating losses of \$(123,134,139), \$(111,103,658) and \$(120,736,862) for fiscal years 2010, 2009 and 2008, respectively.

A summary of the University's revenues, expenses and changes in net assets for the years ended June 30, 2010, 2009 and 2008, is as follows:

***Statements of Revenues, Expenses and Changes in Net Assets (in Thousands)***

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Operating revenues</b>			
Net tuition and fees	\$ 104,669	\$ 97,896	\$ 84,685
Grants and contracts	1,740	1,654	2,658
Sales and services of educational departments	12,604	13,366	12,851
Auxiliary enterprises	21,935	20,986	19,949
Other	<u>19,075</u>	<u>21,074</u>	<u>11,136</u>
Total operating revenues	<u>160,023</u>	<u>154,976</u>	<u>131,279</u>
<b>Operating expenses</b>	<u>283,157</u>	<u>266,080</u>	<u>252,016</u>
<b>Operating loss</b>	<u>(123,134)</u>	<u>(111,104)</u>	<u>(120,737)</u>
<b>Nonoperating revenues (expenses)</b>			
State appropriations	74,071	80,684	83,843
State appropriations – SFSF funds	5,416	-	-
Grants and contracts	68,544	60,042	55,045
Investment income (expense)	1,805	(921)	2,268
Interest on capital asset-related debt	(4,735)	(4,390)	(2,955)
Other	<u>(118)</u>	<u>(102)</u>	<u>161</u>
Net nonoperating revenues	<u>144,983</u>	<u>135,313</u>	<u>138,362</u>
<b>Income before other revenues, expenses, gains or losses</b>	<u>21,849</u>	<u>24,209</u>	<u>17,625</u>
State contributions to endowment	2,439	-	-
State capital appropriations	<u>19,161</u>	<u>20,771</u>	<u>16,163</u>
<b>Increase in net assets</b>	43,449	44,980	33,788
<b>Net assets, beginning of year</b>	309,193	264,213	230,425
Acquisition of KIIS net assets	<u>338</u>	<u>-</u>	<u>-</u>
<b>Net assets, end of year</b>	<u>\$ 352,980</u>	<u>\$ 309,193</u>	<u>\$ 264,213</u>

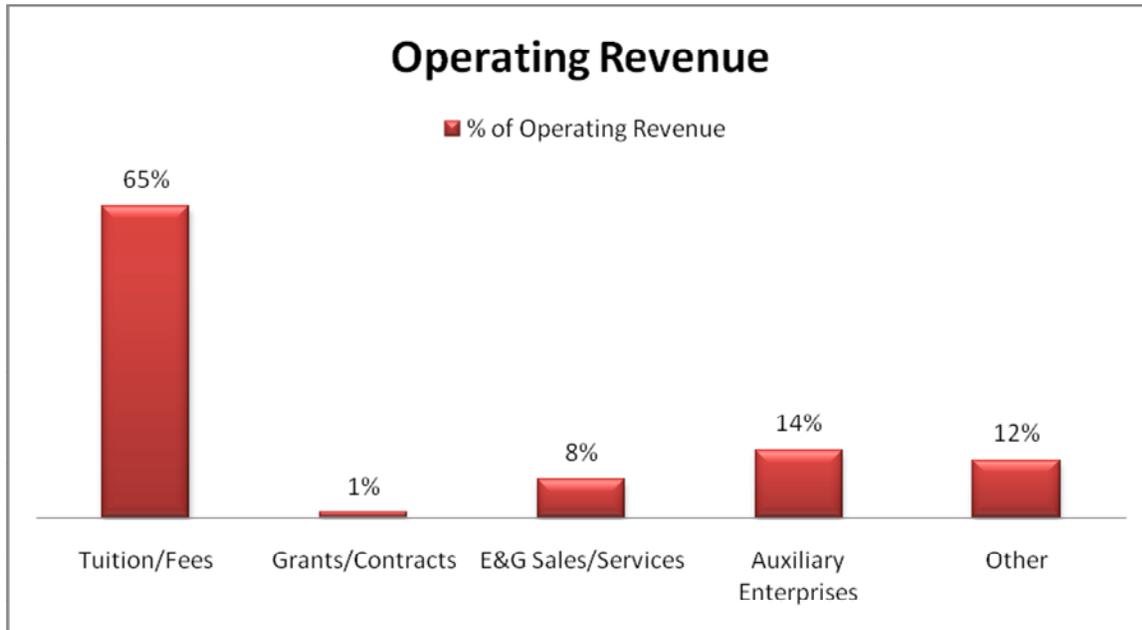
**Operating Revenues**

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 increased by 4.8% and 2.6% between fall 2008 and 2009, and fall 2007 and 2008, respectively. As of fall 2009, approximately 82% of students enrolled at the University were Kentucky residents. An additional 7% 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 fee 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, 2010 and 2009, were 69.2% and 70.5%, respectively, of the gross tuition and fees with approximately \$46.5 million and \$41.0 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 nonoperating revenue generated by such grants and contracts will equal the actual expenses in a given fiscal year.

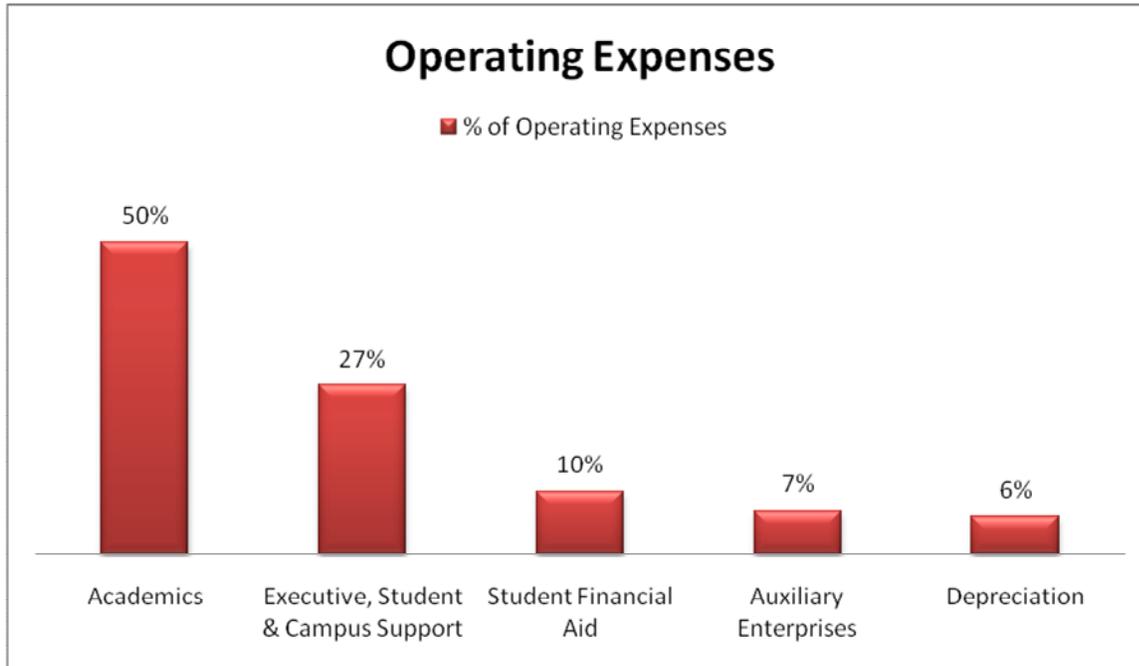
The grant and contract awards received in a given year are frequently multiyear awards for which only the current year activity related to the award will be recorded, *i.e.*, any cash received in excess of expenses incurred will be recorded as deferred revenue. Additionally, awards related to future 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 2010, 2009 and 2008 fiscal years.

**Grants and Contracts Awards (Excluding Financial Aid)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Federal	\$ 14,536,620	\$ 14,773,130	\$ 11,818,503
State	2,945,181	5,287,452	2,869,240
Other	<u>3,423,103</u>	<u>3,645,664</u>	<u>7,435,895</u>
Total	<u>\$ 20,904,904</u>	<u>\$ 23,706,246</u>	<u>\$ 22,123,638</u>

**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.



**Nonoperating Revenues and Expenses**

Nonoperating revenues are all revenues that are primarily non-exchange in nature. The most significant single source of nonoperating 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, 2010, 2009 and 2008 is comprised of the following:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Investment income	\$ 1,096,145	\$ 911,837	\$ 3,180,526
Net change for the year in the fair value of investments	<u>708,652</u>	<u>(1,833,203)</u>	<u>(912,517)</u>
	<u>\$ 1,804,797</u>	<u>\$ (921,366)</u>	<u>\$ 2,268,009</u>

State appropriations were \$79,487,500 for 2010 (including \$5,416,100 SFSF funds received) in comparison to \$80,683,800 and \$83,842,700 for 2009 and 2008, respectively. The University's state appropriation, based on the enacted 2009-2010 Biennial Budget, was decreased by \$1,196,300 or 1.5% in recognition of the University's enrollment growth (this includes the \$5,416,100 in SFSF funds received through the Commonwealth to offset the overall budget reduction).

### **Change in Net Assets**

For the years ended June 30, 2010 and 2009, the University's net assets increased \$43,787,221 and \$44,980,013, respectively. The year-end net assets for June 30, 2010 and 2009 were \$352,980,014 and \$309,192,793, 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 Statements of Revenues, Expenses and Changes in Net Assets

The major sources of cash received for operating activities are tuition and fees of \$102,976,958 and auxiliary enterprises of \$21,934,437. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$170,459,589 and to suppliers and contractors of \$93,100,307. 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. A state appropriation of \$473,700 was allocated for debt payments of the University. 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)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Cash Provided By (Used In)</b>			
Operating activities	\$ (110,209)	\$ (90,218)	\$ (110,789)
Noncapital financing activities	147,684	139,333	137,876
Capital and related financing activities	(49,359)	(14,329)	(56,322)
Investing activities	<u>5,690</u>	<u>2,078</u>	<u>1,937</u>
Net increase (decrease) in cash and cash equivalents	(6,194)	36,864	(27,298)
<b>Cash and cash equivalents, beginning of year</b>	<u>101,999</u>	<u>65,135</u>	<u>92,433</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 95,805</u>	<u>\$ 101,999</u>	<u>\$ 65,135</u>

## **Capital Asset and Long-term Obligations**

### **Capital Assets**

As of June 30, 2010, 2009 and 2008, the University had \$382.1 million, \$337.7 million and \$276.2 million and invested in capital assets, net of accumulated depreciation of \$193.1 million, \$176.1 million and \$161.0 million, respectively. Capital assets at June 30, 2010, 2009 and 2008 are summarized below:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land	\$ 7,638,470	\$ 7,689,350	\$ 7,689,350
Buildings and improvements	399,405,456	320,736,754	265,424,793
Infrastructure	36,109,821	30,993,127	24,641,214
Furniture, fixtures and equipment	49,492,751	44,746,732	39,647,294
Library materials	42,662,060	40,486,729	38,186,922
Construction in progress	<u>39,854,994</u>	<u>69,132,068</u>	<u>61,664,183</u>
Total capital assets	575,163,552	513,784,760	437,253,756
Less accumulated depreciation	<u>(193,058,548)</u>	<u>(176,061,128)</u>	<u>(160,993,768)</u>
Capital assets	<u>\$ 382,105,004</u>	<u>\$ 337,723,632</u>	<u>\$ 276,259,988</u>

The major construction projects in progress, as of June 30, 2010, consisted of the College of Education Building, Carroll Knicely Conference Center Addition, and Energy Savings Performance improvements to various campus buildings.

### **Long-Term Obligations**

As of June 30, 2010, 2009 and 2008, the University had \$144.7 million, \$149.6 million and \$105.5 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 are summarized as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Pledges to the City	\$ 30,199,434	\$ 30,804,711	\$ 31,234,988
Consolidated Educational Buildings Revenue Bonds	17,345,412	20,264,245	23,083,078
General Receipts Bonds	92,333,347	95,974,937	50,234,941
Capital leases	2,174,217	2,367,830	556,466
Other long-term obligations	<u>2,615,183</u>	<u>218,426</u>	<u>434,588</u>
Total	<u>\$ 144,667,593</u>	<u>\$ 149,630,149</u>	<u>\$ 105,544,061</u>

### **Economic Factors Impacting Future Periods**

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

- WKU continues to focus on alternative delivery methods (e.g., online courses) to meet the demand for academic programs. Graduate School enrollment continues to grow as WKU has expanded its offerings, and implemented a professional MBA program and a doctoral program in educational leadership. Continued focused student recruitment and improved student retention efforts will yield tuition revenue that is critical due to the recession's impact on the State's economy. However, the

rate of growth in the numbers of first-time freshmen has been minimal compared to the total headcount enrollment.

- The University's Board of Regents, at its June 2010 meeting, approved tuition rates for fiscal year 2010. The rates approved for fiscal year 2010 reflect an increase of 5% for Kentucky residents and 6% for most nonresident students. The Council on Postsecondary Education (CPE) has the statutory responsibility to approve tuition rates. Significant emphasis will continue to be placed on setting tuition rates with modest increases that will not impede economic access to postsecondary education.
- In a Special Session, the General Assembly enacted the 2010-12 Biennial Budget that includes replacing \$1,005,200 and \$3,629,300 State Fiscal Stabilization Funds in FY 2011 and FY 2012, respectively. Should the State's economy not worsen, this will equate to WKU sustaining a state funding reduction of \$781,600 due to the State's inability to replace all of the Stimulus Funds. Additionally, WKU will implement a state funding budget reduction of \$1,123,100 in FY 2011. These reductions are very modest in comparison the state reductions in higher education systems across the nation.
- 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. It is noted that rate increases may occur without any increase in state funding. Funding the State's retirement systems remains a significant issue for the Administration and the General Assembly.
- Under its self-funded insurance plan, the University provides a comprehensive health insurance program for its employees. 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 following calendar year. The WKU 2010-11 Operating Budget includes \$623,000 to increase the University's premium contribution for full-time E&G employees effective January 2011. This amount reflects funding for six months with an additional six months being funded as a fixed cost increase in the FY 2012 budget. As a result of the University Benefits Committee's oversight, the self-funded insurance program continues to be operationally and financially sound; however, trends in claims paid support the need for annual reassessment of plan designs and premium structures, including employer contributions.
- WKU does not plan to issue any additional construction bonds in FY 2011. However, WKU will request authorization to issue bonds for the renovation of Downing University Center in FY 2012. It is anticipated that the size of this project will be approximately \$38 million.
- In September 2007, WKU unveiled a new \$200 million comprehensive capital campaign entitled "New Century of Spirit." The five year campaign has a goal of significantly increasing endowment funds and increasing annual cash flow from gifts and associated revenues. During the quiet phase of the campaign that preceded the public announcement, over \$100 million in new gifts and pledges was raised. The "New Century of Spirit" campaign has raised over \$162 million in gifts and pledges by June 30, 2010. WKU announced FY 2010 gifts of almost \$19 million, an all time record for annual giving.

