

WESTERN KENTUCKY UNIVERSITY
REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2011 and 2010

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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, 2011 and 2010, 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 7% of revenues of Western Kentucky University's business-type activities for the years ended June 30, 2011 and 2010. 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 solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards 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, 2011 and 2010, 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 29, 2011 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 73 through 79 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 12 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 29, 2011

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

Overview

Management's Discussion and Analysis (MD&A) of Western Kentucky University's ("WKU" or the "University") financial statements is intended to provide an overview of the financial position, changes in financial position and cash flows of the University as of and for the fiscal years ended June 30, 2011 and 2010. 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, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended. Included in these financial statements are the financial statements that have not been audited by Crowe Horwath LLP, including the Research Foundation, which is a blended component unit of the University's financial statements. Also included are the financial statements of the Western Kentucky University Foundation, College Heights Foundation and the Student Life Foundation, which are each discretely presented within the financial statements of the University. Crowe Horwath LLP received and relied upon audit reports prepared and work performed by other auditors as a basis of their opinion on the University's financial statements.

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

Reporting Entity

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

Financial statements have also been included for the University's discretely presented component units, in accordance with the requirements of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. 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 2011 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:

| <u>Enrollment Base (Headcount)</u> | <u>Fall 2010</u> | <u>Fall 2009</u> | <u>Fall 2008</u> |
|---|-------------------------|-------------------------|-------------------------|
| Undergraduate applications | 10,363 | 11,803 | 11,222 |
| Undergraduate enrollment (including returning students) | 17,827 | 17,645 | 16,966 |
| First-time freshmen | 3,377 | 3,229 | 3,187 |
| Total graduate enrollment | 3,076 | 3,067 | 2,795 |
| Total enrollment | 20,903 | 20,712 | 19,761 |

The following data, with a comparison between 2009/2010 and 2008/2009, is provided to help assess the financial viability of the University:

| <u>WKU Foundation</u> | <u>June 30, 2011</u> | <u>June 30, 2010</u> | <u>June 30, 2009</u> |
|---|-----------------------------|-----------------------------|-----------------------------|
| Endowments | \$ 108.5 million | \$ 102.8 million | \$ 95.8 million |
| Total cash receipts | 15.6 million | 18.9 million | 13.6 million |
| <u>State Appropriations</u> | | | |
| General nonoperating revenue | \$ 75,245,800 | \$ 73,597,700 | \$ 79,013,801 |
| State fiscal stabilization funds (SFSF) | 4,410,900 | 5,416,100 | - |
| Retirement of debt obligations | <u>549,800</u> | <u>473,700</u> | <u>1,669,999</u> |
| Total | <u>\$ 80,206,500</u> | <u>\$ 79,487,500</u> | <u>\$ 80,683,800</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, 2011, 2010 and 2009, are as follows:

Condensed Statements of Net Assets (in Thousands)

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|---|-------------------|-------------------|-------------------|
| ASSETS | | | |
| Current assets | \$ 107,082 | \$ 102,920 | \$ 82,500 |
| Capital assets, net | 398,068 | 382,105 | 337,724 |
| Other noncurrent assets | <u>43,707</u> | <u>44,884</u> | <u>64,017</u> |
| Total assets | <u>\$ 548,857</u> | <u>\$ 529,909</u> | <u>\$ 484,241</u> |
| LIABILITIES | | | |
| Current liabilities | \$ 32,364 | \$ 39,329 | \$ 32,774 |
| Noncurrent liabilities | <u>138,927</u> | <u>137,600</u> | <u>142,274</u> |
| Total liabilities | <u>\$ 171,291</u> | <u>\$ 176,929</u> | <u>\$ 175,048</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | \$ 252,869 | \$ 238,356 | \$ 189,109 |
| Restricted | | | |
| Nonexpendable | 15,495 | 14,314 | 11,159 |
| Expendable | 34,793 | 40,959 | 56,788 |
| Unrestricted | <u>74,409</u> | <u>59,351</u> | <u>52,137</u> |
| Total net assets | <u>\$ 377,566</u> | <u>\$ 352,980</u> | <u>\$ 309,193</u> |

Liabilities include pledges payable to the city of Bowling Green ("City") in the amount of \$29,778,021 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$104,401,808 with final payments on the bonds scheduled for fiscal year 2027.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, 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 \$(138,248,108), \$(123,134,139) and \$(111,103,658) for fiscal years 2011, 2010 and 2009, respectively.

A summary of the University's revenues, expenses and changes in net assets for the years ended June 30, 2011, 2010 and 2009, is as follows:

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

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|-------------------|
| Operating revenues | | | |
| Net tuition and fees | \$ 110,239 | \$ 104,669 | \$ 97,896 |
| Grants and contracts | 1,872 | 1,740 | 1,654 |
| Sales and services of educational departments | 14,533 | 12,604 | 13,366 |
| Auxiliary enterprises | 21,463 | 21,935 | 20,986 |
| Other | <u>14,360</u> | <u>19,075</u> | <u>21,074</u> |
| Total operating revenues | <u>162,467</u> | <u>160,023</u> | <u>154,976</u> |
| Operating expenses | <u>300,715</u> | <u>283,157</u> | <u>266,080</u> |
| Operating loss | <u>(138,248)</u> | <u>(123,134)</u> | <u>(111,104)</u> |
| Nonoperating revenues (expenses) | | | |
| State appropriations | 75,796 | 74,071 | 80,684 |
| State appropriations – SFSF funds | 4,411 | 5,416 | - |
| Grants and contracts | 73,148 | 68,544 | 60,042 |
| Investment income (expense) | 2,277 | 1,805 | (921) |
| Interest on capital asset-related debt | (5,341) | (4,735) | (4,390) |
| Other | <u>(643)</u> | <u>(118)</u> | <u>(102)</u> |
| Net nonoperating revenues | <u>149,648</u> | <u>144,983</u> | <u>135,313</u> |
| Income before other revenues, expenses, gains or losses | <u>11,400</u> | <u>21,849</u> | <u>24,209</u> |
| State contributions to endowment | - | 2,439 | - |
| State capital appropriations | <u>13,186</u> | <u>19,161</u> | <u>20,771</u> |
| Increase in net assets | 24,586 | 43,449 | 44,980 |
| Net assets, beginning of year | 352,980 | 309,193 | 264,213 |
| Acquisition of KIIS net assets | <u>-</u> | <u>338</u> | <u>-</u> |
| Net assets, end of year | <u>\$ 377,566</u> | <u>\$ 352,980</u> | <u>\$ 309,193</u> |

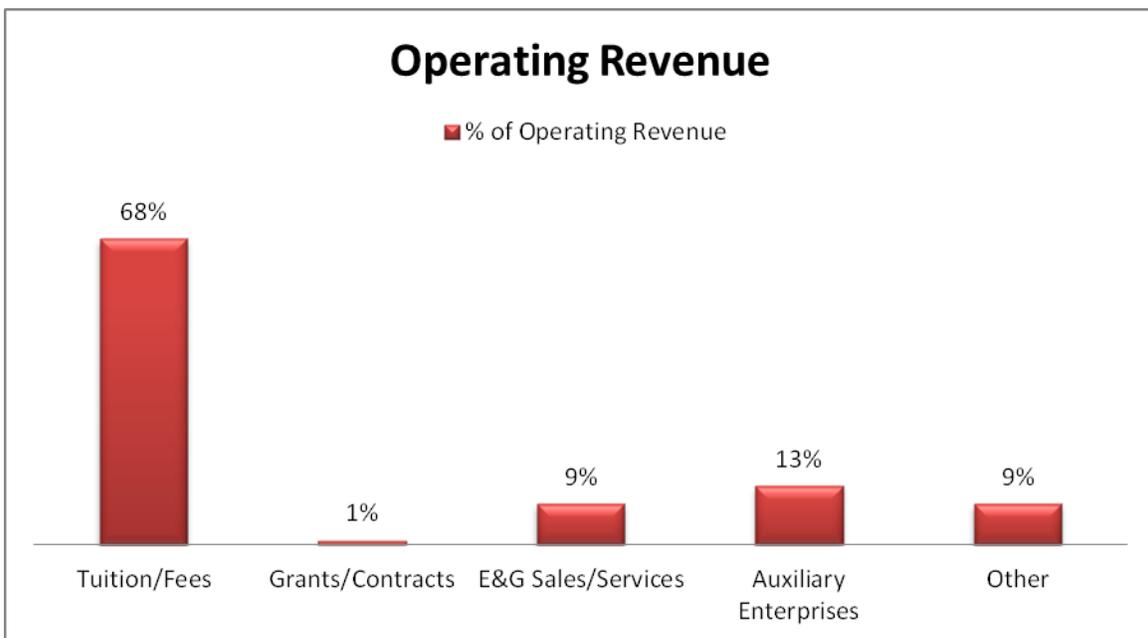
Operating Revenues

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 1.0% and 4.8% between fall 2010 and 2011, and fall 2009 and 2010, respectively. As of fall 2010, approximately 84.5% of students enrolled at the University were Kentucky residents. An additional 7.0% of the student population came from Tennessee with many coming to the University through a state reciprocity agreement (*i.e.*, enrolled at in-state rates) or in the Tuition Incentive Program.

Tuition and fees revenue is recorded in the financial statements net of scholarship allowances, gift scholarships and institutional aid. A scholarship allowance is the difference between the stated charges for goods and services provided by the institution and the amount that is billed to students and third parties making payments on behalf of students. College Access Program and KEES Program have been included in the scholarship allowance after these sources have been used to satisfy a student's fees and charges. Any excess aid disbursed to the student is recognized as a student financial aid expense. Net tuition and fees, as of June 30, 2011 and 2010, were 69.6% and 69.2%, respectively, of the gross tuition and fees with approximately \$48.2 million and \$46.5 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.