### ***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  
 STATEMENTS OF NET ASSETS  
 June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 79,577,691	\$ 67,029,002
Accounts receivable, net of allowance of \$714,787 and \$492,417, respectively	6,539,786	4,419,414
Interest receivable	815,663	1,387,514
Federal and state grants receivable	10,957,272	5,503,222
Inventories	2,374,333	2,441,168
Loans to students, net	655,170	716,609
Prepaid expenses and other	<u>1,999,738</u>	<u>1,003,568</u>
Total current assets	<u>102,919,653</u>	<u>82,500,497</u>
Noncurrent assets		
Restricted cash and cash equivalents	16,227,225	34,970,363
Long-term investments	278,662	3,740,917
Loans to students, net of allowance of \$548,366 and \$548,366, respectively	4,384,604	4,795,767
Assets held in trust	22,495,020	18,889,422
Capital assets	575,163,552	513,784,760
Accumulated depreciation on capital assets	(193,058,548)	(176,061,128)
Deferred bond issuance costs, net of accumulated amortization of \$522,165 and \$400,104, respectively	<u>1,498,444</u>	<u>1,620,505</u>
Total noncurrent assets	<u>426,988,959</u>	<u>401,740,606</u>
Total assets	<u>529,908,612</u>	<u>484,241,103</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	9,017,040	8,215,904
Self-insured health liability	755,358	1,050,878
Self-insured workers' compensation liability	61,925	59,993
Accrued payroll and withholdings	1,699,822	1,393,096
Accrued compensated absences	2,745,562	2,672,661
Accrued interest	1,530,321	1,579,069
Deferred revenue	15,722,325	9,665,210
Long-term obligations - current portion	7,068,345	7,356,326
Deposits held in custody for others	728,652	731,350
Other current liabilities	<u>-</u>	<u>50,000</u>
Total current liabilities	<u>39,329,350</u>	<u>32,774,487</u>
Long-term obligations	<u>137,599,248</u>	<u>142,273,823</u>
Total liabilities	<u>176,928,598</u>	<u>175,048,310</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF NET ASSETS  
June 30, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 238,355,738	\$ 189,108,872
Restricted for		
Nonexpendable - endowments	14,314,052	11,158,716
Expendable		
Loans	5,408,464	5,843,126
Capital projects	31,743,697	46,932,059
Debt service	3,807,100	4,012,989
Unrestricted	<u>59,350,963</u>	<u>52,137,031</u>
Total net assets	<u>\$ 352,980,014</u>	<u>\$ 309,192,793</u>

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See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,179,092	\$ 14,916,946
Investments	37,758,352	33,863,441
Accounts receivable	50,034	95,034
Receivable – WKU Real Estate Corporation	1,400,039	1,635,415
Receivable – Warren County Economic Development Authority	3,800,000	-
Contributions receivable, net of allowance of \$1,137,500 and \$1,041,300, respectively	14,900,125	15,085,067
Prepaid expenses and other assets	80,744	118,197
Investments held for Western Kentucky University	16,281,261	15,181,152
Assets held for others	<u>480,130</u>	<u>296,032</u>
Total assets	<u>\$ 81,929,777</u>	<u>\$ 81,191,284</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 89,652	\$ 96,450
Notes payable	2,874,174	3,224,624
Annuities payable	2,676,922	2,737,367
Assets held for others	<u>16,761,391</u>	<u>15,477,184</u>
Total liabilities	22,402,139	21,535,625
<b>NET ASSETS</b>		
Unrestricted	13,215,471	9,494,338
Temporarily restricted	13,268,054	19,341,217
Permanently restricted	<u>33,044,113</u>	<u>30,820,104</u>
Total net assets	<u>59,527,638</u>	<u>59,655,659</u>
Total liabilities and net assets	<u>\$ 81,929,777</u>	<u>\$ 81,191,284</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
 WKU STUDENT LIFE FOUNDATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,760,821	\$ 4,676,317
Accounts receivable, net of allowance of \$17,418 and \$17,608 for 2010 and 2009, respectively	872,358	1,184,835
Net investment in direct financing lease	2,273,143	2,465,902
Accrued interest receivable	4,432	21,451
Prepaid expenses	306,879	268,009
Assets limited as to use	9,844,188	14,086,691
Assets held for others – student deposits	623,942	623,668
Assets held by others – student deposits	46,000	30,497
Property and equipment, net	82,863,627	79,026,651
Other assets	<u>624,814</u>	<u>655,771</u>
Total assets	<u>\$ 103,220,204</u>	<u>\$ 103,039,792</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 967,131	\$ 1,366,695
Accrued expenses	198,485	193,242
Student deposits	669,942	654,165
Interest rate collar and swap agreements, at fair value	13,579,667	11,052,097
Asset retirement obligation	657,204	618,838
Long-term debt, net of unamortized discounts of \$184,623 and \$193,893 for 2010 and 2009, respectively	<u>80,935,377</u>	<u>82,796,731</u>
Total liabilities	97,007,806	96,681,768
Net assets - unrestricted	<u>6,212,398</u>	<u>6,358,024</u>
Total liabilities and net assets	<u>\$ 103,220,204</u>	<u>\$ 103,039,792</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
COLLEGE HEIGHTS FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 829,808	\$ 1,520,377
Notes receivable	26,000	26,000
Interest and dividends receivable	102,586	116,337
Other receivables	49,030	-
Short-term investments	<u>1,813,097</u>	<u>1,467,499</u>
Total current assets	2,820,521	3,130,213
Investments and long-term receivables		
Long-term investments	30,389,612	24,233,946
Assets held in trust	1,949,335	1,853,094
Investments held for Western Kentucky University	2,448,182	1,453,441
Note receivable	<u>295</u>	<u>26,295</u>
Total investments and long-term receivables	34,787,424	27,566,776
Other assets		
	<u>94,697</u>	<u>94,697</u>
Total assets	<u>\$ 37,702,642</u>	<u>\$ 30,791,686</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 96,606	\$ -
Current portion of long-term debt	247,643	87,643
Current portion of refundable advances and gift annuity liabilities	<u>377,350</u>	<u>427,219</u>
Total current liabilities	721,599	514,862
Long-term liabilities		
Notes payable	503,915	751,449
Refundable advances and gift annuity liabilities	2,728,546	1,909,526
Assets held for Western Kentucky University	<u>2,448,182</u>	<u>1,453,441</u>
Total long-term liabilities	<u>5,680,643</u>	<u>4,114,416</u>
Total liabilities	<u>6,402,242</u>	<u>4,629,278</u>
Net assets		
Donor restricted		
Permanently	31,971,385	30,059,145
Temporarily	<u>535,227</u>	<u>589,850</u>
	32,506,612	30,648,995
Unrestricted		
Designated by board for perpetual scholarship fund	<u>(1,206,212)</u>	<u>(4,486,587)</u>
Total net assets	<u>31,300,400</u>	<u>26,162,408</u>
Total liabilities and net assets	<u>\$ 37,702,642</u>	<u>\$ 30,791,686</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>REVENUES</b>		
Operating revenues		
Tuition and fees, net of discounts and allowances of \$46,502,100 and \$41,007,231 for 2010 and 2009, respectively	\$ 104,669,230	\$ 97,895,753
Federal grants and contracts	1,600,080	1,244,152
State grants and contracts	139,992	409,697
Sales and services of educational activities	12,604,057	13,365,965
Auxiliary enterprise revenues, net of discounts and allowances of \$1,192,362 and \$1,051,467 for 2010 and 2009, respectively	21,934,437	20,985,766
Other operating revenues	<u>19,074,919</u>	<u>21,074,756</u>
Total operating revenues	<u>160,022,715</u>	<u>154,976,089</u>
<b>EXPENSES</b>		
Operating expenses		
Education and general		
Instruction	91,384,799	85,606,658
Research	12,414,579	12,391,848
Public service	14,107,988	14,219,868
Libraries	5,502,280	5,203,154
Academic support	17,916,502	16,541,347
Student services	25,486,436	24,053,804
Institutional support	26,427,330	26,410,130
Operation and maintenance of plant	24,838,716	24,893,477
Student financial aid	27,287,989	20,512,281
Depreciation	17,370,987	15,633,167
Auxiliary enterprises	<u>20,419,248</u>	<u>20,614,013</u>
Total operating expenses	<u>283,156,854</u>	<u>266,079,747</u>
<b>Operating loss</b>	<b>(123,134,139)</b>	<b>(111,103,658)</b>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Nonoperating revenues (expenses)		
State appropriations	\$ 74,071,400	\$ 80,683,800
State appropriations SFSF	5,416,100	-
Federal grants and contracts	45,224,897	36,454,781
Federal grants and contracts – ARRA	338,416	-
State grants and contracts	18,546,206	18,988,230
Local and private grants and contracts	4,434,258	4,598,780
Net investment income (expense)	1,804,797	(921,366)
Interest on capital asset-related debt	(4,734,915)	(4,389,823)
Gain on disposal of capital assets	8,692	6,712
Loss on sale of investments	(29,614)	(89,775)
Other nonoperating expenses	(96,961)	(18,976)
Net nonoperating revenues	<u>144,983,276</u>	<u>135,312,363</u>
<b>Income before other revenue, expenses, gains or losses</b>	21,849,137	24,208,705
State capital appropriations	19,160,798	20,771,308
State endowment match	<u>2,439,000</u>	-
<b>Increase in net assets</b>	43,448,935	44,980,013
Net assets, beginning of year	309,192,793	264,212,780
Kentucky Institute for International Studies Acquisition	<u>338,286</u>	-
<b>Net assets, end of year</b>	<u>\$ 352,980,014</u>	<u>\$ 309,192,793</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Changes in unrestricted net assets</b>		
Unrestricted revenues, gains and other support		
Contributions	\$ 1,114,925	\$ 653,388
Investment return	5,286,283	(7,915,211)
Miscellaneous income	208	-
Net assets released from restrictions	<u>12,066,646</u>	<u>5,041,266</u>
Total unrestricted revenues, gains and other support	<u>18,468,062</u>	<u>(2,220,557)</u>
Expenses		
Payments made on behalf of Western Kentucky University - Programs	13,905,466	5,913,520
Management and general	771,669	1,688,833
Fundraising	<u>69,794</u>	<u>59,890</u>
Total expenses	<u>14,746,929</u>	<u>7,662,243</u>
<b>Changes in unrestricted net assets</b>	<u>3,721,133</u>	<u>(9,882,800)</u>
<b>Changes in temporarily restricted net assets</b>		
Contributions	5,140,619	5,225,544
Investment return	1,026,301	(1,124,327)
Miscellaneous income	(173,437)	496,544
Net assets released from restrictions	<u>(12,066,646)</u>	<u>(5,041,266)</u>
<b>Changes in temporarily restricted net assets</b>	<u>(6,073,163)</u>	<u>(443,505)</u>
<b>Changes in permanently restricted net assets</b>		
Contributions	<u>2,224,009</u>	<u>1,976,354</u>
<b>Increase in net assets</b>	(128,021)	(8,349,951)
Net assets, beginning of period, as restated	<u>59,655,659</u>	<u>68,005,610</u>
<b>Net assets, end of period</b>	<u>\$ 59,527,638</u>	<u>\$ 59,655,659</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
 WKU STUDENT LIFE FOUNDATION, INC.  
 STATEMENTS OF ACTIVITIES  
 Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Operating revenues</b>		
Rent	\$ 17,315,419	\$ 16,405,903
Interest income – direct financing lease	149,315	156,711
Other	<u>1,398,879</u>	<u>1,350,754</u>
Total operating revenues	<u>18,863,613</u>	<u>17,913,368</u>
<b>Operating expenses</b>		
Salaries, benefits and related expenses	4,996,781	4,664,890
Utilities	1,928,817	2,715,959
Repairs, maintenance and supplies	1,208,098	962,369
Management fee	69,200	69,200
Professional fees	158,764	91,729
Insurance	608,965	641,565
Depreciation and amortization	3,328,087	3,134,648
Bad debt expense (recovery)	116,724	105,899
Other	<u>504,066</u>	<u>603,423</u>
Total operating expenses	<u>12,919,502</u>	<u>12,989,682</u>
<b>Changes in net assets from operations</b>	<u>5,944,111</u>	<u>4,923,686</u>
<b>Nonoperating revenues (expenses)</b>		
Interest income	437,995	788,331
Interest expense and fees	(627,105)	(1,557,405)
Change in fair value of interest rate collar and swap agreements, net of settlement payments of \$3,373,057 and \$2,237,734 for 2010 and 2009, respectively	<u>(5,900,627)</u>	<u>(5,887,467)</u>
Total nonoperating revenues (expenses)	<u>(6,089,737)</u>	<u>(6,656,541)</u>
<b>Changes in unrestricted net assets</b>	(145,626)	(1,732,855)
Unrestricted net assets, beginning of year	<u>6,358,024</u>	<u>8,090,879</u>
<b>Unrestricted net assets, end of year</b>	<u>\$ 6,212,398</u>	<u>\$ 6,358,024</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
COLLEGE HEIGHTS FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Changes in unrestricted net assets</b>		
Unrestricted revenues, gains and other support		
Investment income	\$ 46,417	\$ 73,687
Net realized and unrealized gains (losses) on investments	5,334,108	(6,217,591)
Other revenue	97,967	-
Net assets released from restrictions:		
Satisfaction of program restrictions	2,926,654	477,944
Donor imposed restrictions withdrawn	<u>845,807</u>	<u>-</u>
Total unrestricted revenues, gains and other support	<u>9,250,953</u>	<u>(5,665,960)</u>
 Expenses		
Program		
Scholarships and awards	4,034,810	3,730,285
Other	<u>1,456,600</u>	<u>551,460</u>
	<u>5,491,410</u>	<u>4,281,745</u>
 Management and general		
Salaries and benefits	372,132	373,811
Interest expense	18,211	38,097
Other	<u>88,825</u>	<u>89,848</u>
	<u>479,168</u>	<u>501,756</u>
Total expenses	<u>5,970,578</u>	<u>4,783,501</u>
 <b>Changes in unrestricted net assets</b>	<u>3,280,375</u>	<u>(10,449,461)</u>
 <b>Changes in temporarily restricted net assets</b>		
Contributions	2,543,912	2,303,581
Investment income	577,287	821,108
Net realized and unrealized gains (losses) on investments	-	(3,403,851)
Net change in value of split interest agreements	(270,169)	(115,596)
Net assets released from restrictions	(2,926,654)	(477,944)
Donor imposed restrictions withdrawn	<u>21,001</u>	<u>-</u>
	<u>(54,623)</u>	<u>(872,702)</u>
 <b>Changes in permanently restricted net assets</b>		
Contributions	2,779,048	1,677,817
Donor imposed restrictions withdrawn	<u>(866,808)</u>	<u>-</u>
	<u>1,912,240</u>	<u>1,677,817</u>
 <b>Increase (decrease) in net assets</b>	5,137,992	(9,644,346)
 Net assets, beginning of year	<u>26,162,408</u>	<u>35,806,754</u>
 <b>Net assets, end of year</b>	<u>\$31,300,400</u>	<u>\$ 26,162,408</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 102,976,958	\$ 100,152,865
Grants and contracts	2,350,620	1,968,051
Payments to employees	(162,905,162)	(153,620,593)
Payments to suppliers	(80,252,321)	(73,398,579)
Loans issued to students	-	(166,508)
Collection of loans issued to students	472,602	367,849
Sales and services of educational departments	12,604,057	13,365,965
Other operating revenues	13,011,658	20,989,166
Auxiliary enterprise revenues	21,934,437	20,967,016
Auxiliary enterprise payments		
Payments to employees	(7,554,427)	(7,073,104)
Payments to suppliers	(12,847,986)	(13,770,393)
Net cash used in operating activities	<u>(110,209,564)</u>	<u>(90,218,265)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	73,597,700	79,013,801
State appropriations – SFSF	5,416,100	-
Grants and contracts receipts	68,205,361	60,041,791
Grants and contracts receipts – ARRA	338,416	-
Student organization agency receipts (disbursements) - net	(2,698)	142,038
Other non-operating receipts	<u>129,400</u>	<u>135,590</u>
Net cash provided by noncapital financing activities	<u>147,684,279</u>	<u>139,333,220</u>
<b>Cash flows from capital and related financing activities</b>		
State capital appropriations	19,160,798	20,741,765
State appropriations designated for debt service	473,700	1,669,999
Proceeds from issuance of debt	-	46,900,000
Proceeds from sale of capital assets	121,534	21,549
Purchases of capital assets	(56,854,595)	(73,939,830)
Principal paid on capital debt and leases	(7,476,996)	(5,970,767)
Interest paid on capital debt and leases	<u>(4,783,663)</u>	<u>(3,751,662)</u>
Net cash used in capital and related financing activities	<u>(49,359,222)</u>	<u>(14,328,946)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	4,768,561	4,139,354
Purchase of investments	(551,543)	(2,996,974)
Acquisition of KIIS assets	77,238	-
Investment income	<u>1,395,802</u>	<u>935,699</u>
Net cash flows provided by investing activities	<u>5,690,058</u>	<u>2,078,079</u>
<b>Net change in cash and cash equivalents</b>	(6,194,449)	36,864,088
Cash and cash equivalents, beginning of year	<u>101,999,365</u>	<u>65,135,277</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 95,804,916</u>	<u>\$ 101,999,365</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Reconciliation of net operating loss to net cash used in operating activities</b>		
Operating loss	\$ (123,134,139)	\$ (111,103,658)
Contributions of capital assets by Foundations	(5,242,340)	(85,590)
Depreciation expense	17,370,987	15,633,167
Changes in operating assets and liabilities		
Accounts receivable, net	(2,119,872)	1,799,241
Federal and state grants receivable	(5,454,050)	(255,552)
Assets held in trust	(806,252)	39,343
Investments	78,179	-
Inventories	66,835	(229,484)
Loans to students, net	472,602	201,341
Prepaid expenses and other	(981,938)	283,751
Accounts payable and other current liabilities	3,397,270	1,964,501
Health insurance liability	(293,588)	404,421
Accrued payroll and payroll withholdings	306,726	(314,952)
Accrued compensated absences	72,901	46,129
Deferred revenue	<u>6,057,115</u>	<u>1,399,077</u>
<b>Net cash used in operating activities</b>	<u>\$ (110,209,564)</u>	<u>\$ (90,218,265)</u>
<b>Supplemental cash flows information</b>		
Capital leases incurred for capital assets	\$ -	\$ 2,388,608
Long-term financing of capital projects	2,410,140	-
Construction in process included in accounts payable	2,646,134	697,620
Bond issue costs paid out of proceeds	<u>-</u>	<u>726,082</u>
	<u>\$ 5,056,274</u>	<u>\$ 3,812,310</u>
<b>Reconciliation of cash and cash equivalents to the statement of net assets</b>		
Cash and cash equivalents	\$ 79,577,691	\$ 67,029,002
Restricted cash and cash equivalents	<u>16,227,225</u>	<u>34,970,363</u>
Total cash and cash equivalents	<u>\$ 95,804,916</u>	<u>\$ 101,999,365</u>

See accompanying notes.

**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 20,700 and 19,700 in 2010 and 2009, respectively. 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., 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*, 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 Western Kentucky University Research Foundation, Inc. ("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.

Governmental Accounting Standards Board ("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 Western Kentucky University 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) standards, including FASB No. 117, *Financial Reporting for Not-for-Profit Organizations*. 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.

WESTERN KENTUCKY UNIVERSITY  
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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The financial information included for each foundation noted above is derived from the respective foundation's annual audited financial statements. Western Kentucky University 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 years ended December 31, 2009 and 2008. 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 years ended June 30, 2010 and 2009.

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 nonexchange 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 nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as state appropriations), investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses.

The University routinely incurs expenses for which both restricted and unrestricted net assets are 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.

The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of GASB. Pursuant to GASB Statement No. 20, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The University has elected not to apply FASB pronouncements issued after the applicable date.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets 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 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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.

Deferred Bond Issue Costs: Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the straight-line method which approximates the interest method.

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

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING 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:

	<u>2010</u>	<u>2009</u>
Total interest expense incurred on borrowings for project	\$ 1,528,608	\$ 681,109
Interest income from investment of proceeds of borrowings for project	<u>276,884</u>	<u>334,910</u>
Net interest cost capitalized	<u>1,251,724</u>	<u>346,199</u>
Interest capitalized	1,251,724	346,199
Interest charged to expense	<u>4,734,915</u>	<u>4,389,823</u>
Total interest incurred	<u>\$ 5,986,639</u>	<u>\$ 4,736,022</u>

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. Accounting principles generally accepted in the United States of America permit 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 assets 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.

Deferred Revenue: Deferred revenue includes amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenue also includes amounts received from grant and contract sponsors that have not yet been earned and unexpended state capital appropriations.

Classification of Revenues: The University has classified its revenues as either operating or nonoperating 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 allowances; (2) sales and services of auxiliary enterprises; and (3) interest on student loans.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Nonoperating Revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable 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 Assets. 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 nonoperating 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 Assets:* The University’s net assets are classified as follows:

*Invested in Capital Assets, Net of Related Debt:* 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 invested in capital assets, net of related debt.

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

*Restricted Net Assets – Nonexpendable:* Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*Unrestricted Net Assets:* Unrestricted net assets represent 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.

During the fiscal year ended June 30, 2010, the University acquired the Kentucky Institute for International Studies (KIIS) program from Murray State University. In addition to the acquisition of this program, the university assumed the assets and liabilities of the institute, which included net assets of \$338,286 that were transferred directly to the University for the operation of KIIS. In addition to the operating net assets that transferred to the University, and additional \$550,000 in privately generated net assets transferred to the Western Kentucky University Foundation.

*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.

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(Continued)

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Recent Pronouncements Adopted/Implemented: In December 2006, the Governmental Accounting Standards Board issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations (GASB 49)*. This statement establishes a framework for the recognition and measurement of pollution remediation liabilities. The provisions of this statement are effective for the University's fiscal year-ended June 30, 2009. The adoption of this statement had no impact on the University's financial statements.

In November 2007, the Governmental Accounting Standards Board issued Statement no. 52, *Land and Other Real Estate Held as Investments by Endowments (GASB 52)*. This statement improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for the University's fiscal year-ended June 30, 2009. The adoption of this statement had no impact on the University's financial statements.

In June, 2007, the Governmental Accounting Standards Board issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets (GASB 51)*. GASB 51 will require that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. The Statement is effective for periods beginning after June 15, 2009, with earlier application encouraged. The adoption of this statement had no impact on the University's financial statements.

In June 2008, the Governmental Accounting Standards Board issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments (GASB 53)*. GASB 53 will address the recognition, measurement and disclosure of information regarding derivative instruments entered into by governments. The provisions of this statement are effective for fiscal periods beginning after June 15, 2009. The adoption of this statement had no impact on the University's financial statements.

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple employer OPEB plan in which it participates. This Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible. In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers. The provisions related to the use and reporting of the alternative method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plans financial statements for financial periods beginning after June 15, 2011. Management has not determined the impact these statements will have on the financial statements of the University.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

In June 2010 the Governmental Accounting Standards Board (GASB) issued Statement No. 59, *Financial Instruments Omnibus*. The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. Statement No. 59 emphasizes the applicability of U.S. Securities and Exchange Commission requirements to certain external investment pools—known as 2a7-like pools—to provide users more consistent information on qualifying pools; addresses the applicability of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to certain financial instruments to clarify which financial instruments are within the scope of that pronouncement and to provide greater consistency in financial reporting; and applies the reporting provisions for interest-earning investment contracts of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to unallocated insurance contracts to improve the consistency of reporting by pension and OPEB plans. Statement No. 59 is effective for fiscal years beginning after June 15, 2010, with earlier application encouraged. Management has not determined the impact these statements will have on the financial statements of the University.

**NOTE 2 - ASSETS HELD IN TRUST**

Assets held in trust consisted of:

	<u>2010</u>	<u>2009</u>
Cash equivalents	\$ 4,181,935	\$ 3,182,398
Common equity, common fixed income and mutual funds	<u>18,313,085</u>	<u>15,707,024</u>
Fair value of assets held in trust	<u>\$ 22,495,020</u>	<u>\$ 18,889,422</u>

Assets held with 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 \$95,804,916 at June 30, 2010, while the bank balances were \$91,574,737. 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

**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, 2010 was \$129,682. 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, 2010:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>Greater than Ten Years</u>
457(f) Incentive Plan	\$ 153,189	\$ 153,189	\$ -	\$ -	\$ -
Total	<u>\$ 153,189</u>	<u>\$ 153,189</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*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.

University investments in debt securities, at June 30, 2010, consisted solely of investments in U.S. Treasuries, which are not considered to have credit risk.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

*Foreign Currency Risk:* The University currently maintains a balance in a foreign currency account that was acquired with the Kentucky Institute for International Studies (KIIS) from Murray State University. The University does not have a formal investment policy that limits the amount of foreign currency that may be held, however, management decided to maintain these funds in the currency in which they were acquired and use for foreign travel as needed. Once the funds have been depleted, no additional foreign currencies are expected to be acquired in advance of specific travel needs. The table below summarizes the current holdings in foreign currency as of June 30, 2010:

<u>Currency</u>	<u>Short Term</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
EURO	\$ <u>125,472</u>	\$ _____ -	\$ _____ -	\$ <u>125,472</u>
Total subject to foreign currency risk	<u>\$ 125,472</u>	<u>\$ _____ -</u>	<u>\$ _____ -</u>	<u>\$ 125,472</u>

*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, 2010.

Of the University's cash and investment balance as of June 30, 2010, \$500,000 is secured by FDIC insurance, and \$74,823,921 is secured by U.S. Treasury Notes held in the University's name, collateralized by the pledging institution. Additionally, \$20,480,995 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 is beneficiary-directed money-market mutual funds.

**Investment Income**

Investment income for the year ended June 30, 2010 and 2009 consisted of:

	<u>2010</u>	<u>2009</u>
Interest income, including interest earned on cash equivalents	\$ 1,096,145	\$ 911,837
Net increase (decrease) in fair value of investments	<u>708,652</u>	<u>(1,833,203)</u>
	<u>\$ 1,804,797</u>	<u>\$ (921,366)</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Tuition, fees, sales and services	\$ 6,365,023	\$ 4,220,290
Credit memos	580,442	285,165
Miscellaneous, other	<u>309,108</u>	<u>406,376</u>
	7,254,573	4,911,831
Less allowance for doubtful accounts	<u>(714,787)</u>	<u>(492,417)</u>
Accounts receivable, net	<u>\$ 6,539,786</u>	<u>\$ 4,419,414</u>

**NOTE 5 - CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2010, are summarized as follows:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2010</u>
Cost					
Land	\$ 7,689,350	\$ -	\$ (50,880)	\$ -	\$ 7,638,470
Buildings and improvements	320,736,754	2,386,246	-	76,282,456	399,405,456
Infrastructure	30,993,127	-	-	5,116,694	36,109,821
Furniture, fixtures and equipment	44,746,732	4,920,178	(360,971)	186,812	49,492,751
Library materials	40,486,729	2,250,954	(75,623)	-	42,662,060
Construction in progress	<u>69,132,068</u>	<u>52,308,888</u>	<u>-</u>	<u>(81,585,962)</u>	<u>39,854,994</u>
	<u>513,784,760</u>	<u>61,866,266</u>	<u>(487,474)</u>	<u>-</u>	<u>575,163,552</u>
Accumulated depreciation					
Buildings and improvements	107,507,831	10,265,878	-	-	117,773,709
Infrastructure	8,646,337	1,374,096	-	-	10,020,433
Furniture, fixtures, and equipment	29,722,127	3,918,867	(299,009)	-	33,341,985
Library materials	<u>30,184,833</u>	<u>1,813,211</u>	<u>(75,623)</u>	<u>-</u>	<u>31,922,421</u>
	<u>176,061,128</u>	<u>17,372,052</u>	<u>(374,632)</u>	<u>-</u>	<u>193,058,548</u>
Net capital assets	<u>\$ 337,723,632</u>	<u>\$ 44,494,214</u>	<u>\$ (112,842)</u>	<u>\$ -</u>	<u>\$ 382,105,004</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 - CAPITAL ASSETS (Continued)**

Changes in capital assets for the year ended June 30, 2009, are summarized as follows:

	Balance <u>July 1, 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance <u>June 30, 2009</u>
Cost					
Land	\$ 7,689,350	\$ -	\$ -	\$ -	\$ 7,689,350
Buildings and improvements	265,424,793	2,388,608	-	52,923,353	320,736,754
Infrastructure	24,641,214	-	-	6,351,913	30,993,127
Furniture, fixtures and equipment	39,647,294	4,563,699	(576,444)	1,112,183	44,746,732
Library materials	38,186,922	2,304,007	(4,200)	-	40,486,729
Construction in progress	<u>61,664,183</u>	<u>67,855,334</u>	<u>-</u>	<u>(60,387,449)</u>	<u>69,132,068</u>
	<u>437,253,756</u>	<u>77,111,648</u>	<u>(580,644)</u>	<u>-</u>	<u>513,784,760</u>
Accumulated depreciation					
Buildings and improvements	98,268,338	9,239,493	-	-	107,507,831
Infrastructure	7,489,372	1,156,965	-	-	8,646,337
Furniture, fixtures, and equipment	26,779,109	3,504,625	(561,607)	-	29,722,127
Library materials	<u>28,456,949</u>	<u>1,732,084</u>	<u>(4,200)</u>	<u>-</u>	<u>30,184,833</u>
	<u>160,993,768</u>	<u>15,633,167</u>	<u>(565,807)</u>	<u>-</u>	<u>176,061,128</u>
Net capital assets	<u>\$ 276,259,988</u>	<u>\$ 61,478,481</u>	<u>\$ (14,837)</u>	<u>\$ -</u>	<u>\$ 337,723,632</u>

A summary of construction in progress at June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Van Meter Renovation, Phase 1	\$ -	\$ 12,584,448
Downing University Center Theater Improvements	506,327	-
South – Main Campus Lighting	624,520	589,964
Preston Health Center Addition	-	4,518,280
Science Campus, Phase II	-	30,700,597
Parking Lot Upgrades	-	2,586,838
Energy Savings Performance Contract	3,577,315	-
College of Education Building	24,717,317	9,179,899
South Campus Dining/Bookstore	-	587,577
College of Business Design	1,843,958	900,351
Science Campus Phase III	-	4,185,191
Renovation – Carol Knicely Center	4,269,865	1,030,317
Others under \$500,000	<u>4,315,692</u>	<u>2,268,606</u>
	<u>\$39,854,994</u>	<u>\$ 69,132,068</u>

Contractual commitments in connection with all projects totaled \$10,526,184 and \$44,167,241 at June 30, 2010 and 2009, respectively.