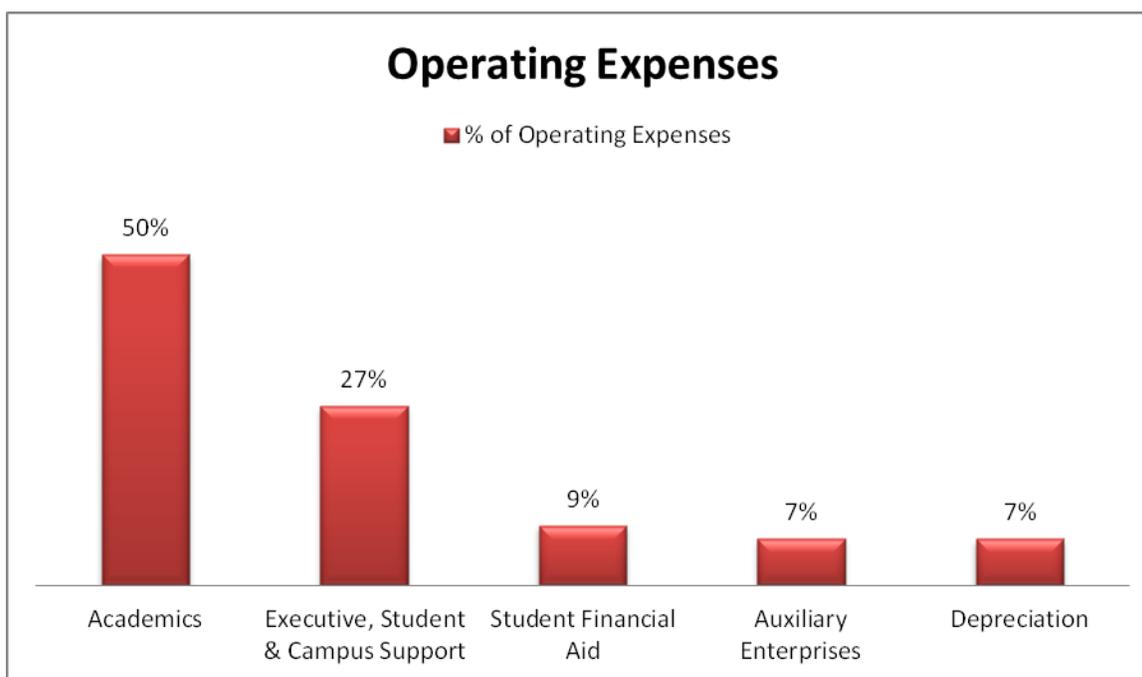
The grant and contract awards received in a given year are frequently multiyear awards for which only the current year activity related to the award will be recorded, *i.e.*, any cash received in excess of expenses incurred will be recorded as deferred revenue. Additionally, awards related to future 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 2011, 2010 and 2009 fiscal years.

Grants and Contracts Awards (Excluding Financial Aid)

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|---------|----------------------|----------------------|----------------------|
| Federal | \$ 17,648,541 | \$ 14,536,620 | \$ 14,773,130 |
| State | 3,459,078 | 2,945,181 | 5,287,452 |
| Other | <u>1,848,183</u> | <u>3,423,103</u> | <u>3,645,664</u> |
| Total | <u>\$ 22,955,802</u> | <u>\$ 20,904,904</u> | <u>\$ 23,706,246</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, 2011, 2010 and 2009 is comprised of the following:

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|---------------------|
| Investment income | \$ 811,864 | \$ 1,096,145 | \$ 911,837 |
| Net change for the year in the fair value of investments | <u>1,465,464</u> | <u>708,652</u> | <u>(1,833,203)</u> |
| | <u>\$ 2,277,328</u> | <u>\$ 1,804,797</u> | <u>\$ (921,366)</u> |

State appropriations were \$80,206,500 for 2011 (including \$4,410,900 SFSF funds received) in comparison to \$79,487,500 and 80,683,800 for 2010 and 2009, respectively. The University's state appropriation, based on the enacted 2009-2010 Biennial Budget, was increased by \$719,000 or 0.9% in recognition of the University's enrollment growth (this includes the \$4,410,900 in SFSF funds received through the Commonwealth to offset the overall budget reduction).

Change in Net Assets

For the years ended June 30, 2011 and 2010, the University's net assets increased \$24,586,319 and \$43,787,221, respectively. The year-end net assets for June 30, 2011 and 2010 were \$377,566,333 and \$352,980,014, 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 \$108,953,789 and auxiliary enterprises of \$21,463,280. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$178,196,748 and to suppliers and contractors of \$101,901,034. 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 \$549,800 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>2011</u> | <u>2010</u> | <u>2009</u> |
|--|-------------------|------------------|-------------------|
| Cash Provided By (Used In) | | | |
| Operating activities | \$ (118,848) | \$ (110,209) | \$ (90,218) |
| Noncapital financing activities | 152,725 | 147,684 | 139,333 |
| Capital and related financing activities | (28,690) | (49,359) | (14,329) |
| Investing activities | <u>(192)</u> | <u>5,690</u> | <u>2,078</u> |
| Net increase (decrease) in cash and cash equivalents | 4,995 | (6,194) | 36,864 |
| Cash and cash equivalents, beginning of year | <u>95,805</u> | <u>101,999</u> | <u>65,135</u> |
| Cash and cash equivalents, end of year | <u>\$ 100,800</u> | <u>\$ 95,805</u> | <u>\$ 101,999</u> |

Capital Asset and Long-term Obligations

Capital Assets

As of June 30, 2011, 2010 and 2009, the University had \$398.1 million, \$382.1 million and \$337.7 million invested in capital assets, net of accumulated depreciation of \$213.0 million, \$193.1 million and \$176.1 million, respectively. Capital assets at June 30, 2011, 2010 and 2009 are summarized below:

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|-----------------------------------|-----------------------|-----------------------|-----------------------|
| Land | \$ 8,517,342 | \$ 7,638,470 | \$ 7,689,350 |
| Buildings and improvements | 440,770,797 | 399,405,456 | 320,736,754 |
| Infrastructure | 38,604,018 | 36,109,821 | 30,993,127 |
| Furniture, fixtures and equipment | 53,329,329 | 49,492,751 | 44,746,732 |
| Library materials | 44,989,615 | 42,662,060 | 40,486,729 |
| Construction in progress | <u>24,866,179</u> | <u>39,854,994</u> | <u>69,132,068</u> |
| Total capital assets | 611,077,280 | 575,163,552 | 513,784,760 |
| Less accumulated depreciation | <u>(213,009,689)</u> | <u>(193,058,548)</u> | <u>(176,061,128)</u> |
| Capital assets | <u>\$ 398,067,591</u> | <u>\$ 382,105,004</u> | <u>\$ 337,723,632</u> |

The major construction projects in progress, as of June 30, 2011, 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, 2011, 2010 and 2009, the University had \$146.3 million, \$144.7 million and \$149.6 million, respectively, in long-term obligations consisting of pledges payable to the city of Bowling Green, bonds payable (Consolidated Educational Buildings Revenue Bonds and General Receipts Bonds), capital leases and other long-term obligations. The long-term obligations, including the current portion, are summarized as follows:

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|--|-----------------------|-----------------------|-----------------------|
| Pledges to the City | \$ 29,778,021 | \$ 30,199,434 | \$ 30,804,711 |
| Consolidated Educational Buildings Revenue Bonds | 15,860,051 | 17,345,412 | 20,264,245 |
| General Receipts Bonds | 88,541,757 | 92,333,347 | 95,974,937 |
| Capital leases | 2,697,770 | 2,174,217 | 2,367,830 |
| Other long-term obligations | <u>9,415,587</u> | <u>2,615,183</u> | <u>218,426</u> |
| Total | <u>\$ 146,293,186</u> | <u>\$ 144,667,593</u> | <u>\$ 149,630,149</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, implemented a professional MBA program in addition to an online option and added doctoral programs in educational leadership and nursing practice. WKU will continue to add majors and minors in disciplines with high demand. Continued focused student recruitment and improved student retention efforts will yield tuition revenue that is critical due to the state's slow economic recovery. 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 2011 meeting, approved tuition rates for fiscal year 2012. The rates approved for fiscal year 2012 reflect an increase of 5% for Kentucky residents and 6% for most nonresident students to support operating cost increases. An additional \$70/semester fee was approved to support the issuance of bonds for the Downing University Center renovation project. Renovating the student center is considered a critical project for addressing the expected needs of students and will have a positive impact on student recruitment. 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.
- The FY 2012 Operating Budget reflects a 1% reduction in state funding. This funding reduction of \$781,600 is deemed manageable and will not impact student recruitment or campus operations.
- 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. The FY 2012 Operating Budget includes \$562,000 allocated to retirement systems based on rates approved by 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 FY 2012 Operating Budget includes \$641,000 to fully fund the University's premium contribution for full-time E&G employees implemented January 2011. 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 plans to issue general receipts bonds in FY 2012 for the renovation of Downing University Center in the amount of \$33.5 million. Additional bonding authority of \$16.5 million will be requested from the 2012 General Assembly to complete this project. The total debt service will be funded by the increase in student mandatory fees and reallocation of both E&G and Auxiliary Enterprises budgets.
- 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. As of June 30, 2011, over \$185 million in gifts and pledges had been raised during the "New Century of Spirit" campaign.

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, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|--------------------|--------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 88,169,847 | \$ 79,577,691 |
| Accounts receivable, net of allowance of \$900,795 and \$714,787, respectively | 7,756,442 | 6,539,786 |
| Interest receivable | 524,295 | 815,663 |
| Federal and state grants receivable | 4,924,761 | 10,957,272 |
| Inventories | 2,883,779 | 2,374,333 |
| Loans to students, net | 598,362 | 655,170 |
| Prepaid expenses and other | <u>2,224,507</u> | <u>1,999,738</u> |
| Total current assets | <u>107,081,993</u> | <u>102,919,653</u> |
| Noncurrent assets | | |
| Restricted cash and cash equivalents | 12,630,450 | 16,227,225 |
| Long-term investments | 183,533 | 278,662 |
| Loans to students, net of allowance of \$548,366 for 2011 and 2010 | 4,004,424 | 4,384,604 |
| Assets held in trust | 25,436,900 | 22,495,020 |
| Capital assets | 611,077,280 | 575,163,552 |
| Accumulated depreciation on capital assets | (213,009,689) | (193,058,548) |
| Deferred bond issuance costs, net of accumulated amortization of \$814,172 and \$522,165, respectively | <u>1,452,820</u> | <u>1,498,444</u> |
| Total noncurrent assets | <u>441,775,718</u> | <u>426,988,959</u> |
| Total assets | <u>548,857,711</u> | <u>529,908,612</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 7,355,019 | 9,017,040 |
| Self-insured health liability | 980,507 | 755,358 |
| Self-insured workers' compensation liability | 100,472 | 61,925 |
| Accrued payroll and withholdings | 1,954,969 | 1,699,822 |
| Accrued compensated absences | 2,876,745 | 2,745,562 |
| Accrued interest | 1,375,558 | 1,530,321 |
| Deferred revenue | 9,840,533 | 15,722,325 |
| Long-term obligations - current portion | 7,366,089 | 7,068,345 |
| Deposits held in custody for others | <u>514,389</u> | <u>728,652</u> |
| Total current liabilities | <u>32,364,281</u> | <u>39,329,350</u> |
| Long-term obligations | <u>138,927,097</u> | <u>137,599,248</u> |
| Total liabilities | <u>171,291,378</u> | <u>176,928,598</u> |

(Continued)

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET ASSETS
June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|-----------------------|-----------------------|
| NET ASSETS | | |
| Invested in capital assets, net of related debt | \$ 252,869,200 | \$ 238,355,738 |
| Restricted | | |
| Nonexpendable - endowments | 15,494,746 | 14,314,052 |
| Expendable | | |
| Loans | 4,986,350 | 5,408,464 |
| Capital projects | 27,549,562 | 31,743,697 |
| Debt service | 2,257,395 | 3,807,100 |
| Unrestricted | <u>74,409,080</u> | <u>59,350,963</u> |
| Total net assets | <u>\$ 377,566,333</u> | <u>\$ 352,980,014</u> |