(Continued)

WESTERN KENTUCKY UNIVERSITY  
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June 30, 2010 and 2009

**NOTE 6 - DEFERRED REVENUES**

Deferred revenues as of June 30 consisted of:

	<u>2010</u>	<u>2009</u>
Unexpended state capital appropriations	\$ 535,594	\$ 535,594
Summer school tuition and fees	4,599,406	4,171,805
Grants and contracts	10,257,337	4,192,739
Advance sale of football tickets	144,221	83,272
University master plan	87,925	82,700
Aramark dining services contribution	-	400,000
Miscellaneous	<u>97,842</u>	<u>199,100</u>
 Total deferred revenues	 <u>\$ 15,722,325</u>	 <u>\$ 9,665,210</u>

**NOTE 7 - LONG-TERM OBLIGATIONS**

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2010:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2010</u>	<u>Current Portion</u>
Capital lease obligations	\$ 2,367,830	\$ -	\$ (193,613)	\$ 2,174,217	\$ 110,502
Bonds payable, net of discounts and deferred loss on refinancing	20,264,245	-	(2,918,833)	17,345,412	1,485,361
General receipts bonds payable, net of discounts	95,974,937	-	(3,641,590)	92,333,347	3,791,590
Other long-term debt	218,426	2,410,140	(13,383)	2,615,183	900,615
Pledges payable, net of discount	<u>30,804,711</u>	<u>-</u>	<u>(605,277)</u>	<u>30,199,434</u>	<u>780,277</u>
 Total bonds, pledges and capital leases	 <u>\$ 149,630,149</u>	 <u>\$ 2,410,140</u>	 <u>\$ (7,372,696)</u>	 <u>\$ 144,667,593</u>	 <u>\$ 7,068,345</u>

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2009:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2009</u>	<u>Current Portion</u>
Capital lease obligations	\$ 556,466	\$ 2,388,608	\$ (577,244)	\$ 2,367,830	\$ 177,243
Bonds payable, net of discounts and deferred loss on refinancing	23,083,078	-	(2,818,833)	20,264,245	2,918,833
General receipts bonds payable, net of discounts	50,234,941	47,640,567	(1,900,571)	95,974,937	3,641,590
Other long-term debt	434,588	-	(216,162)	218,426	13,383
Pledges payable, net of discount	<u>31,234,988</u>	<u>-</u>	<u>(430,277)</u>	<u>30,804,711</u>	<u>605,277</u>
 Total bonds, pledges and capital leases	 <u>\$ 105,544,061</u>	 <u>\$ 50,029,175</u>	 <u>\$ (5,943,087)</u>	 <u>\$ 149,630,149</u>	 <u>\$ 7,356,326</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 7 - LONG-TERM OBLIGATIONS (Continued)**

**Bonds Payable**

Bonds payable as of June 30, 2010, are composed of Consolidated Educational Buildings Revenue Bonds ("CEBRB"), Series N, O, P and Q and General Receipts Bonds, Series 2006A, 2007A and 2009A. The bonds mature in varying amounts through September 1, 2026, with interest payable at annual rates ranging from 1.50% 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 were as follows:

	<u>2010</u>	<u>2009</u>
Series N Bonds, dated September 1, 2002, with interest rates from 2.00% to 3.375%. Final principal payment date May 1, 2012	\$ 1,045,000	\$ 1,540,000
Series O Bonds, dated July 1, 2003, with interest rates from 2.00% to 2.85%. Final principal payment date May 1, 2010	-	1,478,472
Series P Bonds, dated September 1, 2003, with interest rates from 2.00% to 4.75%. Final principal payment date May 1, 2023	8,065,251	8,525,333
Series Q Bonds, dated December 1, 2003, with interest rates from 1.50% to 4.25%. Final principal payment date May 1, 2023	8,235,160	8,720,439
General Receipts Bonds, Series 2006A, dated December 19, 2006, with interest rates from 3.625% to 3.80%. Final principal payment date September 1, 2026	8,891,123	9,259,070
General Receipts Bonds, Series 2007A, dated May 30, 2007, with interest rates from 4.00% to 4.20%. Final principal payment date September 1, 2026	37,468,695	39,075,810
General Receipts Bonds, Series 2009A, dated February 18, 2009, with interest rates from 2.50% to 5.00%. Final principal payment date September 1, 2028	<u>45,973,530</u>	<u>47,640,058</u>
Total bonds payable	<u>\$ 109,678,759</u>	<u>\$ 116,239,182</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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June 30, 2010 and 2009

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**NOTE 7 - LONG-TERM OBLIGATIONS** (Continued)

The debt service requirements for the bonds payable as of June 30, 2010 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 5,325,000	\$ 4,358,126	\$ 9,683,126
2012	5,515,000	4,177,298	9,692,298
2013	5,150,000	4,033,232	9,183,232
2014	5,345,000	3,795,814	9,140,814
2015	5,370,000	3,603,478	8,973,478
2016-2020	30,150,000	14,715,548	44,865,548
2021-2025	33,475,000	8,012,711	41,487,711
2026-2030	<u>20,100,000</u>	<u>1,525,956</u>	<u>21,625,956</u>
	110,430,000	44,222,163	154,652,163
Less: unamortized discounts, net of premiums	<u>(751,241)</u>	<u>-</u>	<u>(751,241)</u>
	<u>\$ 109,678,759</u>	<u>\$ 44,222,163</u>	<u>\$ 153,900,922</u>

On September 1, 2003, the University issued Western Kentucky University Consolidated Educational Buildings Revenue Bond, Series P. The \$11,135,000 proceeds generated from the bond issue are being used for the expansion and renovation of the Student Parking Structure and for relocating the Department of Facilities Management from the existing parking structure to facilities to be constructed as part of the Series P Project.

On December 1, 2003, the University issued Western Kentucky University Consolidated Educational Buildings Revenue Bond, Series Q. The \$11,145,000 proceeds generated from the bond issue are being used for the expansion and renovation of the Downing University Center and for the construction and relocation of the Materials Characterization Center.

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 are being 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 are being 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 are being 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 7 - LONG-TERM OBLIGATIONS (Continued)**

**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 \$2,718,821 and \$2,977,621, net of accumulated depreciation of \$239,682 and \$146,751 at June 30, 2010 and 2009, respectively. 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, 2010:

Year ending June 30	<u>Total to be Paid</u>	<u>Present Value of Future Minimum Lease Payments</u>	<u>Interest Portion</u>
2011	\$ 237,718	\$ 110,502	\$ 127,216
2012	198,503	75,731	122,772
2013	194,149	76,572	117,577
2014	194,149	81,270	112,879
2015	194,149	86,257	107,892
Thereafter	<u>2,523,941</u>	<u>1,743,885</u>	<u>780,056</u>
	<u>\$ 3,542,609</u>	<u>\$ 2,174,217</u>	<u>\$ 1,368,392</u>

**Other Long-Term Debt**

In connection with the University's transfer to the WKU Student Life Foundation, Inc. of substantially all its residence halls in 1999, the University agreed to make future payments to the WKU Student Life Foundation, Inc. These payments represent the principal and interest allocation for the Garrett Conference Center and the Downing University Center, title to which was retained by the University, of the Housing and Dining Revenue Series H and Series K bonds transferred to the WKU Student Life Foundation, Inc. The future payments include annual principal payments and semiannual interest payments at rates ranging from 3.50% to 6.00%.

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 July 28, 2005, the University entered into a capital investments contract with Aramark for the renovation and expansion of two campus Subway locations. The University received a \$225,000 advance from Aramark, which is being amortized over a thirty-six month period, commencing on October 1, 2005 and ending September 30, 2008. As of June 30, 2009, the remaining balance has been fully amortized.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 7 - LONG-TERM OBLIGATIONS** (Continued)

On December 11, 2009, the University entered into a Master Lease agreement with First & Farmer's National Bank. Under the provisions of this agreement, Johnson Controls will perform certain energy-saving capital upgrades to several campus buildings and will draw directly from First and Farmer's on a percentage of completion method, as stages of the capital project are completed. The annual percentage rate for this financing is 5.10%. Payments of principal and interest of \$928,726 will be due annually, beginning on May 30, 2011. As of June 30, 2010, the balance outstanding that had been drawn on this financing arrangement was \$2,410,140.

Debt service requirements on the other long-term debt at June 30, 2010, were as follows:

Year ending June 30	Total to be Paid	Principal	Interest
2011	\$ 952,725	\$ 900,615	\$ 52,110
2012	952,726	481,976	470,750
2013	952,725	506,232	446,493
2014	952,726	531,710	421,016
2015	110,087	67,518	42,569
2016-2020	120,000	99,988	20,012
2021-2025	<u>28,000</u>	<u>27,144</u>	<u>856</u>
	<u>\$ 4,068,989</u>	<u>\$ 2,615,183</u>	<u>\$ 1,453,806</u>

**Pledges Payable**

The University has pledged certain future revenues consisting of student athletic fees to the City of Bowling Green, KY (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.

The University has recorded the principal of both Series 2002B and 2002C City Bonds as pledges payable to the City. Financing for both issues will be used for the improvement of University facilities, and 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 7 - LONG-TERM OBLIGATIONS (Continued)**

Pledge payments for principal on Series 2002B will be used to pay principal payments when due, while pledge payments on Series 2002C Term Bonds will be set aside in a debt service reserve account held in trust with the City until date of term requires payment of principal. Series 2002C bonds are due June 1, 2018 and June 1, 2026 in amounts of \$630,000 and \$1,170,000, respectively. 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 <u>June 30</u>	Total to <u>be Paid</u>	Principal <u>2002B</u>	Principal <u>2002C</u>	Interest <u>2002B</u>	Interest <u>2002C</u>
2011	\$ 2,274,025	\$ 755,000	\$ 40,000	\$ 1,370,075	\$ 108,950
2012	2,436,475	940,000	50,000	1,339,875	106,600
2013	2,513,588	1,055,000	55,000	1,299,925	103,663
2014	2,595,519	1,175,000	65,000	1,255,088	100,431
2015	2,681,763	1,305,000	75,000	1,205,150	96,613
2016-2020	14,763,494	8,820,000	515,000	5,021,938	406,556
2021-2025	15,397,900	11,940,000	750,000	2,499,250	208,650
2026-2028	<u>3,042,450</u>	<u>2,715,000</u>	<u>180,000</u>	<u>135,750</u>	<u>11,700</u>
	45,705,214	28,705,000	1,730,000	14,127,051	1,143,163
Less unamortized discount	<u>(235,566)</u>	<u>(228,499)</u>	<u>(7,067)</u>	-	-
Total pledges payable	<u>\$ 45,469,648</u>	<u>\$ 28,476,501</u>	<u>\$ 1,722,933</u>	<u>\$ 14,127,051</u>	<u>\$ 1,143,163</u>

**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 transfer equipment at the end of the lease term, but individual equipment items are less than the capitalization policies of the University. Periods on these leases range from two to ten years and require the University to pay all executor costs (property taxes, maintenance and insurance).

Future minimum lease payments at June 30, 2010, were:

2011	\$ 347,289
2012	335,311
2013	337,344
2014	357,204
2015	231,549
Thereafter	<u>806,461</u>
	<u>\$ 2,415,158</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**NOTE 9 - PENSION PLAN**

Kentucky Teachers' Retirement System: The University contributes to the Kentucky Teachers' Retirement System (KTRS), a cost-sharing, multiple-employer, defined-benefit pension plan administered by the Board of Trustees of KTRS. The plan provides retirement, disability and death benefits to plan members. The Commonwealth of Kentucky assigns the authority to establish and amend benefit provisions to the KTRS Board of Trustees. 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.

Funding for the plan is provided from eligible employees who contribute 6.16% (or 7.16% for employees entering the plan on or after July 1, 2008) of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 13.84% (or 14.84% on behalf of employees entering the plan on or after July 1, 2008) of current eligible employees' salaries to the KTRS through appropriations to the University. The contribution requirements of plan members are established by statute and may be changed only by the Kentucky General Assembly. The University's contributions to KTRS for the years ended June 30, 2010, 2009 and 2008, were \$7,434,539, \$7,090,933 and \$6,794,704, respectively, which equaled the required contributions for each year.

Kentucky Employees' Retirement System: The University contributes to the Kentucky Employees' Retirement System (KERS), a cost-sharing, multiple-employer, defined-benefit pension plan administered by the Board of Trustees of KERS. The plan provides retirement, disability and death benefits to plan members. The Commonwealth of Kentucky assigns the authority to establish and amend benefit provisions to the KERS Board of Trustees. 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 System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (502) 564-4646.

Plan members are required to contribute 5.00% (or 6.00% for employees entering the plan on or after September 1, 2008) of their annual covered salary, and the University is required to contribute at an actuarially determined rate. The current rate is 10.01% of annual covered payroll. University police officers participate in the Hazardous Duty Division of KERS. The officers are required to contribute 8.00% (or 9.00% for officers entering the plan on or after September 1, 2008) of their annual covered salary, and the University is required to contribute at an actuarially determined rate. The current rate is 24.35% of annual covered payroll. The contribution requirements of plan members are established by statute and may be changed only by the Kentucky General Assembly. The University's contributions to the KERS for the years ended June 30, 2010, 2009 and 2008, were \$2,830,694, \$2,356,189 and \$2,036,837, respectively, which equal the required contributions for each year.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 9 - PENSION PLAN** (Continued)

Optional Retirement Plan: 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. The University's contributions to the Optional Retirement Program for the years ended June 30, 2010, 2009 and 2008, were \$3,061,374, \$2,887,167 and \$2,341,817, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2010, 2009 and 2008, were \$2,157,670, \$2,035,081 and \$2,005,478, respectively.

**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.

**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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**NOTE 11 - RISK MANAGEMENT (Continued)**

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 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 1,050,878	\$ 616,686
Claims and changes in estimates	11,344,048	12,109,837
Claims payments	<u>(11,639,568)</u>	<u>(11,675,645)</u>
Balance, end of year	<u>\$ 755,358</u>	<u>\$ 1,050,878</u>

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 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 59,993	\$ 89,764
Claims and changes in estimates	292,314	110,681
Claims payments	<u>(290,382)</u>	<u>(140,452)</u>
Balance, end of year	<u>\$ 61,925</u>	<u>\$ 59,993</u>

**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.

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."

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(Continued)

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

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, 2010:

	CPE Funding <u>Received</u>	---External Matched Pledges--- <u>Received</u>	<u>Pledged</u>
Balance, July 1, 2009	\$ 11,772,209	\$ 11,716,352	\$ 173,546
New Pledges	-	-	3,186,146
Current year collections	<u>2,439,000</u>	<u>1,982,376</u>	<u>(1,982,376)</u>
Balance, June 30, 2010	<u>\$ 14,211,209</u>	<u>\$ 13,698,728</u>	<u>\$ 1,377,316</u>

Following is a summary of the funding for the RUETF as of June 30, 2009:

	CPE Funding <u>Received</u>	---External Matched Pledges--- <u>Received</u>	<u>Pledged</u>
Balance, July 1, 2008	\$ 11,772,209	\$ 11,677,793	\$ 212,105
Current year collections	<u>-</u>	<u>38,559</u>	<u>(38,559)</u>
Balance, June 30, 2009	<u>\$ 11,772,209</u>	<u>\$ 11,716,352</u>	<u>\$ 173,546</u>

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

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**NOTE 13 - NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES**

The University's operating expenses by functional classification on June 30, 2010, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	\$ 80,726,479	\$ 9,645,368	\$ 47,015	\$ 965,937	\$ -	\$ -	\$ 91,384,799
Research	6,663,522	5,532,386	23,561	195,110	-	-	12,414,579
Public service	9,106,907	4,656,229	29,625	315,227	-	-	14,107,988
Libraries	4,744,795	738,541	345	18,599	-	-	5,502,280
Academic support	13,379,119	4,056,903	6,795	473,685	-	-	17,916,502
Student services	16,087,512	9,228,799	5,805	164,320	-	-	25,486,436
Institutional support	19,370,945	7,027,351	3,728	25,306	-	-	26,427,330
Operation and maintenance of plant	12,182,843	4,422,604	7,047,781	1,185,488	-	-	24,838,716
Student financial aid	1,022,667	893,533	-	65,988	25,305,801	-	27,287,989
Depreciation	-	-	-	-	-	17,370,987	17,370,987
Auxiliary enterprise	7,554,427	10,487,188	2,156,172	221,461	-	-	20,419,248
Total operating expenses	<u>\$ 170,839,216</u>	<u>\$ 56,688,902</u>	<u>\$ 9,320,827</u>	<u>\$ 3,631,121</u>	<u>\$ 25,305,801</u>	<u>\$ 17,370,987</u>	<u>\$ 283,156,854</u>

The University's operating expenses by functional classification on June 30, 2009, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	\$ 76,624,309	\$ 7,812,406	\$ 52,268	\$ 1,117,675	\$ -	\$ -	\$ 85,606,658
Research	6,664,592	5,345,909	4,488	376,859	-	-	12,391,848
Public service	8,974,850	4,917,237	33,502	294,279	-	-	14,219,868
Libraries	4,545,704	594,105	-	63,345	-	-	5,203,154
Academic support	12,304,624	3,413,330	17,638	805,755	-	-	16,541,347
Student services	14,262,146	9,309,378	3,232	479,048	-	-	24,053,804
Institutional support	19,020,811	7,381,278	2,434	5,607	-	-	26,410,130
Operation and maintenance of plant	10,909,927	4,664,746	7,251,814	2,066,990	-	-	24,893,477
Student financial aid	44,807	879,574	-	67,074	19,520,826	-	20,512,281
Depreciation	-	-	-	-	-	15,633,167	15,633,167
Auxiliary enterprise	7,073,104	10,683,489	2,679,513	177,907	-	-	20,614,013
Total operating expenses	<u>\$ 160,424,874</u>	<u>\$ 55,001,452</u>	<u>\$ 10,044,889</u>	<u>\$ 5,454,539</u>	<u>\$ 19,520,826</u>	<u>\$ 15,633,167</u>	<u>\$ 266,079,747</u>

**NOTE 14 – SUBSEQUENT EVENT**

Subsequent to year-end, the University entered into a "letter of intent" which confirms and sets forth certain terms and conditions with respect to the development of "blocks 12 and 14 in the WKU Gateway to Downtown Bowling Green tax increment financing district." In conjunction with this development, the University would lease space in the constructed parking garage and conference center at an annual lease amount of \$996,201, payable semi-annually for 30 years. In addition, the University will sublease certain office space to the Western Kentucky University Foundation and will sublease the market and coffee shop space to Aramark.