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009

| | <u>2010</u> | (Restated) <u>2009</u> |
|---|----------------------|---------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 3,145,612 | \$ 7,179,092 |
| Investments | 49,567,277 | 37,758,352 |
| Accounts receivable | 71,426 | 50,034 |
| Receivable - WKU Real Estate Corporation | 1,268,905 | 1,400,039 |
| Receivable - Warren County Economic Development Authority | 1,986,893 | 3,800,000 |
| Contributions receivable, net of allowance of \$1,930,800 and \$1,137,500, respectively | 14,724,906 | 14,007,645 |
| Prepaid expenses and other assets | 91,438 | 80,744 |
| Investments held for Western Kentucky University | 17,123,094 | 16,281,261 |
| Assets held for others | <u>377,531</u> | <u>480,130</u> |
| Total assets | <u>\$ 88,357,082</u> | <u>\$ 81,037,297</u> |
| LIABILITIES | | |
| Accounts payable | \$ 12,000 | \$ 89,652 |
| Notes payable | 3,342,891 | 2,874,174 |
| Due to Hilltopper Athletic Foundation | 504,013 | - |
| Annuities payable | 2,555,825 | 2,676,922 |
| Assets held for others | <u>17,500,625</u> | <u>16,761,391</u> |
| Total liabilities | 23,915,354 | 22,402,139 |
| NET ASSETS | | |
| Unrestricted | 14,371,636 | 12,388,088 |
| Temporarily restricted | 14,893,369 | 12,493,574 |
| Permanently restricted | <u>35,176,723</u> | <u>33,753,496</u> |
| Total net assets | <u>64,441,728</u> | <u>58,635,158</u> |
| Total liabilities and net assets | <u>\$ 88,357,082</u> | <u>\$ 81,037,297</u> |

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
 WKU STUDENT LIFE FOUNDATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|---------------------------|---------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 8,230,093 | \$ 5,760,821 |
| Accounts receivable, net of allowance of \$21,414 and \$17,418 for 2011 and 2010, respectively | 659,481 | 872,358 |
| Net investment in direct financing lease | 2,176,726 | 2,273,143 |
| Accrued interest receivable | 182,462 | 4,432 |
| Prepaid expenses | 295,981 | 306,879 |
| Assets limited as to use | 10,042,665 | 9,844,188 |
| Assets held for others - student deposits | 627,592 | 623,942 |
| Assets held by others - student deposits | 43,113 | 46,000 |
| Property and equipment, net | 80,336,810 | 82,863,627 |
| Other assets | <u>593,857</u> | <u>624,814</u> |
| Total assets | <u>\$ 103,188,780</u> | <u>\$ 103,220,204</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable | \$ 1,133,502 | \$ 967,131 |
| Accrued expenses | 181,922 | 198,485 |
| Student deposits | 670,705 | 669,942 |
| Interest rate collar and swap agreements, at fair value | 11,144,295 | 13,579,667 |
| Asset retirement obligation | 697,949 | 657,204 |
| Long-term debt, net of unamortized discounts of \$175,354 and \$184,623 for 2011 and 2010, respectively | <u>78,814,646</u> | <u>80,935,377</u> |
| Total liabilities | 92,643,019 | 97,007,806 |
| Net assets - unrestricted | <u>10,545,761</u> | <u>6,212,398</u> |
| Total liabilities and net assets | <u>\$ 103,188,780</u> | <u>\$ 103,220,204</u> |

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 945,709 | \$ 829,808 |
| Notes receivable | - | 26,000 |
| Interest and dividends receivable | 72,214 | 102,586 |
| Other receivables | - | 49,030 |
| Short-term investments | <u>2,678,432</u> | <u>1,813,097</u> |
| Total current assets | 3,696,355 | 2,820,521 |
| Investments and long-term receivables | | |
| Long-term investments | 33,752,549 | 30,389,612 |
| Assets held in trust | 2,002,134 | 1,949,335 |
| Investments held for Western Kentucky University and others | 3,830,377 | 2,448,182 |
| Note receivable | <u>-</u> | <u>295</u> |
| Total investments and long-term receivables | 39,585,060 | 34,787,424 |
| Other assets | | |
| | <u>94,697</u> | <u>94,697</u> |
| Total assets | <u>\$ 43,376,112</u> | <u>\$ 37,702,642</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | \$ 1,020,701 | \$ 96,606 |
| Current portion of long-term debt | 87,643 | 247,643 |
| Current portion of refundable advances and gift annuity liabilities | <u>3,094,517</u> | <u>377,350</u> |
| Total current liabilities | 4,202,861 | 721,599 |
| Long-term liabilities | | |
| Notes payable | 580,881 | 503,915 |
| Refundable advances and gift annuity liabilities | 409,710 | 2,728,546 |
| Assets held for Western Kentucky University | <u>3,830,377</u> | <u>2,448,182</u> |
| Total long-term liabilities | <u>4,820,968</u> | <u>5,680,643</u> |
| Total liabilities | <u>9,023,829</u> | <u>6,402,242</u> |
| Net assets | | |
| Donor restricted | | |
| Permanently | 33,553,757 | 31,971,385 |
| Temporarily | <u>463,811</u> | <u>535,227</u> |
| | 34,017,568 | 32,506,612 |
| Unrestricted | | |
| Designated by board for perpetual scholarship fund | <u>334,715</u> | <u>(1,206,212)</u> |
| Total net assets | <u>34,352,283</u> | <u>31,300,400</u> |
| Total liabilities and net assets | <u>\$ 43,376,112</u> | <u>\$ 37,702,642</u> |

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|--------------------|--------------------|
| REVENUES | | |
| Operating revenues | | |
| Tuition and fees, net of discounts and allowances of \$48,154,273 and \$46,502,100 for 2011 and 2010, respectively | \$ 110,238,716 | \$ 104,669,230 |
| Federal grants and contracts | 1,789,187 | 1,600,080 |
| State grants and contracts | 83,156 | 139,992 |
| Sales and services of educational activities | 14,532,568 | 12,604,057 |
| Auxiliary enterprise revenues, net of discounts and allowances of \$1,234,725 and \$1,192,362 for 2011 and 2010, respectively | 21,463,280 | 21,934,437 |
| Other operating revenues | <u>14,359,542</u> | <u>19,074,919</u> |
| Total operating revenues | <u>162,466,449</u> | <u>160,022,715</u> |
| EXPENSES | | |
| Operating expenses | | |
| Education and general | | |
| Instruction | 99,238,624 | 91,384,799 |
| Research | 10,965,502 | 12,414,579 |
| Public service | 14,819,604 | 14,107,988 |
| Libraries | 5,811,795 | 5,502,280 |
| Academic support | 18,901,888 | 17,916,502 |
| Student services | 26,744,838 | 25,486,436 |
| Institutional support | 28,181,922 | 26,427,330 |
| Operation and maintenance of plant | 26,808,441 | 24,838,716 |
| Student financial aid | 27,730,041 | 27,287,989 |
| Depreciation | 20,741,002 | 17,370,987 |
| Auxiliary enterprises | <u>20,770,900</u> | <u>20,419,248</u> |
| Total operating expenses | <u>300,714,557</u> | <u>283,156,854</u> |
| Operating loss | (138,248,108) | (123,134,139) |

(Continued)

WESTERN KENTUCKY UNIVERSITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|---------------------------|---------------------------|
| Nonoperating revenues (expenses) | | |
| State appropriations | \$ 75,795,600 | \$ 74,071,400 |
| State appropriations SFSF | 4,410,900 | 5,416,100 |
| Federal grants and contracts | 51,262,866 | 45,224,897 |
| Federal grants and contracts – ARRA | 301,868 | 338,416 |
| State grants and contracts | 17,262,612 | 18,546,206 |
| Local and private grants and contracts | 4,321,262 | 4,434,258 |
| Net investment income | 2,277,328 | 1,804,797 |
| Interest on capital asset-related debt | (5,341,821) | (4,734,915) |
| Gain (loss) on disposal of capital assets | (239,804) | 8,692 |
| Income (loss) on sale of investments | 65,140 | (29,614) |
| Other nonoperating expenses | <u>(467,860)</u> | <u>(96,961)</u> |
| Net nonoperating revenues | <u>149,648,091</u> | <u>144,983,276</u> |
| Income before other revenues, expenses, gains or losses | 11,399,983 | 21,849,137 |
| State capital appropriations | 13,186,336 | 19,160,798 |
| State endowment match | <u>-</u> | <u>2,439,000</u> |
| Increase in net assets | 24,586,319 | 43,448,935 |
| Net assets, beginning of year | 352,980,014 | 309,192,793 |
| Kentucky Institute for International Studies Acquisition | <u>-</u> | <u>338,286</u> |
| Net assets, end of year | <u>\$ 377,566,333</u> | <u>\$ 352,980,014</u> |

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2010 and 2009

| | <u>2010</u> | (Restated) <u>2009</u> |
|--|--------------------------|---------------------------|
| Changes in unrestricted net assets | | |
| Unrestricted revenues, gains and other support | | |
| Contributions | \$ 466,011 | \$ 405,542 |
| Investment return | 3,884,477 | 5,286,283 |
| Miscellaneous income | - | 208 |
| Net assets released from restrictions | <u>5,166,117</u> | <u>12,241,646</u> |
| Total unrestricted revenues, gains and other support | <u>9,516,605</u> | <u>17,933,679</u> |
| Expenses | | |
| Payments made on behalf of Western Kentucky University - Programs | 5,866,780 | 14,080,466 |
| Management and general | 1,630,285 | 771,669 |
| Fundraising | <u>35,992</u> | <u>69,794</u> |
| Total expenses | <u>7,533,057</u> | <u>14,921,929</u> |
| Changes in unrestricted net assets | <u>1,983,548</u> | <u>3,011,750</u> |
| Changes in temporarily restricted net assets | | |
| Contributions | 6,535,314 | 4,837,961 |
| Investment return | 1,160,902 | 1,026,301 |
| Miscellaneous expense | (130,304) | (173,437) |
| Net assets released from restrictions | <u>(5,166,117)</u> | <u>(12,241,646)</u> |
| Changes in temporarily restricted net assets | <u>2,399,795</u> | <u>(6,550,821)</u> |
| Changes in permanently restricted net assets | | |
| Contributions | <u>1,423,227</u> | <u>2,933,392</u> |
| Increase (decrease) in net assets | 5,806,570 | (605,679) |
| Net assets, beginning of period, as restated | <u>58,635,158</u> | <u>59,240,837</u> |
| Net assets, end of period | <u>\$ 64,441,728</u> | <u>\$ 58,635,158</u> |

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
 WKU STUDENT LIFE FOUNDATION, INC.
 STATEMENTS OF ACTIVITIES
 Years ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|---------------------|
| Operating revenues | | |
| Rent | \$ 17,458,382 | \$ 17,315,419 |
| Interest income – direct financing lease | 146,269 | 149,315 |
| Other | <u>1,340,608</u> | <u>1,398,879</u> |
| Total operating revenues | <u>18,945,259</u> | <u>18,863,613</u> |
| Operating expenses | | |
| Salaries, benefits and related expenses | 5,037,467 | 4,996,781 |
| Utilities | 2,111,671 | 1,928,817 |
| Repairs, maintenance and supplies | 1,172,438 | 1,208,098 |
| Management fee | 69,200 | 69,200 |
| Professional fees | 187,587 | 158,764 |
| Insurance | 584,157 | 608,965 |
| Depreciation and amortization | 3,641,450 | 3,328,087 |
| Bad debt expense (recovery) | 140,219 | 116,724 |
| Other | <u>517,732</u> | <u>504,066</u> |
| Total operating expenses | <u>13,461,921</u> | <u>12,919,502</u> |
| Changes in net assets from operations | <u>5,483,338</u> | <u>5,944,111</u> |
| Nonoperating revenues (expenses) | | |
| Interest income | 409,534 | 437,995 |
| Interest expense and fees | (614,913) | (627,105) |
| Change in fair value of interest rate collar and swap agreements, net of settlement payments of \$3,379,968 and \$3,373,057 for 2011 and 2010, respectively | <u>(944,596)</u> | <u>(5,900,627)</u> |
| Total nonoperating revenues (expenses) | <u>(1,149,975)</u> | <u>(6,089,737)</u> |
| Changes in unrestricted net assets | 4,333,363 | (145,626) |
| Unrestricted net assets, beginning of year | <u>6,212,398</u> | <u>6,358,024</u> |
| Unrestricted net assets, end of year | <u>\$ 10,545,761</u> | <u>\$ 6,212,398</u> |

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|----------------------|----------------------|
| Changes in unrestricted net assets | | |
| Unrestricted revenues, gains and other support | | |
| Investment income | \$ 33,141 | \$ 46,417 |
| Net realized and unrealized gains on investments | 742,837 | 5,334,108 |
| Other revenue | 40,473 | 97,967 |
| Net assets released from restrictions: | | |
| Satisfaction of program restrictions | 6,076,718 | 2,926,654 |
| Donor imposed restrictions withdrawn | <u>-</u> | <u>845,807</u> |
| Total unrestricted revenues, gains and other support | <u>6,893,169</u> | <u>9,250,953</u> |
| Expenses | | |
| Program | | |
| Scholarships and awards | 4,259,249 | 4,034,810 |
| Other | <u>620,225</u> | <u>1,456,600</u> |
| Total expenses | <u>4,879,474</u> | <u>5,491,410</u> |
| Management and general | | |
| Salaries and benefits | 383,402 | 372,132 |
| Interest expense | 16,078 | 18,211 |
| Other | <u>73,289</u> | <u>88,825</u> |
| Total expenses | <u>472,769</u> | <u>479,168</u> |
| Total expenses | <u>5,352,243</u> | <u>5,970,578</u> |
| Changes in unrestricted net assets | <u>1,540,926</u> | <u>3,280,375</u> |
| Changes in temporarily restricted net assets | | |
| Contributions | 2,516,178 | 2,543,912 |
| Investment income | 461,962 | 577,287 |
| Net realized and unrealized gains on investments | 3,211,448 | - |
| Net change in value of split interest agreements | (184,286) | (270,169) |
| Net assets released from restrictions | (6,076,718) | (2,926,654) |
| Donor imposed restrictions withdrawn | <u>-</u> | <u>21,001</u> |
| | <u>(71,416)</u> | <u>(54,623)</u> |
| Changes in permanently restricted net assets | | |
| Contributions | 1,582,373 | 2,779,048 |
| Donor imposed restrictions withdrawn | <u>-</u> | <u>(866,808)</u> |
| | <u>1,582,373</u> | <u>1,912,240</u> |
| Increase in net assets | 3,051,883 | 5,137,992 |
| Net assets, beginning of year | <u>31,300,400</u> | <u>26,162,408</u> |
| Net assets, end of year | <u>\$ 34,352,283</u> | <u>\$ 31,300,400</u> |

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|-----------------------|----------------------|
| Cash flows from operating activities | | |
| Tuition and fees | \$ 108,953,789 | \$ 102,976,958 |
| Grants and contracts | 1,744,694 | 2,350,620 |
| Payments to employees | (170,346,089) | (162,905,162) |
| Payments to suppliers | (88,471,347) | (80,252,321) |
| Collection of loans issued to students | 436,988 | 472,602 |
| Sales and services of educational departments | 14,532,568 | 12,604,057 |
| Other operating revenues | 14,118,248 | 13,011,658 |
| Auxiliary enterprise revenues | 21,463,280 | 21,934,437 |
| Auxiliary enterprise payments | | |
| Payments to employees | (7,850,659) | (7,554,427) |
| Payments to suppliers | <u>(13,429,687)</u> | <u>(12,847,986)</u> |
| Net cash used in operating activities | <u>(118,848,215)</u> | <u>(110,209,564)</u> |
| Cash flows from noncapital financing activities | | |
| State appropriations | 75,245,800 | 73,597,700 |
| State appropriations – SFSF | 4,410,900 | 5,416,100 |
| Grants and contracts receipts | 72,846,740 | 68,205,361 |
| Grants and contracts receipts – ARRA | 301,868 | 338,416 |
| Student organization agency disbursements - net | (214,263) | (2,698) |
| Other non-operating receipts | <u>134,400</u> | <u>129,400</u> |
| Net cash provided by noncapital financing activities | <u>152,725,445</u> | <u>147,684,279</u> |
| Cash flows from capital and related financing activities | | |
| State capital appropriations | 13,086,590 | 19,160,798 |
| State appropriations designated for debt service | 549,800 | 473,700 |
| Proceeds from sale of capital assets | 648,557 | 121,534 |
| Purchases of capital assets | (30,527,196) | (56,854,595) |
| Principal paid on capital debt and leases | (6,951,086) | (7,476,996) |
| Interest paid on capital debt and leases | <u>(5,496,584)</u> | <u>(4,783,663)</u> |
| Net cash used in capital and related financing activities | <u>(28,689,919)</u> | <u>(49,359,222)</u> |
| Cash flows from investing activities | | |
| Proceeds from sales and maturities of investments | 132,921 | 4,768,561 |
| Purchase of investments | (1,449,599) | (551,543) |
| Acquisition of KIIS assets | - | 77,238 |
| Investment income | <u>1,124,748</u> | <u>1,395,802</u> |
| Net cash (used in) provided by investing activities | <u>(191,930)</u> | <u>5,690,058</u> |
| Net change in cash and cash equivalents | 4,995,381 | (6,194,449) |
| Cash and cash equivalents, beginning of year | <u>95,804,916</u> | <u>101,999,365</u> |
| Cash and cash equivalents, end of year | <u>\$ 100,800,297</u> | <u>\$ 95,804,916</u> |

(Continued)

WESTERN KENTUCKY UNIVERSITY
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|--------------------------------|--------------------------------|
| Reconciliation of net operating loss to net cash used in operating activities | | |
| Operating loss | \$ (138,248,108) | \$ (123,134,139) |
| Contributions of capital assets by Foundations | (241,294) | (5,242,340) |
| Depreciation expense | 20,741,002 | 17,370,987 |
| Changes in operating assets and liabilities | | |
| Accounts receivable, net | (1,216,656) | (2,119,872) |
| Federal and state grants receivable | 6,032,511 | (5,454,050) |
| Assets held in trust | 203,112 | (806,252) |
| Investments | 125,462 | 78,179 |
| Inventories | (509,446) | 66,835 |
| Loans to students, net | 436,988 | 472,602 |
| Prepaid expenses and other | (224,769) | (981,938) |
| Accounts payable and other current liabilities | (814,997) | 3,397,270 |
| Health insurance liability | 263,696 | (293,588) |
| Accrued payroll and payroll withholdings | 255,147 | 306,726 |
| Accrued compensated absences | 131,183 | 72,901 |
| Deferred revenue | <u>(5,782,046)</u> | <u>6,057,115</u> |
| Net cash used in operating activities | <u>\$ (118,848,215)</u> | <u>\$ (110,209,564)</u> |
| Supplemental cash flows information | | |
| Capital leases incurred for capital assets | \$ 648,578 | \$ - |
| Long-term financing of capital projects | 5,923,701 | 2,410,140 |
| Construction in process included in accounts payable | 251,181 | 2,646,134 |
| Bond issue costs paid out of proceeds | <u>246,383</u> | <u>-</u> |
| | <u>\$ 7,069,843</u> | <u>\$ 5,056,274</u> |
| Reconciliation of cash and cash equivalents to the statement of net assets | | |
| Cash and cash equivalents | \$ 88,169,847 | \$ 79,577,691 |
| Restricted cash and cash equivalents | <u>12,630,450</u> | <u>16,227,225</u> |
| Total cash and cash equivalents | <u>\$ 100,800,297</u> | <u>\$ 95,804,916</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 20,900 and 20,700 in 2011 and 2010, 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 Statement No. 39, *Determining Whether Certain Organizations are Component Units*, requires certain organizations be reported as component units of a primary government based on the nature and significance of that organization’s relationship to the primary government. Western Kentucky University Foundation, Inc., College Heights Foundation, Inc. and WKU Student Life Foundation, Inc. (the “Foundations”) are discretely presented component units of the University. The Foundations are private nonprofit organizations that report under Financial Accounting Standards Board (FASB) Accounting Standards Codifications (“ASC”), including FASB ASC No. 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations’ financial information in the University’s financial report for these differences.

(Continued)

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

The financial information included for each foundation noted above is derived from the respective foundation's annual audited financial statements. WKU Foundation, Inc. and College Heights Foundation, Inc. operate on a calendar year. Thus, the information included for each of these foundations is as of and for the years ended December 31, 2010 and 2009. 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, 2011 and 2010.

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 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.

(Continued)

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 |

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

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>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Total interest expense incurred on borrowings for project | \$ 619,718 | \$ 1,528,608 |
| Interest income from investment of proceeds of borrowings for project | <u>17,550</u> | <u>276,884</u> |
| Net interest cost capitalized | <u>602,168</u> | <u>1,251,724</u> |
| | | |
| Interest capitalized | 602,168 | 1,251,724 |
| Interest charged to expense | <u>5,341,821</u> | <u>4,734,915</u> |
| | | |
| Total interest incurred | <u>\$ 5,943,989</u> | <u>\$ 5,986,639</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.

(Continued)

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, an additional \$550,000 in privately generated net assets was 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.

(Continued)

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

Recent Pronouncements Adopted/Implemented: 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. The adoption of this statement had no effect 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.

Recent Pronouncements: In December 2010, the Governmental Accounting Standards Board issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. Statement 60 addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership. The statement provides guidance on whether the transferor or the operator should report the capital asset in its financial statements, when to recognize up-front payments from an operator as revenue, and how to record any obligations of the transferor to the operator. The Statement also provides guidance for governments that are operators in an SCA. The provisions of this statement are effective for fiscal periods beginning after December 15, 2011. Management has not determined the impact this statement will have on the financial statements of the University.

(Continued)

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

In December 2010, the Governmental Accounting Standards Board issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. Statement 61 is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity* and No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The statement will improve the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units). The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials of the primary government by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that the government determines would be misleading to exclude. This statement also amends the criteria for blending component units in certain circumstances. These amendments will help ensure that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and will clarify which component units have that characteristic. The provisions and amendments of this statement are effective for fiscal periods beginning after June 15, 2012. Management has not determined the impact this statement will have on the financial statements of the University.