In addition to the lease of the property described in the "letter of intent," the University will contribute \$2 million in cash equity on the date of the New Market Tax Credit transaction closing.

The University and a "third-party" will enter into a "safe-harbor" management agreement to manage the Conference Center. Further, all net operating revenue of the Conference Center will benefit the University and/or the contract manager of the Conference Center.

(Continued)

**NOTE 15 - 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 WКУ 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 4.50% 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 15 - 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: During the year ended December 31, 2009, the Foundation made payments/reimbursements on behalf of the University of \$13,905,466 from restricted sources. Accounts receivable from the Foundation and accounts payable to the Foundation as of the University's fiscal year ended June 30, 2010 and 2009 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 federal deposit insurance coverage is scheduled to revert to \$100,000 effective January 1, 2014.

The banks at which the Foundation maintains its cash deposits participate in the Transaction Account Guarantee Program. Accordingly, at December 31, 2008, the Foundation's applicable cash balances are thus fully insured under the Transaction Account Guarantee Program.

In September 2008, the U.S. Treasury Department established a Temporary Guarantee Program for all taxable and tax-exempt money market funds. Under the Temporary Guarantee Program, the U.S. Treasury Department guarantees that investors will receive one dollar for each money market fund share held in a participating fund as of the close of business on September 19, 2008. Accordingly, if the number of shares held by the investor fluctuates, the investor is covered for the number of shares held as of the close of business on September 19, 2008, or the current number of shares held, whichever is less. The Temporary Guarantee Program was scheduled to end on April 30, 2009, however in March 2009 the U.S. Treasury Department extended the Program through September 18, 2009.

As of December 31, 2008, the Foundation's money market funds are eligible under the Program (including as extended). From time to time throughout the year, the balance of the Foundation's money market funds may exceed what was insured as of the close of business on September 19, 2008, as the number of shares held increases.

Investments: The Foundation's investments are generally administered as pools of commingled assets held in custodial investment accounts managed by professional investment advisors. The investment objective for endowed assets is to achieve growth that will preserve and increase the purchasing power of such assets. The objective is to protect endowed assets against inflation and to produce current income to support the numerous programs and requirements of the Foundation and WKU. In order to provide current support and ensure support in the future, the Foundation and its Board of Trustees has adopted a total return approach to investment management with a long-term investment horizon. Such a strategy will balance income and capital appreciation oriented assets to generate desired returns. The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments, allowing the respective investment advisors to take advantage of market opportunities to achieve long-term return objectives, while maintaining a prudent level of risk.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 15 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES** (Continued)

The Foundation carries its investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values, as determined by quoted market prices. Investments also consist of vested beneficial interests in various charitable remainder unitrusts and charitable remainder annuity trusts, all for which the Foundation acts as the trustee. Such vested beneficial interests, since the Foundation is the trustee, are included in investments at fair value. Two such charitable remainder annuity trusts are invested in real estate. Management considers the carrying value of these and all other real estate investments to approximate fair value.

The Foundation's investments are commingled with certain investments held for WKU, the Research Foundation, the WKUAA, and the HAF. Accordingly, investment income and unrealized and realized gains/losses are allocated between the respective organizations on a pro-rata basis. Unrealized gains and losses are included in the change in net assets on the accompanying statement of activities.

Investments held at December 31, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Certificates of deposit	\$ 2,225,238	\$ 10,367,830
Mutual funds	28,357,901	14,268,154
U.S. Government and government agency obligations	12,616,145	12,098,996
Corporate bonds and notes	6,300,224	5,867,193
Equities and exchange traded funds	2,242,856	4,697,528
Real Estate	2,129,270	2,271,802
Other	<u>582,500</u>	<u>-</u>
Total investments	54,454,134	49,571,503
Investments held for the University included above	(15,731,814)	(14,693,746)
Investments held for WKU Research Foundation included above	(549,447)	(487,406)
Investments held for HAF and AA included above	<u>(414,521)</u>	<u>(526,910)</u>
	<u>\$ 37,758,352</u>	<u>\$ 33,863,441</u>

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors. At December 31, 2009, the fair value of all of the assets of these funds was more than the level required by donor stipulation or law.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010 and 2009

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**NOTE 15 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. -  
 ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

**Contributions Receivable**

Contributions receivable at December 31, 2009 and 2008, consisted of the following unconditional promises to give:

	<u>2009</u>	<u>2008</u>
Due in less than one year	\$ 3,914,634	\$ 3,423,939
Due in one to five years	10,654,914	10,662,584
Due in more than five years	<u>3,553,122</u>	<u>4,759,195</u>
	18,122,670	18,845,718
Less		
Allowance for doubtful accounts	(1,137,500)	(1,041,300)
Unamortized discount	<u>(2,085,045)</u>	<u>(2,719,351)</u>
	<u>(3,222,545)</u>	<u>(3,760,651)</u>
	<u>\$ 14,900,125</u>	<u>\$ 15,085,067</u>

Discount rates ranged from 1.98% to 7.00% at December 31, 2009.

**Net Assets**

*Temporarily Restricted Net Assets*

Temporarily restricted net assets at December 31, 2009 and 2008 are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Scholarships	\$ 659,225	\$ 611,466
University program support	<u>12,608,829</u>	<u>18,729,751</u>
	<u>\$ 13,268,054</u>	<u>\$ 19,341,217</u>

*Permanently Restricted Net Assets*

Permanently restricted net assets at December 31, 2009 and 2008 are restricted to:

	<u>2009</u>	<u>2008</u>
Scholarships	\$ 11,186,550	\$ 11,175,529
University program support	<u>21,857,563</u>	<u>19,644,575</u>
	<u>\$ 33,044,113</u>	<u>\$ 30,820,104</u>

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(Continued)

**NOTE 15 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. -  
 ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

**Fair Value Measurements**

The Foundation has adopted the fair value provisions of the ASC. These provisions define fair value as the price that would be received by the Foundation to sell an asset or be paid by the Foundation to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. These provisions also expand disclosures about fair value measurements and establish a framework for measuring fair value, a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy prioritizes the inputs (from the most objective to the most subjective) to the valuation techniques used to measure fair value into the three road levels described 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.

At December 31, 2009 and 2008, items carried at fair value on a recurring basis consist principally of investments for which the fair values are generally determined by referring to quoted market prices and other relevant information generated by market transactions and deferred gift liabilities for which fair value is the estimated present value of the future obligations calculated using the appropriate discount rates. The Foundation has made the determination that the accompanying statements of financial position do not reflect any non-financial assets or non-financial liabilities for which additional disclosure requirements would apply.

Fair values of assets measured on a recurring basis at December 31, 2009 and 2008 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2009	<u>\$ 54,454,134</u>	<u>\$ 32,825,995</u>	<u>\$ 18,916,369</u>	<u>\$ 2,711,770</u>
December 31, 2008	<u>\$ 49,571,503</u>	<u>\$ 29,333,512</u>	<u>\$ 17,966,189</u>	<u>\$ 2,271,802</u>

At December 31, 2009 and 2008, investments included above under Level 2 represent investments in U.S. government/government agency obligations and corporate bonds/notes (fixed income securities).

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 15 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

At December 31, 2009, investments included above under Level 3 represent three investments in real estate.

Beginning of the year	\$ 2,271,802
Net additional investments	439,968
Transfers in/out of Level 3	<u>                    -</u>
 End of the year	 <u>\$ 2,711,770</u>

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. Two such charitable remainder annuity trusts are invested in real estate. Management considers the carrying value (\$1,528,500 at December 31, 2009 and 2008) of the related real estate investments to approximate fair value as of December 31, 2009 and 2008.

During 2009, the Foundation funded leasehold improvements for a lessee of office space in a building owned by the Foundation. The advances are to be repaid, with interest (7.00%), on a monthly basis until paid in-full (approximately August 2013). Management considers the carrying value (\$600,770 and \$743,302 at December 31, 2009 and 2008, respectively) of the net outstanding advances to approximate fair value as of December 31, 2009 and 2008.

**Endowment Funds**

In August 2008, the FASB issued new standards relative to 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). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation.

The new standards also improve disclosures about an organization's endowment funds (both donor-restricted and board designated endowment funds), whether or not the not-for-profit organization is subject to UPMIFA. In March 2010, the state of Kentucky enacted UPMIFA legislation, the effective date of which is July 15, 2010. The Foundation has not yet evaluated the impact that such legislation will have on its financial statements as of and 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, 2009 and 2008, endowment net assets consist of the following:

December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 13,486,936	\$ -	\$ -	\$ 13,486,936
Donor restricted endowment funds	<u>                    -</u>	<u>                    -</u>	<u>33,044,113</u>	<u>33,044,113</u>
	<u>\$ 13,486,936</u>	<u>\$ -</u>	<u>\$ 33,044,113</u>	<u>\$ 46,531,049</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**NOTE 15 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

December 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 15,088,216	\$ -	\$ -	\$ 15,088,216
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>30,820,104</u>	<u>30,820,104</u>
	<u>\$ 15,088,216</u>	<u>\$ -</u>	<u>\$ 30,820,104</u>	<u>\$ 45,908,320</u>

Changes in endowment net assets during the year ended December 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of the year (as restated)	\$ 15,088,216	\$ -	\$ 30,820,104	\$ 45,908,320
Contributions	247,750	-	2,224,009	2,471,759
Investment return	664,388	-	-	664,388
Net depreciation (unrealized and realized)	(1,104,131)	-	-	(1,104,131)
Appropriation of endowment assets for expenditure	<u>(1,409,287)</u>	<u>-</u>	<u>-</u>	<u>(1,409,287)</u>
End of the year	<u>\$ 13,486,936</u>	<u>\$ -</u>	<u>\$ 33,044,113</u>	<u>\$ 46,531,049</u>

**Deferred Compensation Agreement**

In 2008, the Foundation implemented a non-qualified deferred compensation plan whereby a specific WKU employee earns deferred compensation in the amount of \$50,000 annually for a period of fifteen years (through 2022). The Foundation will fund 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.

**Prior Period Adjustment**

During 2009, Foundation management recognized that an individual pledge receivable had been misstated as of December 31, 2008. Accordingly, net assets as previously reported (as of December 31, 2008) decreased from \$60,462,236 to \$59,655,659. The \$806,577 adjustment to unrestricted net assets represents the portion of the pledge receivable estimated as being overstated (not collectible) as of December 31, 2008, as discounted to its net present value. The 2008 statement of activities has been revised to correct the misstatement (the 2008 provision for uncollectible pledges increased from \$231,845 to \$1,038,422).

(Continued)

**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, 2009 and 2008, cash equivalents consisted primarily of checking accounts and money market accounts held at brokerage houses.

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.

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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

Investments at December 31, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Short-term investments		
Mutual Funds	\$ 1,813,097	\$ 631,581
Corporate bonds	-	320,001
Certificates of deposit	-	515,917
	<u>\$ 1,813,097</u>	<u>\$ 1,467,499</u>
Long-term investments		
Equity securities	\$ 19,069,283	\$ 14,749,650
U. S. Treasury securities	270,125	300,703
Government agency securities	201,171	405,682
Mortgage-backed securities	1,031,949	2,278,280
Corporate bonds	6,247,721	4,592,669
Certificates of deposit	2,159,213	1,696,812
Real estate	1,410,150	210,150
	<u>\$ 30,389,612</u>	<u>\$ 24,233,946</u>

Related Party Transactions: During the fiscal years ended December 31, 2009 and 2008, College Heights made scholarship payments of \$4,034,810 and \$3,730,285, respectively, on behalf of students attending the University. The University currently makes annual payments of \$26,000 to College Heights under a capital lease agreement for the President's home. The present value of future minimum lease payments of \$26,295 is included in the University's capital leases payable, disclosed in Note 7. Accounts receivable from College Heights and accounts payable to College Heights as of the University's fiscal years ended June 30, 2010 and 2009 were insignificant.

Fair Value Measurement: The Foundation has adopted the fair value provisions of the ASC. These provisions define fair value as the price that would be received by the Foundation to sell an asset or be paid by the Foundation to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. These provisions also expand disclosures about fair value measurements and establish a framework for measuring fair value, a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy prioritizes the inputs (from the most objective to the most subjective) to the valuation techniques used to measure fair value into the three broad levels described 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010 and 2009

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

- 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.

At December 31, 2009 and 2008, items carried at fair value on a recurring basis consist principally of investments for which the fair values are generally determined by referring to quoted market prices and other relevant information generated by market transactions. The Foundation has made the determination that the accompanying statements of financial position do not reflect any non-financial assets or non-financial liabilities to which additional disclosure requirements would apply.

Fair values of assets measured on a recurring basis at December 31, 2009 consist principally of investments as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	<u>\$ 34,450,891</u>	<u>\$ 25,289,775</u>	<u>\$ 7,750,966</u>	<u>\$ 1,410,150</u>

Fair values of assets measured on a recurring basis at December 31, 2008 consist principally of investments as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	<u>\$ 27,154,886</u>	<u>\$ 18,093,960</u>	<u>\$ 8,850,776</u>	<u>\$ 210,150</u>

At December 31, 2009, investments included above under Level 2 represent investments in U.S. government/government agency obligations (including mortgage-backed securities) and corporate bonds/notes (fixed income securities).

At December 31, 2009, investments included above under Level 3 represent Foundation investments in real estate:

Beginning of the year	\$ 210,150
Net additional investments	1,200,000
Transfers in/out of Level 3	-
End of the year	<u>\$ 1,410,150</u>

**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. 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. These agreements include charitable gift annuities and charitable remainder trusts (charitable remainder unitrusts and charitable remainder annuity trusts).