In June 2011, the Governmental Accounting Standards Board issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement established guidance for reporting deferred outflows and inflows of resources and net position in a statement of financial position. This statement establishes a framework detailing how these elements should be reported, which will standardize the presentation of deferred balances and their effects on the University’s net position. This statement also specifies that the statement of net position should report the residual amount as net position rather than net assets. The provisions of the statement are effective for fiscal periods beginning after December 15, 2011. Management has not determined the impact this statement will have on the financial statements of the University.

In June 2011, the Governmental Accounting Standards Board issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This statement designates specific circumstances where hedge accounting may continue after the termination of the hedging derivative instrument. Under the provisions of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, a government is to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in immediate recognition of the deferred outflows or inflows of resources as a component of investment income. However, in many circumstances, governments have replaced their counterparty in a hedging relationship by entering into new hedging agreements or amending existing hedging agreements. Statement No. 64 was issued to clarify the circumstances in which an effective hedging relationship continues after these events occur. The provisions of this statement are effective for fiscal periods beginning after June 15, 2011. Management has not determined the impact this statement will have on the financial statements of the University.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 2 – ASSETS HELD IN TRUST

Assets held in trust consisted of:

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| Cash equivalents | \$ 5,723,065 | \$ 4,181,935 |
| Common equity, common fixed income and mutual funds | <u>19,713,835</u> | <u>18,313,085</u> |
| Fair value of assets held in trust | <u>\$ 25,436,900</u> | <u>\$ 22,495,020</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 \$100,800,297 and \$95,804,916 at June 30, 2011 and 2010, while the bank balances were \$71,716,693 and \$91,574,737 at June 30, 2011 and 2010, respectively. All account balances at banks were either insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000, or collateralized with securities of the U.S. Government or with letters of credit issued by the Federal Home Loan Bank held in the University's name by financial institutions acting as the University's agent.

Investments (excluding 457(f) Incentive Plan)

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

457(f) Incentive Plan Investments

Pursuant to plan documents, the investments included in this plan are directed by the beneficiaries of the account and consist of money market mutual funds. The beneficiaries of these investments vest a certain percentage of the account balance on an annual basis. The vested balance is paid to the beneficiary subsequent to the University's fiscal year end. The total amount vested and payable as of June 30, 2011 and 2010 was \$119,479 and \$129,682, respectively. 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the University's investments at June 30, 2011:

| <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 | \$ 183,533 | \$ 183,533 | \$ - | \$ - | \$ - |
| Total | <u>\$ 183,533</u> | <u>\$ 183,533</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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, 2011 and 2010, consisted solely of investments in U.S. Treasuries, which are not considered to have credit risk.

Foreign Currency Risk: The University is not exposed to foreign currency risk as of June 30, 2011 and 2010.

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, 2011 and 2010.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Of the University's cash and investment balance as of June 30, 2011 and 2010, \$500,000 is secured by FDIC insurance, and \$60,651,814 and \$74,823,921, respectively, is secured by U.S. Treasury Notes held in the University's name, collateralized by the pledging institution. Additionally, as of June 30, 2011 and 2010, \$39,648,483 and \$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 are beneficiary-directed money-market mutual funds.

Investment Income

Investment income for the year ended June 30, 2011 and 2010 consisted of:

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| Interest income, including interest earned on cash equivalents | \$ 811,864 | \$ 1,096,145 |
| Net increase in fair value of investments | <u>1,465,464</u> | <u>708,652</u> |
| | <u>\$ 2,277,328</u> | <u>\$ 1,804,797</u> |

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of June 30:

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|---------------------|---------------------|
| Tuition, fees, sales and services | \$ 7,373,187 | \$ 6,365,023 |
| Credit memos | 374,621 | 580,442 |
| Miscellaneous, other | <u>909,429</u> | <u>309,108</u> |
| | 8,657,237 | 7,254,573 |
| Less allowance for doubtful accounts | <u>(900,795)</u> | <u>(714,787)</u> |
| Accounts receivable, net | <u>\$ 7,756,442</u> | <u>\$ 6,539,786</u> |

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 5 – CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2011, are summarized as follows:

| | <u>Balance</u> <u>July 1, 2010</u> | <u>Additions</u> | <u>Disposals</u> | <u>Transfers</u> | <u>Balance</u> <u>June 30, 2011</u> |
|------------------------------------|---------------------------------------|----------------------|---------------------|---------------------|--|
| Cost | | | | | |
| Land | \$ 7,638,470 | \$ 1,711,547 | \$ (832,675) | \$ - | \$ 8,517,342 |
| Buildings and improvements | 399,405,456 | 250,368 | - | 41,114,973 | 440,770,797 |
| Infrastructure | 36,109,821 | - | - | 2,494,197 | 38,604,018 |
| Furniture, fixtures and equipment | 49,492,751 | 3,988,998 | (742,507) | 590,087 | 53,329,329 |
| Library materials | 42,662,060 | 2,430,595 | (103,040) | - | 44,989,615 |
| Construction in progress | <u>39,854,994</u> | <u>29,210,442</u> | <u>-</u> | <u>(44,199,257)</u> | <u>24,866,179</u> |
| | <u>575,163,552</u> | <u>37,591,950</u> | <u>(1,678,222)</u> | <u>-</u> | <u>611,077,280</u> |
| Accumulated depreciation | | | | | |
| Buildings and improvements | 117,773,709 | 13,221,567 | - | - | 130,995,276 |
| Infrastructure | 10,020,433 | 1,610,363 | - | - | 11,630,796 |
| Furniture, fixtures, and equipment | 33,341,985 | 4,021,307 | (686,821) | - | 36,676,471 |
| Library materials | <u>31,922,421</u> | <u>1,887,765</u> | <u>(103,040)</u> | <u>-</u> | <u>33,707,146</u> |
| | <u>193,058,548</u> | <u>20,741,002</u> | <u>(789,861)</u> | <u>-</u> | <u>213,009,689</u> |
| Net capital assets | <u>\$ 382,105,004</u> | <u>\$ 16,850,948</u> | <u>\$ (888,361)</u> | <u>\$ -</u> | <u>\$ 398,067,591</u> |

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

| | <u>Balance</u> <u>July 1, 2009</u> | <u>Additions</u> | <u>Disposals</u> | <u>Transfers</u> | <u>Balance</u> <u>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
June 30, 2011 and 2010

NOTE 5 – CAPITAL ASSETS (Continued)

A summary of construction in progress at June 30, 2011 and 2010 is as follows:

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| Downing University Center Theater Improvements | \$ - | \$ 506,327 |
| South – Main Campus Lighting | - | 624,520 |
| Fine Arts Center – Music Hall | 3,696,502 | - |
| Upgrade Underground Electric | 2,975,371 | - |
| Knicely Conference Center – Phase III | 1,628,439 | - |
| Energy Savings Performance Contract | 10,005,236 | 3,577,315 |
| College of Education Building | - | 24,717,317 |
| Gas Fired Boiler #2 | 1,014,449 | - |
| College of Business Design | 1,937,547 | 1,843,958 |
| Renovation – Carol Knicely Center | - | 4,269,865 |
| Others under \$500,000 | <u>3,608,635</u> | <u>4,315,692</u> |
| | <u>\$ 24,866,179</u> | <u>\$ 39,854,994</u> |

Contractual commitments in connection with all projects totaled \$11,823,870 and \$10,526,184 at June 30, 2011 and 2010, respectively.

NOTE 6 – DEFERRED REVENUE

Deferred revenue as of June 30 consisted of:

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|----------------------|
| Unexpended state capital appropriations | \$ 435,849 | \$ 535,594 |
| Summer school tuition and fees | 4,531,135 | 4,599,406 |
| Grants and contracts | 4,097,177 | 10,257,337 |
| Advance sale of football tickets | 149,246 | 144,221 |
| University master plan | 89,950 | 87,925 |
| Aramark dining services contribution | - | - |
| Miscellaneous | <u>537,176</u> | <u>97,842</u> |
| Total deferred revenue | <u>\$ 9,840,533</u> | <u>\$ 15,722,325</u> |

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 7 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2011:

| | <u>Balance</u> <u>July 1, 2010</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2011</u> | <u>Current</u> <u>Portion</u> |
|--|---------------------------------------|----------------------|-----------------------|--|----------------------------------|
| Capital lease obligations | \$ 2,174,217 | \$ 648,578 | \$ (125,025) | \$ 2,697,770 | \$ 104,655 |
| Bonds payable, net of discounts and deferred loss on refinancing | 17,345,412 | - | (1,485,361) | 15,860,051 | 1,545,361 |
| General receipts bonds payable, net of discounts | 92,333,347 | - | (3,791,590) | 88,541,757 | 3,921,590 |
| Other long-term debt | 2,615,183 | 7,371,465 | (571,061) | 9,415,587 | 631,374 |
| Pledges payable, net of discount premiums and deferred loss on refinancing | <u>30,199,434</u> | <u>1,985,000</u> | <u>(2,406,413)</u> | <u>29,778,021</u> | <u>1,163,109</u> |
| Total bonds, pledges and capital leases | <u>\$ 144,667,593</u> | <u>\$ 10,005,043</u> | <u>\$ (8,379,450)</u> | <u>\$ 146,293,186</u> | <u>\$ 7,366,089</u> |

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

| | <u>Balance</u> <u>July 1, 2009</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2010</u> | <u>Current</u> <u>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> |

Bonds Payable

Bonds payable as of June 30, 2011, 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

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

| | <u>2011</u> | <u>2010</u> |
|---|-----------------------|-----------------------|
| Series N Bonds, dated September 1, 2002, with interest rates from 2.00% to 3.375%. Final principal payment date May 1, 2012 | \$ 535,000 | \$ 1,045,000 |
| Series O Bonds, dated July 1, 2003, with interest rates from 2.00% to 2.85%. Final principal payment date May 1, 2010 | - | - |
| Series P Bonds, dated September 1, 2003, with interest rates from 2.00% to 4.75%. Final principal payment date May 1, 2023 | 7,590,169 | 8,065,251 |
| Series Q Bonds, dated December 1, 2003, with interest rates from 1.50% to 4.25%. Final principal payment date May 1, 2023 | 7,734,882 | 8,235,160 |
| 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 | 8,508,176 | 8,891,123 |
| 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 | 35,791,580 | 37,468,695 |
| 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>44,242,001</u> | <u>45,973,530</u> |
| Total bonds payable | <u>\$ 104,401,808</u> | <u>\$ 109,678,759</u> |

The debt service requirements for the bonds payable as of June 30, 2011 are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|-----------------------|----------------------|-----------------------|
| 2012 | \$ 5,515,000 | \$ 4,177,298 | \$ 9,692,298 |
| 2013 | 5,150,000 | 3,983,744 | 9,133,744 |
| 2014 | 5,345,000 | 3,795,814 | 9,140,814 |
| 2015 | 5,370,000 | 3,603,478 | 8,973,478 |
| 2016 | 5,570,000 | 3,403,704 | 8,973,704 |
| 2017-2021 | 31,370,000 | 13,495,242 | 44,865,242 |
| 2022-2026 | 33,215,000 | 6,583,114 | 39,798,114 |
| 2027-2031 | <u>13,570,000</u> | <u>772,155</u> | <u>14,342,155</u> |
| | 105,105,000 | 39,814,549 | 144,919,549 |
| Less: unamortized discounts, net of premiums | <u>(703,192)</u> | - | <u>(703,192)</u> |
| | <u>\$ 104,401,808</u> | <u>\$ 39,814,549</u> | <u>\$ 144,216,357</u> |

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

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.

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 \$3,107,005 and \$2,718,821, net of accumulated depreciation of \$279,416 and \$239,682 at June 30, 2011 and 2010, 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, 2011:

| | <u>Total to be Paid</u> | <u>Present Value of Future Minimum Lease Payments</u> | <u>Interest Portion</u> |
|---------------------|-----------------------------|---|-----------------------------|
| Year ending June 30 | | | |
| 2012 | \$ 264,696 | \$ 104,655 | \$ 160,041 |
| 2013 | 260,737 | 107,699 | 153,038 |
| 2014 | 260,737 | 116,355 | 144,382 |
| 2015 | 260,737 | 123,506 | 137,231 |
| 2016 | 260,737 | 125,804 | 134,933 |
| Thereafter | <u>2,940,182</u> | <u>2,119,751</u> | <u>820,431</u> |
| | <u>\$ 4,247,826</u> | <u>\$ 2,697,770</u> | <u>\$ 1,550,056</u> |

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

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 December 11, 2009, the University entered into a Master Lease agreement with First & Farmer's National Bank. The original financing arrangement was refinanced with PNC on November 18, 2010. Under the provisions of this agreement, Johnson Controls will perform certain energy-saving capital upgrades to several campus buildings and will draw directly from PNC on a percentage of completion method, as stages of the capital project are completed. The annual percentage rate for this financing is 3.49%. Payments of principal and interest of \$928,726 will be due annually, beginning on May 30, 2011. As of June 30, 2011, the balance outstanding that had been drawn on this financing arrangement was \$9,224,611.

Debt service requirements on the other long-term debt at June 30, 2011, were as follows:

| Year ending June 30 | <u>Total to be Paid</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------|-----------------------------|---------------------|---------------------|
| 2012 | \$ 952,726 | \$ 631,374 | \$ 321,352 |
| 2013 | 952,726 | 653,997 | 298,729 |
| 2014 | 952,726 | 677,435 | 275,291 |
| 2015 | 952,726 | 701,715 | 251,011 |
| 2016 | 952,726 | 726,871 | 225,855 |
| 2017-2021 | 4,763,628 | 4,044,559 | 719,069 |
| 2022-2026 | <u>2,059,856</u> | <u>1,979,636</u> | <u>80,220</u> |
| | <u>\$ 11,587,114</u> | <u>\$ 9,415,587</u> | <u>\$ 2,171,527</u> |

(Continued)

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

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.

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

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 | Total to be Paid | Principal 2002B | Principal 2002C | Principal Series 2010 | Principal Series 2011 | Interest 2002B | Interest 2002C | Interest Series 2010 | Interest Series 2011 |
|---------------------------------------|----------------------|---------------------|--------------------|--------------------------|--------------------------|-------------------|-------------------|-------------------------|-------------------------|
| 2012 | \$ 2,314,571 | \$ 940,000 | \$ 50,000 | \$ - | \$ 300,000 | \$ 84,788 | \$ 2,938 | \$ 916,480 | \$ 20,365 |
| 2013 | 2,389,433 | 1,055,000 | - | - | 355,000 | 44,838 | - | 916,480 | 18,115 |
| 2014 | 2,470,690 | - | - | 525,000 | 1,015,000 | - | - | 916,480 | 14,210 |
| 2015 | 2,555,980 | - | - | 1,650,000 | - | - | - | 905,980 | - |
| 2016 | 2,647,980 | - | - | 1,775,000 | - | - | - | 872,980 | - |
| 2017-2021 | 14,507,025 | - | - | 10,985,000 | - | - | - | 3,522,025 | - |
| 2022-2026 | 14,331,241 | - | - | 12,840,000 | - | - | - | 1,491,241 | - |
| | <u>41,216,920</u> | <u>1,995,000</u> | <u>50,000</u> | <u>27,775,000</u> | <u>1,670,000</u> | <u>129,626</u> | <u>2,938</u> | <u>9,541,666</u> | <u>52,690</u> |
| Less unamortized discount | (29,446) | (28,563) | (883) | - | - | - | - | - | - |
| Less deferred loss on refinance | (1,848,234) | - | - | (1,848,234) | - | - | - | - | - |
| Add unaccrued premium | 165,701 | - | - | 165,701 | - | - | - | - | - |
| | <u>\$ 39,504,941</u> | <u>\$ 1,966,437</u> | <u>\$ 49,117</u> | <u>\$ 26,092,467</u> | <u>\$ 1,670,000</u> | <u>\$ 129,626</u> | <u>\$ 2,938</u> | <u>\$ 9,541,666</u> | <u>\$ 52,690</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, 2011, were:

| | |
|------------|---------------------|
| 2012 | \$ 778,092 |
| 2013 | 761,536 |
| 2014 | 761,536 |
| 2015 | 616,168 |
| 2016 | 567,712 |
| Thereafter | <u>4,058,818</u> |
| | <u>\$ 7,543,862</u> |

Lease expense was \$892,145 and \$606,754 for the year ended June 30, 2011 and 2010, respectively.

(Continued)

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 6.33% (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 14.01% (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, 2011, 2010 and 2009, were \$7,832,779, \$7,434,539 and \$7,090,933, 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 16.98% 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 26.12% 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, 2011, 2010 and 2009, were \$4,059,056, \$2,830,694 and \$2,356,189, respectively, which equal the required contributions for each year.

(Continued)

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, 2011, 2010 and 2009, were \$3,230,631, \$3,061,374 and \$2,887,167, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2011, 2010 and 2009, were \$2,276,964, \$2,157,670 and \$2,035,081, 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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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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>2011</u> | <u>2010</u> |
|---------------------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 755,358 | \$ 1,050,878 |
| Claims and changes in estimates | 12,830,928 | 11,344,048 |
| Claims payments | <u>(12,605,779)</u> | <u>(11,639,568)</u> |
| Balance, end of year | <u>\$ 980,507</u> | <u>\$ 755,358</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>2011</u> | <u>2010</u> |
|---------------------------------|-------------------|------------------|
| Balance, beginning of year | \$ 61,925 | \$ 59,993 |
| Claims and changes in estimates | 207,026 | 292,314 |
| Claims payments | <u>(168,479)</u> | <u>(290,382)</u> |
| Balance, end of year | <u>\$ 100,472</u> | <u>\$ 61,925</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."

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

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, 2011:

| | CPE Funding <u>Received</u> | ---External Matched Pledges--- <u>Received</u> | <u>Pledged</u> |
|--------------------------|--------------------------------|---|-------------------|
| Balance, July 1, 2010 | \$ 14,211,209 | \$ 13,698,728 | \$ 1,377,316 |
| Current year collections | <u>-</u> | <u>481,246</u> | <u>(481,246)</u> |
| Balance, June 30, 2011 | <u>\$ 14,211,209</u> | <u>\$ 14,179,974</u> | <u>\$ 896,070</u> |

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> |

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 13 – NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

The University's operating expenses by functional classification on June 30, 2011, were as follows:

| Functional Classification | Compensation and Benefits | Supplies Contractual Services and Other | Utilities | Non Capitalized Property | Scholarships | Depreciation | Total |
|------------------------------------|---------------------------|---|---------------------|--------------------------|----------------------|----------------------|-----------------------|
| Instruction | \$ 85,910,561 | \$ 11,883,945 | \$ 42,310 | \$ 1,401,808 | \$ - | \$ - | \$ 99,238,624 |
| Research | 6,030,956 | 4,718,971 | 3,840 | 211,735 | - | - | 10,965,502 |
| Public service | 9,323,291 | 5,280,616 | 39,184 | 176,513 | - | - | 14,819,604 |
| Libraries | 5,018,761 | 709,245 | - | 83,789 | - | - | 5,811,795 |
| Academic support | 13,708,155 | 4,200,851 | 7,165 | 985,717 | - | - | 18,901,888 |
| Student services | 16,991,030 | 9,548,339 | 4,680 | 200,789 | - | - | 26,744,838 |
| Institutional support | 21,391,760 | 6,490,669 | 10,948 | 288,545 | - | - | 28,181,922 |
| Operation and maintenance of plant | 12,506,523 | 6,557,787 | 6,890,883 | 853,248 | - | - | 26,808,441 |
| Student financial aid | 46,032 | 935,157 | - | 4,261 | 26,744,591 | - | 27,730,041 |
| Depreciation | - | - | - | - | - | 20,741,002 | 20,741,002 |
| Auxiliary enterprise | <u>7,850,659</u> | <u>10,471,711</u> | <u>2,347,549</u> | <u>100,981</u> | <u>-</u> | <u>-</u> | <u>20,770,900</u> |
| Total operating expenses | <u>\$ 178,777,728</u> | <u>\$ 60,797,291</u> | <u>\$ 9,346,559</u> | <u>\$ 4,307,386</u> | <u>\$ 26,744,591</u> | <u>\$ 20,741,002</u> | <u>\$ 300,714,557</u> |

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 | <u>7,554,427</u> | <u>10,487,188</u> | <u>2,156,172</u> | <u>221,461</u> | <u>-</u> | <u>-</u> | <u>20,419,248</u> |
| 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> |

NOTE 14 – SUBSEQUENT EVENT

Subsequent to year-end, the University made a \$2,000,000 prepayment associated with the lease on the development of "block 12 and 14 in the WKU Gateway to Downtown Bowling Green tax increment financing district." This lease is to commence upon the completion of the parking structure, expected December 2011. Upon the completion of this project, the University will lease this parking space for a thirty year period. At that time, the University will begin amortizing this pre-payment over the lease term.

(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 WKU Foundation Office, Alumni House, 1906 College Heights Blvd., Bowling Green, Kentucky, 42101.

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

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

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

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

Spending Policy: The annual distribution goal of the Foundation is 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.