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010 and 2009

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

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 specific period of time. Obligations continue until the death of the beneficiary. The accompanying statements of financial position as of December 31, 2009 and 2008 reflect liabilities totaling \$2,027,569 and \$1,325,825, respectively, relative to the estimated present value of the future annuity obligations calculated using discount rates ranging from 5.6% to 11.5%. At December 31, 2009 and 2008, investments relative to charitable gift annuities totaled \$3,143,985 and \$2,237,109, respectively.

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, 2009 and 2008 reflects liabilities totaling \$1,078,327 and \$1,010,920, respectively, relative to the estimated present value of the future obligations calculated using discount rates ranging from 6.0% to 8.0%. At December 31, 2009 and 2008, investments relative to charitable remainder trusts totaled \$1,949,335 and \$1,853,094, 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 (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 rate of return, the payout rate, the payment schedule, and the discount rate.

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 and funds held by the Foundation on behalf of the WKU Foundation for an employee deferred compensation benefit plan. Assets held for others at December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Western Kentucky University – investments	\$ 1,681,407	\$ 1,402,386
WKU Foundation trust	128,184	51,055
WKU – Athletics	438,591	-
Assets held – future trust	<u>200,000</u>	<u>-</u>
	<u>\$ 2,448,182</u>	<u>\$ 1,453,441</u>

Accordingly, the statement of financial position reflects liabilities for assets held for others in the amounts of \$2,448,182 and \$1,453,441 as of December 31, 2009 and 2008, respectively.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010 and 2009

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

Notes Payable: Notes Payable at December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
U.S. Bank amended promissory note, dated December 31, 2007; principal due in quarterly installments of \$17,411; variable interest at prime rate minus 1% payable monthly (2.25% at December 31, 2009); outstanding principal and accrued interest due December 31, 2012; unsecured.	\$ 573,558	\$ 643,092
U.S. Bank installment note, dated December 13, 2005; principal due in quarterly installments of \$4,500; variable interest at prime rate minus 1% payable monthly (2.25% at December 31, 2009); outstanding principal and accrued interest due December 13, 2010; unsecured.	<u>178,000</u>	<u>196,000</u>
	<u>\$ 751,558</u>	<u>\$ 839,092</u>

At December 31, 2009, aggregate principal payments required on notes payable for each of the succeeding five years are:

2010	\$ 247,643
2011	69,643
2012	<u>434,272</u>
	<u>\$ 751,558</u>

**Restricted Net Assets**

At December 31, 2009, temporarily restricted net assets consist of the following:

Scholarship funds	\$ 523,527
Other program support	<u>11,700</u>
	<u>\$ 535,227</u>

At December 31, 2009, permanently restricted net assets consist of the following:

Scholarship funds	\$ 29,419,393
Other program support	<u>2,551,992</u>
	<u>\$ 31,971,385</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010 and 2009

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

FASB Staff Position 117-1: In August, 2008, the FASB issued Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures of All Endowment Funds*. FASB Staff Position 117-1 provides 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). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. To date, the state of Kentucky has not enacted a version of UPMIFA legislation.

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, 2009, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 3,626,315	\$ -	\$ -	\$ 3,626,315
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>31,971,385</u>	<u>31,971,385</u>
	<u>\$ 3,626,315</u>	<u>\$ -</u>	<u>\$ 31,971,385</u>	<u>\$ 35,597,700</u>

At December 31, 2008, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 3,561,742	\$ -	\$ -	\$ 3,561,742
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>30,059,145</u>	<u>30,059,145</u>
	<u>\$ 3,561,742</u>	<u>\$ -</u>	<u>\$ 30,059,145</u>	<u>\$ 33,620,887</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010 and 2009

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

Changes in endowment net assets during the year ended December 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of the year	\$ 3,561,742	\$ -	\$ 30,059,145	\$ 33,620,887
Contributions	105,968	-	2,779,048	2,885,016
Investment return				
Investment income	62,877	-	-	62,877
Net depreciation (unrealized and realized)	437,553	-	-	437,553
Appropriation of endow- ment assets for expenditure	(1,387,632)	(21,001)	-	(1,408,633)
Reclassifications	<u>845,807</u>	<u>21,001</u>	<u>(866,808)</u>	<u>-</u>
End of the year	<u>\$ 3,626,315</u>	<u>\$ -</u>	<u>\$ 31,971,385</u>	<u>\$ 35,597,700</u>

**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
 ACCOUNTING POLICIES AND DISCLOSURES**

Nature of Operations: Western Kentucky University 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.

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, 2010 and 2009, cash equivalents consisted primarily of money market funds.

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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

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.

The 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.

Capital asset activity for the year ended June 30, 2010 was:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2010</u>
Cost				
Land	\$ 2,597,598	\$ 1,002,525	\$ -	\$ 3,600,123
Land improvements	932,137	236,278	-	1,168,415
Buildings and improvements	83,674,263	8,937,003	-	92,611,266
Furniture, fixtures and equipment	5,265,683	1,559,287	(2,500)	6,822,470
Construction-in-progress	<u>5,005,190</u>	<u>5,961,388</u>	<u>(10,610,011)</u>	<u>356,567</u>
	<u>97,474,871</u>	<u>17,696,481</u>	<u>(10,612,511)</u>	<u>104,558,841</u>
Less accumulated depreciation				
Land improvements	79,541	25,765	-	105,306
Building and improvements	14,984,493	2,521,899	-	17,506,392
Furniture, fixtures and equipment	<u>3,384,186</u>	<u>701,830</u>	<u>(2,500)</u>	<u>4,083,516</u>
	<u>18,448,220</u>	<u>3,249,494</u>	<u>(2,500)</u>	<u>21,695,214</u>
Net capital assets	<u>\$ 79,026,651</u>	<u>\$ 14,446,987</u>	<u>\$ (10,610,011)</u>	<u>\$ 82,863,627</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Capital asset activity for the year ended June 30, 2009 was:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2009</u>
Cost				
Land	\$ 1,200,000	\$ 1,397,598	\$ -	\$ 2,597,598
Land improvements	485,269	446,868	-	932,137
Buildings and improvements	74,744,746	11,127,083	(2,197,566)	83,674,263
Furniture, fixtures and equipment	3,782,317	1,784,601	(301,235)	5,265,683
Construction-in-progress	<u>5,012,735</u>	<u>13,187,533</u>	<u>(13,195,078)</u>	<u>5,005,190</u>
	<u>85,225,067</u>	<u>27,943,683</u>	<u>(15,693,879)</u>	<u>97,474,871</u>
Less accumulated depreciation				
Land improvements	62,680	16,861	-	79,541
Building and improvements	12,594,365	2,390,128	-	14,984,493
Furniture, fixtures and equipment	<u>2,746,700</u>	<u>642,506</u>	<u>(5,020)</u>	<u>3,384,186</u>
	<u>15,403,745</u>	<u>3,049,495</u>	<u>(5,020)</u>	<u>18,448,220</u>
Net capital assets	<u>\$ 69,821,322</u>	<u>\$ 24,894,188</u>	<u>\$ (15,688,859)</u>	<u>\$ 79,026,651</u>

**Long-Term Debt and Letter of Credit**

The following is a summary of long-term obligation transactions for Student Life for the year ended June 30, 2010:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Bonds payable	\$ 82,905,000	\$ -	\$(1,785,000)	\$81,120,000	\$ 2,130,000
Less: unamortized discount	(193,893)	-	9,270	(184,623)	(9,270)
Note payable, swap agreement	<u>85,624</u>	<u>-</u>	<u>(85,624)</u>	<u>-</u>	<u>-</u>
	<u>\$ 82,796,731</u>	<u>\$ -</u>	<u>\$(1,861,354)</u>	<u>\$80,935,377</u>	<u>\$ 2,120,730</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

The following is a summary of long-term obligation transactions for Student Life for the year ended June 30, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 84,775,000	\$ -	\$ (1,870,000)	\$ 82,905,000	\$ 1,785,000
Less: unamortized discount	(203,163)	-	9,270	(193,893)	(9,270)
Note payable, swap agreement	181,457	-	(95,833)	85,624	85,624
Note payable, chiller plant	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 84,753,294</u>	<u>\$ -</u>	<u>\$ (1,956,563)</u>	<u>\$ 82,796,731</u>	<u>\$ 1,861,354</u>

Bonds payable as of June 30, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Series 2000 Tax Exempt Bonds		
Variable rate revenue bonds dated May 25, 2000, with an interest rate at 4.00% at June 30, 2006. Final principal payment date May 1, 2030.	\$ 56,040,000	\$ 57,350,000
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 \$445,000 to \$1,885,000 through 2030; collateralized by all real estate.	25,080,000	25,555,000
Note payable, swap agreement, payable in monthly payments of \$2,045 to \$10,227, including interest at 10.08% through June 1, 2010; uncollateralized.	<u>-</u>	<u>85,624</u>
Less unamortized discount	<u>81,120,000</u> <u>(184,623)</u>	<u>82,990,624</u> <u>(193,893)</u>
	<u>\$ 80,935,377</u>	<u>\$ 82,796,731</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

The debt service requirements for the bonds payable as of June 30, 2010, are as follows:

Year ending June 30	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 2,236,500	\$ 2,130,000	\$ 106,500
2012	2,478,000	2,360,000	118,000
2013	2,625,000	2,500,000	125,000
2014	2,756,250	2,625,000	131,250
2015	2,892,750	2,755,000	137,750
2016-2020	16,794,750	15,995,000	799,750
2021-2025	21,435,750	20,415,000	1,020,750
2026-2030	<u>33,957,000</u>	<u>32,340,000</u>	<u>1,617,000</u>
	85,176,000	81,120,000	4,056,000
Less: unamortized discount	<u>(184,623)</u>	<u>(184,623)</u>	<u>-</u>
	<u>\$ 84,991,377</u>	<u>\$ 80,935,377</u>	<u>\$ 4,056,000</u>

Student Life has an \$83 million letter of credit securing all principal and interest payments due on the bonds payable.

The Foundation is required to maintain certain financial ratios and debt reserve and repair and replacement account balances in accordance with the bond agreement. As of June 30, 2010, the Foundation was in compliance with its debt covenants.

**Related Party Transactions**

During Student Life's fiscal years ended June 30, 2010 and 2009, Student Life received rental revenues from University students of \$17,315,419 and \$16,405,903, respectively. Additionally, during fiscal years ended June 30, 2010 and 2009, Student Life received payments of \$0 and \$184,681, respectively, from the University as repayment of the fiscal year 2009 debt payments related to Downing University Center (DUC) and Garrett Conference Center (GCC). Accounts receivable from the University totaled \$872,358 and \$1,184,835 at June 30, 2010 and 2009, respectively. Net investment in a direct financing lease receivable from the university was \$2,273,143 and \$2,465,902 at June 30, 2010 and 2009, respectively. Likewise, accounts payable to the University totaled \$942,409 and \$755,356 at June 30, 2010 and 2009, respectively.

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

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(Continued)

**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

The University provides certain direct and indirect support to Student Life and the Student Life 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, Student Life does provide an annual amount to the University to help offset such related costs. The management fee was \$69,200 for fiscal years 2010 and 2009.

Student Life receives fees from the University relating to chilled water services. The fees were \$882,381 and \$875,715 for the years ended June 30, 2010 and 2009, respectively.

**Derivative 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.

1. Simultaneously, with the issuance of the 2000 bonds payable, the Foundation also entered into an interest rate swap agreement and a collar agreement with a bank. Under the swap agreement, the Foundation received \$750,000 from the counterparty at the inception of the swap agreement, which was recorded as a note payable. The Foundation received interest from the counterparty at 0.00001% and paid interest to the counterparty at 0.18751% on notional amounts. This note was paid in full as of June 1, 2010. The collar agreement is 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 (\$37,546,800 as of June 30, 2010), and established a maximum (cap) annual interest rate of 5.75% and a minimum (floor) annual rate of 4.67%. The cap portion of the agreement expired in May, 2010. At both June 30, 2010 and 2009, the variable interest rate paid to the bondholders was significantly below the floor rate.
2. Simultaneously, with the issuance of its 2006 bonds payable (paid off in 2008), the Foundation also 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 \$4,355,000 as of June 30, 2010, which is reduced periodically over the term of the swap.
3. Simultaneously, with the issuance of its 2008 bonds payable, the Foundation also 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 \$20,386,825 as of June 30, 2010, 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 will be 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 and a notional amount beginning at \$52,990,000 that reduces periodically over the term of the agreement. This agreement has a termination date of 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 and that reduce periodically over the term of the swap agreement. The Foundation will receive interest from the counterparty at 67% of the 30-day U.S. LIBOR rate. This agreement has a termination date of June 1, 2025.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

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

<u>Type</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Underlying Index</u>	<u>Fair Value June 30, 2010</u>	<u>Fair Value June 30, 2009</u>
(1) – Floor	May 25, 2000	June 1, 2015	LIBOR	\$ (9,028,801)	\$ (8,602,930)
(1) – Cap	May 25, 2000	June 1, 2010	LIBOR	-	188
(1) – Swap	May 25, 2000	June 1, 2010	LIBOR	-	(107,172)
(2) – Swap	February 1, 2006	February 1, 2016	LIBOR	(493,382)	(368,659)
(3) – Swap	January 25, 2008	June 3, 2024	LIBOR	(2,822,928)	(1,973,524)
(4) – Cap	June 1, 2012	June 1, 2015	LIBOR	179,201	-
(4) – Swap	June 1, 2015	June 1, 2025	LIBOR	<u>(1,413,757)</u>	<u>-</u>
Net liabilities				<u>\$ (13,579,667)</u>	<u>\$ (11,052,097)</u>

The statements of activities reflect the change in fair value, net of cash received and paid, of these agreements which consisted of the following components:

	<u>2010</u>	<u>2009</u>
Net cash payments made under the collar agreement	\$ (2,594,010)	\$ (2,037,787)
Net cash payments made under the interest rate swap agreements	(779,047)	(199,947)
Change in fair value of the derivative agreements	<u>(2,527,570)</u>	<u>(3,649,733)</u>
	<u>\$ (5,900,627)</u>	<u>\$ (5,887,467)</u>

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

	<u>2010</u>	<u>2009</u>
Fair value of interest rate swap and collar agreements	\$ 13,579,667	\$ 11,052,097
Statement of financial position location of fair value amount	Liability	Liability

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010 and 2009

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**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
 ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

**Functional Allocation of Expenses**

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

	<u>2010</u>	<u>2009</u>
Student housing program	\$ 11,827,523	\$ 11,952,358
Management and general	<u>1,091,979</u>	<u>1,037,324</u>
	<u>\$ 12,919,502</u>	<u>\$ 12,989,682</u>

**Litigation**

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

**Asset Retirement Obligations**

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 relate 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.

	<u>2010</u>	<u>2009</u>
Balance, July 1	\$ 618,838	\$ 761,250
Accretion expense	38,366	47,198
Liabilities settled	<u>-</u>	<u>(189,610)</u>
Balance, June 30	<u>\$ 657,204</u>	<u>\$ 618,838</u>

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(Continued)

**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

**Disclosures about Fair Value of Financial Instruments**

ASC Topic 820, *Fair Value Measurements*, defines fair value as 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. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels 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.

Following is a description of the inputs and valuation methodologies 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.

*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.