(Continued)

**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: Accounts receivable from the Foundation and accounts payable to the Foundation as of the University's fiscal year ended June 30, 2011 and 2010 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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WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

**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, 2010 and 2009 were as follows:

| | <u>2010</u> | <u>2009</u> |
|--|----------------------|----------------------|
| Certificates of deposit | \$ 4,171,111 | \$ 2,225,238 |
| Mutual funds | 40,847,339 | 28,357,901 |
| U.S. Government and government agency obligations | 8,061,450 | 12,616,145 |
| Corporate bonds and notes | 5,465,900 | 6,300,224 |
| Equities and exchange traded funds | 4,125,554 | 2,242,856 |
| Real Estate and other | <u>4,392,408</u> | <u>2,711,770</u> |
| Total investments | 67,063,762 | 54,454,134 |
| Investments held for the University included above | (16,256,833) | (15,731,814) |
| Investments held for WKU Research Foundation included above | (866,261) | (549,447) |
| Investments held for HAF and AA included above | <u>(373,391)</u> | <u>(414,521)</u> |
| | <u>\$ 49,567,277</u> | <u>\$ 37,758,352</u> |

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors. At December 31, 2010, 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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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

Contributions Receivable

Contributions receivable at December 31, 2010 and 2009, consisted of the following unconditional promises to give:

| | <u>2010</u> | (Restated) <u>2009</u> |
|---------------------------------|----------------------|---------------------------|
| Due in less than one year | \$ 5,418,282 | \$ 3,737,154 |
| Due in one to five years | 9,986,269 | 9,906,194 |
| Due in more than five years | <u>2,879,001</u> | <u>3,488,122</u> |
| | <u>18,283,552</u> | <u>17,131,470</u> |
| Less | | |
| Allowance for doubtful accounts | (1,930,800) | (1,137,500) |
| Unamortized discount | <u>(1,627,846)</u> | <u>(1,986,325)</u> |
| | <u>(3,558,646)</u> | <u>(3,123,825)</u> |
| | <u>\$ 14,724,906</u> | <u>\$ 14,007,645</u> |

Discount rates ranged from 1.83% to 7.00% at December 31, 2010.

Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2010 and 2009 are available for the following purposes:

| | <u>2010</u> | (Restated) <u>2009</u> |
|----------------------------|----------------------|---------------------------|
| Scholarships | \$ 717,771 | \$ 659,225 |
| Public services | 923,927 | 1,070,409 |
| Athletics | 473,878 | 71,518 |
| University program support | <u>12,777,793</u> | <u>10,692,422</u> |
| | <u>\$ 14,893,369</u> | <u>\$ 12,493,574</u> |

(Continued)

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

Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2010 and 2009 are restricted to:

| | <u>2010</u> | <u>(Restated)</u> <u>2009</u> |
|----------------------------|----------------------|----------------------------------|
| Scholarships | \$ 12,591,816 | \$ 11,186,550 |
| Professorships | 8,323,807 | 7,893,358 |
| University program support | <u>14,261,100</u> | <u>14,673,588</u> |
| | <u>\$ 35,176,723</u> | <u>\$ 33,753,496</u> |

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 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.
- 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, 2010 and 2009, 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.

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WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

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

Fair values of assets measured on a recurring basis at December 31, 2010 and 2009 are as follows:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|-------------------|----------------------|----------------------|----------------------|---------------------|
| December 31, 2010 | \$ <u>67,063,762</u> | \$ <u>49,144,004</u> | \$ <u>15,233,493</u> | \$ <u>2,686,265</u> |
| December 31, 2009 | \$ <u>54,454,134</u> | \$ <u>32,825,995</u> | \$ <u>18,916,369</u> | \$ <u>2,711,770</u> |

At December 31, 2010 and 2009, investments included above under Level 2 represent investments in U.S. government/government agency obligations and corporate bonds/notes (fixed income securities).

At December 31, 2010, investments included above under Level 3 represent three investments in real estate as well as other alternative type investments (investments in partnerships and funds of funds).

| | |
|-----------------------------|---------------------|
| Beginning of the year | \$ 2,711,770 |
| Net additional investments | (25,505) |
| Transfers in/out of Level 3 | <u>-</u> |
| End of the year | <u>\$ 2,686,265</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, 2010 and 2009) of the related real estate investments to approximate fair value as of December 31, 2010 and 2009.

During 2008, 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 (\$447,934 and \$600,770 at December 31, 2010 and 2009, respectively) of the net outstanding advances to approximate fair value as of December 31, 2010 and 2009.

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.

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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

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, 2010 and 2009, endowment net assets consist of the following:

December 31, 2010

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Board designated endowment funds | \$ 9,339,018 | \$ - | \$ - | \$ 9,339,018 |
| Donor restricted endowment funds | <u>-</u> | <u>-</u> | <u>35,176,723</u> | <u>35,176,723</u> |
| | <u>\$ 9,339,018</u> | <u>\$ -</u> | <u>\$ 35,176,723</u> | <u>\$ 44,515,741</u> |

December 31, 2009

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Board designated endowment funds | \$ 8,694,060 | \$ - | \$ - | \$ 8,694,060 |
| Donor restricted endowment funds | <u>-</u> | <u>-</u> | <u>33,753,496</u> | <u>33,753,496</u> |
| | <u>\$ 8,694,060</u> | <u>\$ -</u> | <u>\$ 33,753,496</u> | <u>\$ 42,447,556</u> |

Changes in endowment net assets during the year ended December 31, 2010 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Beginning of the year (as restated) | \$ 8,694,060 | \$ - | \$ 33,753,496 | \$ 42,447,556 |
| Contributions | 295,533 | - | 1,423,227 | 1,718,760 |
| Investment return | 277,897 | - | - | 277,897 |
| Net appreciation (unrealized and realized) | 606,063 | - | - | 606,063 |
| Appropriation of endowment assets for expenditure | <u>(534,535)</u> | <u>-</u> | <u>-</u> | <u>(534,535)</u> |
| End of the year | <u>\$ 9,339,018</u> | <u>\$ -</u> | <u>\$ 35,176,723</u> | <u>\$ 44,515,741</u> |

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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

**NOTE 15 – WESTERN KENTUCKY UNIVERSITY 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 (as restated) | \$ 10,710,370 | \$ - | \$ 30,820,104 | \$ 41,530,474 |
| Contributions | 247,750 | - | 2,933,392 | 3,181,142 |
| Investment return | 516,197 | - | - | 516,197 |
| Net depreciation (unrealized and realized) | (1,399,465) | - | - | (1,399,465) |
| Appropriation of endowment assets for expenditure | <u>(1,380,792)</u> | <u>-</u> | <u>-</u> | <u>(1,380,792)</u> |
| End of the year | <u>\$ 8,694,060</u> | <u>\$ -</u> | <u>\$ 33,753,496</u> | <u>\$ 42,447,556</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 2010, management made the determination that certain pledges receivable had been misstated as of December 31, 2009. Accordingly, net assets as previously reported (as of December 31, 2009) decreased from \$59,527,638 to \$58,635,158, an adjustment of \$892,480, \$414,822 of which reflects an adjustment to net assets as of January 1, 2009. The remaining \$477,658 amount consists of a \$302,658 reduction to temporarily restricted contributions revenue and additional expenses on behalf of WKU programs in the amount of \$175,000. The 2009 financial statements have been revised to correct these misstatements.

During 2010, management also made the determination that certain permanently restricted net assets as of December 31, 2009 were misclassified as unrestricted. The 2009 financial statements have been revised to correct this misclassification. This \$709,383 reclassification had no effect on the previously reported change in net assets as of and for the year ended December 31, 2009.

(Continued)

**NOTE 16 – WKU STUDENT LIFE FOUNDATION, INC. –
ACCOUNTING POLICIES AND DISCLOSURES**

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

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, 2011 and 2010, 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.

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

**NOTE 16 – WKU STUDENT LIFE FOUNDATION, INC. –
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Capital asset activity for the year ended June 30, 2011 was:

| | Balance July 1, 2010 | Additions | Disposals | Balance June 30, 2011 |
|-----------------------------------|-------------------------|-----------------------|-----------------------|--------------------------|
| Cost | | | | |
| Land | \$ 3,600,123 | \$ 1,012,014 | \$ (581,287) | \$ 4,030,850 |
| Land improvements | 1,168,415 | 134,399 | - | 1,302,814 |
| Buildings and improvements | 92,611,266 | 313,406 | - | 92,924,672 |
| Furniture, fixtures and equipment | 6,822,470 | 391,922 | - | 7,214,392 |
| Construction-in-progress | <u>356,567</u> | <u>528,632</u> | <u>(765,426)</u> | <u>119,773</u> |
| | <u>104,558,841</u> | <u>2,380,373</u> | <u>(1,346,713)</u> | <u>105,592,501</u> |
| Less accumulated depreciation | | | | |
| Land improvements | 105,306 | 30,044 | - | 135,350 |
| Building and improvements | 17,506,392 | 2,709,800 | - | 20,216,192 |
| Furniture, fixtures and equipment | <u>4,083,516</u> | <u>820,633</u> | <u>-</u> | <u>4,904,149</u> |
| | <u>21,695,214</u> | <u>3,560,477</u> | <u>-</u> | <u>25,255,691</u> |
| Net capital assets | <u>\$ 82,863,627</u> | <u>\$ (1,180,104)</u> | <u>\$ (1,346,713)</u> | <u>\$ 80,336,810</u> |

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

| | Balance July 1, 2009 | Additions | Disposals | Balance June 30, 2010 |
|-----------------------------------|-------------------------|----------------------|-----------------------|--------------------------|
| 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> |

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

**NOTE 16 – WKU STUDENT LIFE FOUNDATION, INC. –
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

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, 2011:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|----------------------------|------------------------------|------------------|-----------------------|---------------------------|----------------------------|
| Bonds payable | \$ 81,120,000 | \$ - | \$ (2,130,000) | \$ 78,990,000 | \$ 2,360,000 |
| Less: unamortized discount | <u>(184,623)</u> | <u>-</u> | <u>9,269</u> | <u>(175,354)</u> | <u>(9,269)</u> |
| | <u>\$ 80,935,377</u> | <u>\$ -</u> | <u>\$ (2,120,731)</u> | <u>\$ 78,814,646</u> | <u>\$ 2,350,731</u> |

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending Balance</u> | <u>Current 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> |

Bonds payable as of June 30, 2011 and 2010 were as follows:

| | <u>2011</u> | <u>2010</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. | \$ 54,550,000 | \$ 56,040,000 |
| 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. | <u>24,440,000</u> | <u>25,080,000</u> |
| | 78,990,000 | 81,120,000 |
| Less unamortized discount | <u>(175,354)</u> | <u>(184,623)</u> |
| | <u>\$ 78,814,646</u> | <u>\$ 80,935,377</u> |

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

**NOTE 16 – WKU STUDENT LIFE FOUNDATION, INC. –
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

The debt service requirements for the bonds payable as of June 30, 2011, are as follows:

| Year ending June 30 | <u>Total to be Paid</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------------|-----------------------------|----------------------|---------------------|
| 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 | 3,039,750 | 2,895,000 | 144,750 |
| 2017-2021 | 17,634,750 | 16,795,000 | 839,750 |
| 2022-2026 | 22,506,750 | 21,435,000 | 1,071,750 |
| 2027-2031 | <u>29,006,250</u> | <u>27,625,000</u> | <u>1,381,250</u> |
| | 82,939,500 | 78,990,000 | 3,949,500 |
| Less: unamortized discount | <u>(175,354)</u> | <u>(175,354)</u> | - |
| | <u>\$ 82,764,146</u> | <u>\$ 78,814,646</u> | <u>\$ 3,949,500</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, 2011, the Foundation was in compliance with its debt covenants.

Related Party Transactions

During Student Life's fiscal years ended June 30, 2011 and 2010, Student Life received rental revenues from University students of \$17,458,382 and \$17,315,419, respectively. Accounts receivable from the University totaled \$659,481 and \$872,358 at June 30, 2011 and 2010, respectively. Net investment in a direct financing lease receivable from the university was \$2,176,726 and \$2,273,143 at June 30, 2011 and 2010, respectively. Likewise, accounts payable to the University totaled \$885,556 and \$942,409 at June 30, 2011 and 2010, respectively.