*Interest Rate Collar and Swap Agreements:* The fair value is 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

The following table presents 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:

	2010			
	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Interest rate swap agreements</b>				
Floor – 2000 bond series	\$ 9,028,801	\$ -	\$ 9,028,801	\$ -
Cap – 2000 bond series	(179,201)	-	(179,201)	-
Swap – 2000 bond series	1,413,757	-	1,413,757	-
Swap – 2006 bond series	493,382	-	493,382	-
Swap – 2008 bond series	<u>2,822,928</u>	<u>-</u>	<u>2,822,928</u>	<u>-</u>
	<u>\$ 13,579,667</u>	<u>\$ -</u>	<u>\$ 13,579,667</u>	<u>\$ -</u>
Cash equivalents – money market accounts	\$ 3,331,690	\$ 3,331,690	\$ -	\$ -
Assets limited as to use – money market accounts	\$ 3,387,199	\$ 3,387,199	\$ -	\$ -

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

	2009			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Interest rate swap agreements</b>				
Floor – 2000 bond series	\$ 8,602,930	\$ -	\$ 8,602,930	\$ -
Cap – 2000 bond series	(188)	-	(188)	-
Swap – 2000 bond series	107,172	-	107,172	-
Swap – 2006 bond series	368,659	-	368,659	-
Swap – 2008 bond series	<u>1,973,524</u>	<u>-</u>	<u>1,973,524</u>	<u>-</u>
	<u>\$ 11,052,097</u>	<u>\$ -</u>	<u>\$ 11,052,097</u>	<u>\$ -</u>
Cash equivalents – money market accounts	\$ 2,317,681	\$ 2,317,681	\$ -	\$ -
Assets limited as to use – money market accounts	\$ 7,613,352	\$ 7,613,352	\$ -	\$ -

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial position at amounts other than fair value.

*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.

*Assets Held for Others:* The carrying amount approximates fair value.

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

The following table presents estimated fair values of the Foundation's financial instruments in accordance with FAS 107 not previously disclosed at June 30, 2010 and 2009.

	<u>2010</u>		<u>2009</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets				
Cash and cash equivalents	\$ 5,760,821	\$ 5,760,821	\$ 4,676,317	\$ 4,676,317
Net investment in direct financing lease	2,273,143	2,273,143	2,465,902	2,465,902
Assets limited as to use – cash and money market accounts	3,387,199	3,387,199	7,613,425	7,613,425
Assets limited as to use – guaranteed investment contract	6,456,916	6,456,916	6,473,266	6,473,266
Assets held for and by other – student deposits	669,942	669,942	654,165	654,165
Financial liabilities				
Long-term debt	80,935,377	80,935,377	82,796,731	82,796,731

**Commitments**

During the fiscal year ended June 30, 2010, the Foundation had ongoing commitments to expand and renovate the following residence halls with the corresponding estimated costs:

<u>Hall</u>	<u>Estimated Cost</u>
Bemis Lawrence Hall	\$ 90,250
Barnes Campbell Hall	90,250
Douglas Keen Hall	48,460
McCormick Hall	26,780
Pearce Ford Tower	134,850
Zacharias Hall	137,440
Meredith Hall	137,440

**SUPPLEMENTAL INFORMATION**

WESTERN KENTUCKY UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2010

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
<b>Student Financial Aid Cluster</b>				
Direct Programs				
<b>U. S. Department of Education</b>				
SEOG		84.007	P007A091615	\$ 530,641
Federal Perkins Loan Program		84.032		5,581,896
Federal Family Education Loan Program		84.038		104,101,482
Federal Work Study		84.033	P033A21615	640,858
ARRA – Federal Work Study		84.033		135,603
PELL Grants		84.063	P063P081508	29,479,488
SMART Grant		84.376	P376S081508	496,716
FAC Grant		84.375	P375A081508	<u>1,046,893</u>
<b>Total Student Financial Aid Cluster</b>				<u>142,013,577</u>
<b>Research and Development Center</b>				
Direct Programs				
<b>U. S. Department of Agriculture</b>				
Poultry Waste Management		10.001	56-6445-6-68	883,176
Support of Ag Research FY09		10.001	Memo dated 9/22/2008	10,032
Support of Ag Research FY10		10.001	58-6445-0-101	15,499
Conservation Practices		10.902	69-5C16-4-220 and 6-23	<u>98,402</u>
				<u>1,007,109</u>
<b>U.S. Department of Defense</b>				
Detection of Toxic Materials		12.300	N00014-10-0282	<u>19,579</u>
<b>U. S. Department of Interior</b>				
Mammoth Cave Learning Center		15.916	H5530030051 MOD 1	7,230
Archival Cataloging		15.916	H5530060050	35,230
Mercury Bioaccumulation in CPPU		15.916	H5000050800/J55330071012	32,166
Mercury in Mammoth CaveNP Phase II		15.921	H5530030029 MOD 1	6,496
Mammoth Cave Learning Center II		15.923	J5536090204	<u>35,910</u>
				<u>117,032</u>
<b>U.S. Department of State Bureau of Intelligence and Research</b>				
WKU Hoffman Inst. China FY07		19.UNK	486-A-00-06-00014-00	<u>247,129</u>
<b>National Aeronautics and Space Administration</b>				
KY Space Grant Consortium Yr 14		43.UNK	NNG05GH07H	835,630
NASA EPSCoR Research Dev.		43.UNK	NNX07AL55A	184,921
Efficacy Countermeasures of C.D.		43.UNK	NNX07AT58A	241,764
Versatile Biosensing Platform		43.UNK	NNX08BA13A	241,579
Coastal Forest Ecosystems		43.UNK	NNX09AR61G	33,681
Light Curves and Masses		43.UNK	NNX10AC42G	<u>13,507</u>
				<u>1,551,082</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2010

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
<b>Research and Development Center (Continued)</b>				
Direct Programs				
<b>National Science Foundation</b>				
Analyte Extractions		47.049	OISE-0553369	\$
RUI: Hydrocarbon Media		47.049	CHE-0710021	78,735
Exploring Space – Large Knots & Links		47.049	DMS-0712997	8,216
Phylogeny of Bat Files – Insights		47.074	DEB-1003459	3,340
Bread – Increase Crop Yield		47.074	IOS-0965445	27,212
REU: Summer Research – Green River		47.050	EAR-1004655	39,968
MS Partnership		47.076	DUE0832115	121,759
Ward WW Technician Training		47.076	DUE0903286	133,168
ARRA: Removable Surface Phases		47.082	OISE-0936693	<u>29,304</u>
				<u>441,702</u>
<b>Environmental Protection Agency</b>				
Green River Project		66.436	X7-9643906-0	6,081
T.A.C. for Water Quality		66.202	EM-83400201-0	<u>206,331</u>
				<u>212,412</u>
<b>U. S. Department of Health and Human Resources</b>				
Reaction to Bulky Platinum Complex		93.390	1 R15 GM074663-01A1	42,964
Mechanical Stress/Myofibroblast Fxn		93.390	1 R15 HL 087185-01	47,945
Chlamydomonas Entrainment		93.859	1 R15 GM076079-01A1	56,324
ID of RNA's in Ecoli		93.859	1 R15 GM79694-01	<u>59,884</u>
				<u>207,117</u>
<b>U. S. Department of Energy</b>				
ARRA – Novel Oxygen Carriers		81.133	DE-FE 0001808	<u>50,660</u>
Pass Through Programs				
<b>U. S. Department of Agriculture</b>				
Johne's Disease Demo Herd Program	KY Department of Agriculture	10.025	09-9621-0125-CA	<u>3,000</u>
<b>U. S. Department of Commerce</b>				
WKU Mesonet Project	NOAA	11.467	NA06NWS4670010	<u>641,391</u>
<b>U. S. Department of Defense</b>				
Fortitude FY09	EWA, GSI	12.902	EWAGSI-08-SC-0006	44,327
Robot Development Project	Adelphia Technology, Inc.	12.UNK	7/17/09 agreement	42,077
Timed Neutron Techniques	SAIC	12.100	4400162053	6,046
Cyber Defense FY09	EWA, GSI	12.902	EWAGSU-08-SC-0011	89,082
Cyber Defense Phase II	EWA, GSI	19.902	Letter sub #EWAGSI-09-LS	<u>760,253</u>
				<u>941,785</u>
<b>U.S. Department of Labor</b>				
Invention Convention	Lincoln Trail Area Development District	17.268	Contract #LTADD-Wired	<u>100,000</u>
<b>Environmental Protection Agency</b>				
Western Pennyroyal Project	Kentucky Division of Water	66.419	P02129 100000 23921	45,000
TMDL Development Project	Kentucky Division of Water	66.463	M06147994 & M-06148343	<u>62,029</u>
				<u>107,029</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2010

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
<b>Research and Development Center (Continued)</b>				
Pass Through Programs				
<b>U. S. Department of Health and Human Services</b>				
Respiratory Protection in Ag Linkage of Atrazine Exposure	University of Cincinnati University of Kentucky Research Foundation	93.262	Sub #005091 1005571	\$ 27,219
Human Interlukin – 1 Alpha	Morehead State University	93.262	UKRF 3049023124-09-286	917
INBRE- FY10	University of Louisville	93.389	MOA Dated 11/6/09	26,000
INBRE – FY11	University of Louisville	93.389	OGMB090109 WKU	313,574
Brain Research Neuro- development	University of Alabama of Birmingham	93.389	OGMB090109A1	29,112
		93.865	Sub #000257071-006	<u>7,164</u>
				<u>403,986</u>
<b>U.S. Department of Interior</b>				
Preparing an Eval. Report	The University of Tennessee	15.904	UT Contract	10,076
Mammoth Cave Contamination	National Park Service	15.916	R5536080316/P5536080316	7,555
Assess Changes – Forest Harvesting	University of Kentucky Research Foundation	15.805	UKRF 304698922-10-377	<u>444</u>
				<u>18,075</u>
<b>U. S. Department of Homeland Security</b>				
MILK II	University of Kentucky Research Foundation	97.077	3048105108-09-312	37,876
PCIRS	National Institute for Hometown Security	97.001	05-07-WKU	428,343
Compact Neutron Interrogation System	National Institute for Hometown Security	97.001	04-07-WKU	201,418
WTI-Impulse Generation	National Institute for Hometown Security	97.065	06-07-WKU	83,373
Best Practice-Water System	National Institute for Hometown Security	97.UNK	09-09-WKU	<u>21,090</u>
				<u>772,100</u>
<b>Vietnam Education Foundation</b>				
Visiting Scholar – Dr. Nguyet	Vietnam Education Foundation	Agreement	VEG Grant 09-10	<u>21,597</u>
<b>National Science Foundation</b>				
GNM Weighted Superimpositions	University of Kentucky Research Foundation	47.070	UKRF 3048105113-09-175	<u>3,678</u>
<b>Total Research and Development Cluster</b>				<u>6,866,463</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2010

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
<b>TRIO Cluster</b>				
Direct Programs				
<b>U. S. Department of Education</b>				
Student Support Services FY07		84.042	P042A060158	\$ 298,493
Talent Search FY07		84.044	P044A060357	375,995
Veterans Upward Bound FY08-11		84.047	P047V070027-1	288,992
Upward Bound FY09-11		84.047	P047A080368	351,638
EOC – FY 2008-2012		84.066	P066A070115	<u>240,339</u>
<b>Total TRIO Cluster</b>				<u>1,555,457</u>
<b>Head Start Cluster</b>				
Direct Programs				
<b>Department of Health and Human Services</b>				
Head Start General 22-2009		93.600	04CH0201/25	459,752
Head Start General 22-2010		93.600	04CH0201/26	897,962
ARRA Head Start 2009/COLA		93.708	04SE0201/01	<u>83,660</u>
				<u>1,441,374</u>
Pass Through Programs				
Early Head Start FY09	Murray Head Start	93.600	04CH2692-001	29,595
Early Head Start FY10	Murray Head Start	93.600	04CH2692-001	169,143
ARRA Early Head Start/COLA	Murray Head Start	93.708	04SE/2692-001	<u>12,000</u>
				<u>210,738</u>
<b>Total Head Start Cluster</b>				<u>1,652,112</u>
<b>Fund for the Improvement of Postsecondary Education</b>				
<b>Department of Education</b>				
Equipment Acquisition for STE Facility		84.116	Award # P1162080172	5,890
Alliance in North America		84.116	Award # P116N080017	37,820
BGCC FISPE Initiative		84.116	P116Y090035	<u>55,508</u>
<b>Total Fund for the Improvement of Postsecondary Education</b>				<u>99,218</u>
<b>Other Federal</b>				
<b>U. S. Department of Defense</b>				
Pass Through Programs				
Chinese Language Acquisition	Institute of International Education	12.550	NSEP-U6 31033-WKU-CHN-PG	<u>158,117</u>
<b>Housing and Urban Development</b>				
Direct Programs				
WKU EDI Project		14.251	B-08-SP-KY-0446	49,000
Pass Through Programs				
HABG Training FY09	Housing Authority of Bowling Green	14.218	MOA	(787)
HABG Training FY10	Housing Authority of Bowling Green	14.218	7/1/09 HABG-WKU Agreement	<u>37,876</u>
<b>Total Housing and Urban Development</b>				<u>86,089</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2010

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
<b>Other Federal (Continued)</b>				
<b>U. S. Department of Interior</b>				
Direct Programs				
Student Intern Support-Cumberland		15.916	H5000 04 0800 (J211301001)	\$ 21,670
Mammoth Cave International Center		15.916	H55530060045	40,569
Arch. Site/Native Am. Grave Project		15.916	H500050800/J5038080267	<u>33,640</u>
<b>Total U.S. Department of Interior</b>				<u>95,879</u>
<b>U. S. Department of Justice</b>				
Direct Programs				
WKU Spotlight Youth Project		16.541	2005-JL-FX-0147	(114,198)
CCTV Project Phase II		16.710	2008CKWX0485	<u>81,974</u>
<b>Total U.S. Department of Justice</b>				<u>(32,224)</u>
<b>U.S. Department of Labor</b>				
Pass Through Programs				
Entrepr.Academy of Excellence	Lincoln Trail Area Development District	17.260	LTADD-WIA-09-09E-04	<u>7,190</u>
<b>National Science Foundation</b>				
Direct Program				
REU: Investigating Biotechnology		47.074	DBI-1004665	37,740
22 <sup>nd</sup> Annual Cumberland Conference		47.049	DMS-0904269	1,526
ARRA: WKU SMART		47.082	DUE-0934804	<u>17,011</u>
				<u>56,277</u>
Pass Through Programs				
KY-West VA LSAMP FY07	University of Kentucky Research Foundation	47.076	UKRF3048032200-07-248	<u>13,790</u>
<b>Total National Science Foundation</b>				<u>70,067</u>
<b>Environmental Protection Agency</b>				
Direct Programs				
KY Inst. Watershed Mgmt. Support		66.436	X7 95400008-0	12,420
Tech. Assistance for Water Quality		66.202	EM-83440301-0	<u>108,363</u>
				<u>120,783</u>
Pass Through Programs				
Radon Mitigation FY09	KY Cabinet for Health Services	66.032	P02 728 0900023420 1	21,906
KY Water Response Network	Kentucky Division of Water	66.474	P02 590 0800016103 1	14,523
Earth Fire Preservice Project	Earth Force Inc.	66.951	MOA Dated 6/2/09	<u>10,000</u>
				<u>46,429</u>
<b>Total Environmental Protection Agency</b>				<u>167,212</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2010

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
<b>Other Federal (Continued)</b>				
<b>U. S. Department of Education</b>				
Direct Programs				
Asian Studies at WKU		84.016	P016A090066	\$ 48,375
Curriculum Dev. In China		84.021	Award #P021A100024	79,120
Project CHILDD		84.325	H325K070111	161,642
GEMS FY 09		84.206	S206A080048	572,129
National Study of Writing Instruct.		84.298	Check # 13033	1,627
GSKY Teach		84.336	43365090054	52,762
WKU – KYCLS FY09/10		84.367	P025401000002112-1	126
				<u>915,781</u>
Pass Through Programs				
Gear Up FY10	Kentucky Council on Postsecondary Education	84.334	P024150800018152 3	208,747
Gear UP Host Institution	Kentucky Council on Postsecondary Education	84.334	P02 412 0800018152 1	56,862
Reading First Coach FY10	Kentucky Department of Education	84.357	P02 540 0900023731	126,566
Reading First Coach FY09	Kentucky Department of Education	84.357	P02 540 08000016364 1	12,080
Project TRREE FY10	Kentucky Department of Education	84.027	P02 540 09000247201	53,786
Project TRREE FY09	Kentucky Department of Education	84.027	P02 540 0800016365 1	55,843
Kentucky Tech Prep FY10	Kentucky Workforce Investment Board	84.048	P02 531 0900246871	40,800
Perkins FY10 Technology Update	Kentucky Cabinet for Workforce Development	84.048	P02 531 1000005461 1	6,805
Perkins FY10-Admin	Kentucky Cabinet for Workforce Development	84.048	P02 531 10000006101	124,071
08 Tech Prep Carryforward	Kentucky Cabinet for Workforce Development	84.048	P02 531 0800021141 1	5,027
NWP Writing Project	National Writing Project Corporation	84.928	92KY-06	47,221
Inside Inquiry Funding	National Writing Project Corporation	84.928	Funds Received 8/26/2008	530
SNWP Minigrant-Holocaust Institute	National Writing Project Corporation	84.928	3/11/10 letter	1,914
Technology Liaison Network Minigran	National Writing Project Corporation	84.298	Letter dated 3/9/2009	4,769
Advancement in M.S. S & M	Kentucky Council on Postsecondary Education	84.367	Letter dated 11/10/2008	103,449
Learning Capacity Adv. Yr 8.	Kentucky Council on Postsecondary Education	84.367	P02 415 10000035181	9,877
Civic Engagement – Earth Force	Murray State University	84.367	MOA #OSP 2010-104	12,446
Change Over Time 08-09	Murray State University	84.367	OSP 2008-147	26,053
ARRA: Kaleidoscope Artists	Bowling Green Board of Education	84.389	9/1/09 MOA	10,177
Perkins FY09	Kentucky Department of Education	84.048	P02 531 0800016568 1	18,375
State Personnel Grant	Kentucky Department of Education	84.323	P02 540 1000001500 1	24,863

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WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2010

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
<b>Other Federal (Continued)</b>				
<b>U. S. Department of Education (Continued)</b>				
Pass Through Programs				
KTIP 09 – CTE Schools	Education Professional Standards Board	84.048	P02 183 0800017621 3	\$ (124)
Interest subsidy		84.UNK		65,988
ARRA - State Fiscal Stabilization Fund	State of Kentucky	84.394A		<u>5,416,100</u>
				<u>6,432,225</u>
<b>Total U.S. Department of Education</b>				<u>7,348,006</u>
<b>U.S. Department of Transportation</b>				
Pass Through Programs				
TV Fiscal Stabilization Grant	Corporation for Public Broadcasting	20.UNK	1/14/10 e-mail	<u>20,886</u>
<b>Small Business Administration</b>				
Pass Through Programs				
Small Business Center FY09	UK Research Foundation	59.037	3048105412-09-329	21,534
Small Business Center FY10	UK Research Foundation	59.037	UKRF 3048106648-10-188	<u>52,064</u>
				<u>73,598</u>
<b>U.S. Department of Health and Human Services</b>				
Direct Programs				
WKU CyberMedicine Program		93.888	Grant # D1ECS10479A0	199,661
Advanced Ed Nursing		93.358	2 A10HP00189-10-00	<u>39,459</u>
				<u>239,120</u>
Pass Through Programs				
MSSA FY09	University of Louisville	93.107	Sub dated 10/10/08	23,417
MSSA FY10	University of Louisville	93.107	Sub dated 09/28/09	43,904
PCWCP FY09	Eastern Kentucky University	93.658	451705-09-210	702
Training Resource Center FY10	Eastern Kentucky University	93.658	451912-10-207	189,928
Training Resource Center FY09	Eastern Kentucky University	93.658	451702-09-164	(161)
PCWCP FY10	Eastern Kentucky University	93.658	451915-10-220	7,135
Child Care R&R FY10	University of Kentucky Research Foundation	93.575	3049023036-09-122/304	194,841
KEMSA Hospital Training FY07	University of Kentucky Research Foundation	93.301	UKRF 3048054800-07-237	88
Project MATCH Evaluations				
544183	University of Louisville	93.652	UKRF 09-0492A	15,614
Nutrition Ed. Teacher	Kentucky Department of Education	93.938	P0254010000034381	<u>3,861</u>
P.D. 544218				<u>479,329</u>
<b>Total U.S. Department of Health and Human Services</b>				<u>718,449</u>
<b>Corporation for National and Community Service</b>				
Direct Programs				
KUPEE Energy Initiative		94.005	09-LHSKY001	<u>61,880</u>
<b>Total Other Federal</b>				<u>8,775,149</u>
<b>Total Federal Expenditures</b>				<u>\$ 160,961,976</u>

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2010

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**NOTE 1 – BASIS OF ACCOUNTING**

This schedule includes the federal awards activity of Western Kentucky 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**

Western Kentucky University participates in the Federal Family Education Loan Program (including Stafford Loans, Supplemental Loans for Students, and Parents Loans for Undergraduate Students).

Western Kentucky University administers the Federal Perkins Loan Program (CFDA Number 84.038). At June 30, 2010, the University had loans outstanding in the amount of \$5,581,896 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:

<u>Grant</u>	<u>Subrecipient</u>	<u>Amount</u>
KUPEE Energy Initiative	Murray State University	\$ 7,652
Reading First Coach FY 09	Bowling Green Board of Education	11,185
Reading First Coach FY 10	Bowling Green Board of Education	117,191
Project TRREE FY 09	Murray State University	14,997
Project TRREE FY 09	Pikeville College	15,000
Project TRREE FY 09	Spalding University	12,474
KY Space Grant Consortium Yr 14	Centre College	8,437
KY Space Grant Consortium Yr 14	Eastern Kentucky University	1,000
KY Space Grant Consortium Yr 14	Kentucky Science and Technology Cor	105,000
KY Space Grant Consortium Yr 14	Morehead State University	149,036
KY Space Grant Consortium Yr 14	Murray State University	55,114
KY Space Grant Consortium Yr 14	Northern Kentucky University	10,000
KY Space Grant Consortium Yr 14	University of Kentucky	170,952
KY Space Grant Consortium Yr 14	University of Louisville	145,667
NASA EPSCoR Research Dev.	University of Louisville	62,021
NASA EPSCoR Research Dev.	Morehead State University	4,967
NASA EPSCoR Research Dev.	University of Kentucky	90,643
Efficacy Countermeasures of C.D.	University of Kentucky	215,867
Versatile Biosensing Platform	University of Kentucky Research Foundation	219,353

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2010

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**NOTE 3 – SUBRECIPIENTS** (Continued)

<u>Grant</u>	<u>Subrecipient</u>	<u>Amount</u>
WTI-Impulse Generation	West Virginia High Technology Conso	\$ 40,000
PCIRS	Murray State University	17,500
PCIRS	West Virginia Technology Conso	150,000
W and WW Technician Training	KWWOA	8,231
GEMS FY 09	Warren County Board of Education	283,277
Alliance in North America	Western Illinois University	15,563
2 <sup>nd</sup> Poultry Waste Management #2	Purdue University	15,000
T.A.C. for Water Quality	Kentucky Rural Water Association	54,260
Tech Assistance for Water Quality	Kentucky Rural Water Association	39,562
WKU Hoffman Inst. China FY 07	A Childs Right	15,316
WKU Hoffman Inst. China FY 07	Woodrow Wilson International Center	99,126
WKU Hoffman Inst. China FY 07	Southwest University of China	14,800
Head Start General 22 2009	Audubon Area Head Start	19,275
Head Start General 22 2009	Murray Head Start	180,748
Head Start T/TAS 22 2009	Murray Head Start	3,747
Head Start 2009 ARRA/COLA	Audubon Area Community Services Inc.	14,375
Head Start 2009 ARRA/COLA	Murray Head Start	27,607
Head Start General 22 2010	Audubon Area Community Services Inc.	173,435
Head Start General 22 2010	Murray Head Start	216,803
Head Start General T/TAS 22 2010	Audubon Area Community Services Inc.	1,190
Head Start General T/TAS 22 2010	Murray Head Start	<u>3,001</u>
		<u>\$ 2,809,372</u>



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REPORT OF INDEPENDENT AUDITORS 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 the financial statements of the business-type activities of Western Kentucky University (the "University") as of and for the year ended June 30, 2010, and have issued our report thereon dated September 30, 2010, which cited reliance on the reports of other auditors. We conducted our audit 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. 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) were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### 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*.

This report is intended solely for the information and use of the Board of Regents of Western Kentucky University, the Secretary of Finance and Administration Cabinet of the Commonwealth of Kentucky, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Crowe Horwath LLP

Louisville, Kentucky  
September 30, 2010



Crowe Horwath LLP  
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

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, 2010. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the 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, 2010.

## Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 10-01. 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.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, Board of Regents, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Crowe Horwath LLP

Louisville, Kentucky  
September 30, 2010

WESTERN KENTUCKY UNIVERSITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 June 30, 2010

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**PART I: SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued	<u>Unqualified</u>		
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)?	_____ X _____	Yes	_____ _____ None Reported
Type of auditors' report issued on compliance for major programs	<u>Unqualified</u>		_____
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	_____ X _____	Yes	_____ _____ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
	Total Federal Student Aid (consisting of):
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grant
84.376	National Science and Mathematics Access to Retain Talent Grant
84.033	Federal Work Study Program
84.007	Federal Supplemental Educational Opportunity Grant Program
84.038	Federal Perkins Loan Program
84.032	Federal Family Education Loan Program
84.394A	State Fiscal Stabilization Fund
84.206	GEMS FY 09
	Head Start Cluster (consisting of):
93.600	Head Start General 22-2009 and 22-2010
93.708	ARRA Head Start 2009/COLA
93.600	Early Head Start FY 09 and FY 10
93.708	ARRA Early Head Start /COLA

WESTERN KENTUCKY UNIVERSITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 June 30, 2010

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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
	Research and Development Cluster (consisting of):
10.001	Poultry Waste Management
10.001	Support of Ag Research FY09
10.001	Support of Ag Research FY10
10.902	Conservation Practices
12.300	Detection of Toxic Materials
15.916	Mammoth Cave Learning Center
15.916	Archival Cataloging
15.916	Mercury Bioaccumulation in CPPU
15.921	Mercury in Mammoth Cave NP Phase II
15.923	Mammoth Cave Learning Center II
19.300	WKU Hoffman Inst. China FY07
43.001	KY Space Grant Consortium Yr 14
43.001	NASA ESPSoR Research Dev.
43.001	Efficacy Countermeasures of C.D.
43.001	Versatile Biosensing Platform
43.001	Coastal Forest Ecosystems
43.001	Light Curves and Masses
47.049	Analyte Extractions
47.049	RUI: Hydrocarbon Media
47.049	Exploring Space – Large Knots & Links
47.074	Phylogeny of Bat Flies – Insights
47.074	Bread – Increase in Croop Yield
47.050	REU: Summer Research – Green River
47.076	MS Partnership
47.076	Wand WW Technician Training
47.082	ARRA: Removable Surface Phases
66.436	Green River Project
66.202	T.A.C. for Water Quality
99.390	Reaction to Bulky Platinum Complex
93.390	Mechanical Stress/Myofibroblast Fxn
93.859	Chlamydomonas Entrainment
93.859	ID of RNA's in Ecoli
81.133	ARRA – Noveloxxygen Carriers
10.025	Johne's Disease Demo Herd Program
11.467	WKU Mesonet Project
12.902	Fortitude FY09
12.UNK	Robot Development Project
12.100	Timed Neutron Techniques
12.902	Cyber Defense FY09
12.902	Cyber Defense Phase II
17.268	Invention Convention
66.419	Western Pennyroyal Project
66.463	TMDL Development Project
93.262	Respiratory Protection in AG
93.262	Linkage of Atrazine Exposure
93.389	Human Interlukin-1 alpha
93.389	INBRE-FY10
93.389	INBRE-FY11
93.865	Brain Research – Neurodevelopment
15.904	Preparing an Eval. Report
15.916	Mammoth Cave Contamination
15.805	Assess Changes – Forest Harvesting

WESTERN KENTUCKY UNIVERSITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 June 30, 2010

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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
97.077	MILK II
97.001	PCIRS
97.001	Compact Neutron Interrogation System
97.065	WTI-Impulse Generation
97.UNK	Best Practice Water System
Agreement	Visiting Scholar – Dr. Nguyet
47.070	GNM Weighted Superimpositions

Dollar threshold used to distinguish between  
 Type A and Type B programs

\$ 567,942

Auditee qualified as low-risk auditee?

X Yes      \_\_\_\_\_ No

**PART II – FINANCIAL STATEMENT FINDINGS**

None

**PART III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS**

**Finding 10-01** – ARRA - Federal Work Study (CFDA No. 84.033), ARRA – Head Start 2009 (CFDA No. 93.708), ARRA – Early Head Start (CFDA No. 93.708), ARRA – Removable Surface Phases (CFDA No. 47.082) and ARRA – Novel Oxygen Carriers (CFDA No. 81.133)

**Criteria:** OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations" requires that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. This required internal control should include that a supervisory review of reports that are submitted to the federal government be performed to assure accuracy and completeness of data and information included in the reports. Section 1512 of the *American Recovery and Reinvestment Act of 2009* (ARRA) includes reporting requirements applicable to awards under ARRA Division A aimed at providing transparency into the use of ARRA funds, the recipient reports are required to include the following detailed information: Total amount of funds received, and of that, the amount spent on projects and activities; a list of those projects and activities funded by name to include: description, completion status, estimates on jobs created or retained; and details on sub-awards and other payments.

**Condition:** During our testing of the Section 1512 reports that were submitted by the University during fiscal year 2010, we did not note consistent documentation of formal supervisory review of the report prior to submittal. The University submitted 14 Section 1512 reports during the current year: two for Federal Work Study, four for the Head Start programs, four for Removable Surface Phases and four for Novel Oxygen Carriers. Each of these reports was completed by the Grants and Contracts Department. Documentation supporting the data in the reports was retained and no exceptions were noted, however, no consistent, formal documented supervisory review was performed on the reports prior to submittal.

**Questioned Costs:** None.

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2010

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**Effect:** By not performing formal reviews of the reports, the University becomes more susceptible to incorrect reporting.

**Cause:** Reports were prepared by the Grants and Contracts Accountant; however; no sign offs or other evidence of formal approval was maintained.

**Recommendation:** We recommend that the University implement a formal supervisory review procedure of the Section 1512 reports prior to their submittal.

**Management Response and Corrective Action Plan:** Although internal processes required a formal supervisory review for all Section 1512 reports prior to their submittal, we agree that documentation of the review was insufficient in certain cases. The University has restructured the accounting and grants accounting areas and, consequently, has revised the procedures for approval of reports. Under the new organizational structure, the Director of Accounting and Financial Reporting will review and approve all American Recovery and Reinvestment Act quarterly reports and related reconciliations prior to their submittal.

#### **PART IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

##### **Finding 09-01 – Fund for the Improvement of Postsecondary Education (CFDA No. 84.116)**

Based on our inquiries with management and personnel managing the use of federal funds, we understand that there are a number of controls and procedures being performed in the administration of federal programs, but they are not adequately documented to permit an auditor to test that they are being performed. Listed below are some examples noted during testing where documentation was not available:

- Lack of policies and procedures to determine if a vendor has been suspended or disbarred from doing business with the federal government
- Lack of policies and procedures related to the disposition of assets originally purchased with federal funds

**Status:** Corrective action has been taken.