Student Life has no employees of its own and its board of trustees serves on a voluntary, non-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.

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 2011 and 2010.

(Continued)

**NOTE 16 – WKU STUDENT LIFE FOUNDATION, INC. -
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Student Life receives fees from the University relating to chilled water services. The fees were \$859,242 and \$882,381 for the years ended June 30, 2011 and 2010, 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 (\$36,548,500 as of June 30, 2011), 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, 2011 and 2010, 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 \$4,210,000 as of June 30, 2011, 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 \$19,749,123 as of June 30, 2011, 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

**NOTE 16 – WKU 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> | Fair Value June 30, <u>2011</u> | Fair Value June 30, <u>2010</u> |
|-----------------|-----------------------|----------------------|-------------------------|---------------------------------------|---------------------------------------|
| (1) – Floor | May 25, 2000 | June 1, 2015 | LIBOR | \$ (7,799,331) | \$ (9,028,801) |
| (1) – Cap | May 25, 2000 | June 1, 2010 | LIBOR | - | - |
| (1) – Swap | May 25, 2000 | June 1, 2010 | LIBOR | - | - |
| (2) – Swap | February 1, 2006 | February 1, 2016 | LIBOR | (445,261) | (493,382) |
| (3) – Swap | January 25, 2008 | June 3, 2024 | LIBOR | (2,365,902) | (2,822,928) |
| (4) – Cap | June 1, 2012 | June 1, 2015 | LIBOR | 105,207 | 179,201 |
| (4) – Swap | June 1, 2015 | June 1, 2025 | LIBOR | <u>(639,008)</u> | <u>(1,413,757)</u> |
| Net liabilities | | | | <u>\$ (11,144,295)</u> | <u>\$ (13,579,667)</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>2011</u> | <u>2010</u> |
|--|---------------------|-----------------------|
| Net cash payments made under the collar agreement | \$ (2,544,594) | \$ (2,594,010) |
| Net cash payments made under the interest rate swap agreements | (835,374) | (779,047) |
| Change in fair value of the derivative agreements | <u>2,435,372</u> | <u>(2,527,570)</u> |
| | <u>\$ (944,596)</u> | <u>\$ (5,900,627)</u> |

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

| | <u>2011</u> | <u>2010</u> |
|---|---------------|---------------|
| Fair value of interest rate swap and collar agreements | \$ 11,144,295 | \$ 13,579,667 |
| Statement of financial position location of fair value amount | Liability | Liability |

Functional Allocation of Expenses

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

| | <u>2011</u> | <u>2010</u> |
|-------------------------|----------------------|----------------------|
| Student housing program | \$ 12,333,441 | \$ 11,827,523 |
| Management and general | <u>1,128,480</u> | <u>1,091,979</u> |
| | <u>\$ 13,461,921</u> | <u>\$ 12,919,502</u> |

(Continued)

**NOTE 16 – WKU STUDENT LIFE FOUNDATION, INC. –
 ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

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>2011</u> | <u>2010</u> |
|---------------------|-------------------|-------------------|
| Balance, July 1 | \$ 657,204 | \$ 618,838 |
| Accretion expense | 40,745 | 38,366 |
| Liabilities settled | <u>-</u> | <u>-</u> |
| Balance, June 30 | <u>\$ 697,949</u> | <u>\$ 657,204</u> |

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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

**NOTE 16 – WKU STUDENT LIFE FOUNDATION, INC. –
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

The 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.

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:

| | 2011 | | | |
|---|---|---|--|-------------|
| | Fair Value Measurements Using | | | |
| Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Interest rate swap agreements | | | | |
| Floor – 2000 bond series | \$ (7,799,331) | \$ - | \$ (7,799,332) | \$ - |
| Cap – 2000 bond series | 105,207 | - | 105,207 | - |
| Swap – 2000 bond series | (639,008) | - | (639,008) | - |
| Swap – 2006 bond series | (445,261) | - | (445,261) | - |
| Swap – 2008 bond series | (2,365,902) | - | (2,365,902) | - |
| | <u>\$ (11,144,295)</u> | <u>\$ -</u> | <u>\$ (11,144,296)</u> | <u>\$ -</u> |
| Cash equivalents – money market accounts | \$ 5,525,222 | \$ 5,525,222 | \$ - | \$ - |
| Assets limited as to use – money market accounts | \$ 2,924,638 | \$ 2,924,638 | \$ - | \$ - |
| Assets held for others – student deposits – bonds | \$ 242,309 | \$ - | \$ 242,309 | \$ - |
| Assets held for others – Student deposits – money market accounts | \$ 175,259 | \$ - | \$ - | \$ - |

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

**NOTE 16 – WKU STUDENT LIFE FOUNDATION, INC. –
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

| | 2010 | | | |
|--|---|--|--|-------------|
| | Fair Value Measurements Using | | | |
| <u>Fair Value</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> | |
| Interest rate swap agreements | | | | |
| 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 | \$ - | \$ - |

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, 2011 and 2010

**NOTE 16 – WKU 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, 2011 and 2010.

| | <u>2011</u> | | <u>2010</u> | |
|--|----------------------------|-----------------------|----------------------------|-----------------------|
| | <u>Carrying Amount</u> | <u>Fair Value</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
| Financial assets | | | | |
| Cash and cash equivalents | \$ 8,230,093 | \$ 8,230,093 | \$ 5,760,821 | \$ 5,760,821 |
| Net investment in direct financing lease | 2,176,726 | 2,176,726 | 2,273,143 | 2,273,143 |
| Assets limited as to use – guaranteed investment contract | 7,117,952 | 7,117,952 | 6,456,916 | 6,456,916 |
| Assets held for and by other – student deposits - certificates of deposit and claims on cash | 253,137 | 253,137 | 252,936 | 252,936 |
| Financial liabilities | | | | |
| Long-term debt | 78,814,646 | 78,814,646 | 80,935,377 | 80,935,377 |

Commitments

During the fiscal year ended June 30, 2011, 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> |
|----------------------------|---------------------------|
| Kentucky Street Apartments | \$ 7,000,000 |
| McCormack Hall | 150,000 |
| Odes Harlan Hall | 20,000 |
| Minton Hall | 36,000 |
| Zacharias Hall | 70,000 |
| Meredith Hall | 70,000 |

(Continued)

**NOTE 17 – 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, 2010 and 2009, 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, 2011 and 2010

**NOTE 17 – COLLEGE HEIGHTS FOUNDATION, INC. –
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Investments at December 31, 2010 and 2009 consisted of the following:

| | <u>2010</u> | <u>2009</u> |
|------------------------------|----------------------|----------------------|
| Short-term investments | | |
| Mutual Funds | \$ 2,678,432 | \$ 1,813,097 |
| Corporate bonds | - | - |
| Certificates of deposit | - | - |
| | <u>\$ 2,678,432</u> | <u>\$ 1,813,097</u> |
| Long-term investments | | |
| Equity securities | \$ 23,364,529 | \$ 19,069,283 |
| U. S. Treasury securities | 1,099,424 | 270,125 |
| Government agency securities | 107,073 | 201,171 |
| Mortgage-backed securities | 843,693 | 1,031,949 |
| Corporate bonds | 5,067,827 | 6,247,721 |
| Certificates of deposit | 2,096,539 | 2,159,213 |
| Real estate | 1,173,464 | 1,410,150 |
| | <u>\$ 33,752,549</u> | <u>\$ 30,389,612</u> |

Related Party Transactions: During the fiscal years ended December 31, 2010 and 2009, College Heights made scholarship payments of \$4,259,249 and \$4,034,810, respectively, on behalf of students attending the University. The University made the final annual payments of \$26,295 to College Heights under a capital lease agreement for the President's home. Accounts receivable from College Heights and accounts payable to College Heights as of the University's fiscal years ended June 30, 2011 and 2010 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

**NOTE 17 – 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, 2010 and 2009, 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, 2010 consist principally of investments as follows:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|-------------|----------------------|----------------------|---------------------|---------------------|
| Investments | \$ <u>40,017,015</u> | \$ <u>31,725,534</u> | \$ <u>7,118,017</u> | \$ <u>1,173,464</u> |

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> |

At December 31, 2010 and 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, 2010 and 2009, investments included above under Level 3 represent Foundation investments in real estate. The 2010 and 2009 activity, with respect to the investments included above under level 3, is as follows:

| | <u>2010</u> | <u>2009</u> |
|-----------------------------|---------------------|---------------------|
| Beginning of the year | \$ 1,410,150 | \$ 210,150 |
| Net additional investments | - | 1,200,000 |
| Investments sold | (236,686) | - |
| Transfers in/out of Level 3 | - | - |
| End of the year | <u>\$ 1,173,464</u> | <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).

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

**NOTE 17 – 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, 2010 and 2009 reflect liabilities totaling \$2,417,155 and \$2,027,569, 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, 2010 and 2009, investments relative to charitable gift annuities totaled \$3,652,301 and \$3,143,985, 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, 2010 and 2009 reflects liabilities totaling \$1,087,072 and \$1,078,327, 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, 2010 and 2009, investments relative to charitable remainder trusts totaled \$2,002,134 and \$1,949,335, 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, 2010 and 2009 consists of the following:

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Western Kentucky University – investments | \$ 2,647,475 | \$ 1,681,407 |
| WKU Foundation trust | 199,111 | 128,184 |
| WKU – Athletics | 739,449 | 438,591 |
| Assets held – future trust | <u>244,342</u> | <u>200,000</u> |
| | <u>\$ 3,830,377</u> | <u>\$ 2,448,182</u> |

Accordingly, the statement of financial position reflects liabilities for assets held for others in the amounts of \$3,830,377 and \$2,448,182 as of December 31, 2010 and 2009, respectively.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

**NOTE 17 – COLLEGE HEIGHTS FOUNDATION, INC. –
 ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Notes Payable: Notes Payable at December 31, 2010 and 2009 consists of the following:

| | <u>2010</u> | <u>2009</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, 2010); outstanding principal and accrued interest due December 31, 2012; unsecured. | \$ 504,024 | \$ 573,558 |
| U.S. Bank installment note, dated December 13, 2005 and Amendment to Note dated December 29, 2010; principal due in quarterly installments of \$4,500, plus interest at 4.53%; outstanding principal and accrued interest due December 13, 2015; unsecured. | <u>164,500</u> | <u>178,000</u> |
| | <u>\$ 668,524</u> | <u>\$ 751,558</u> |

At December 31, 2010, aggregate principal payments required on notes payable for each of the succeeding five years are:

| | |
|------|-------------------|
| 2011 | \$ 87,643 |
| 2012 | 452,381 |
| 2013 | 18,000 |
| 2014 | 18,000 |
| 2015 | <u>92,500</u> |
| | <u>\$ 668,524</u> |

Restricted Net Assets

At December 31, 2010, temporarily restricted net assets consist of the following:

| | |
|-----------------------|-------------------|
| Scholarship funds | \$ 451,111 |
| Other program support | <u>12,700</u> |
| | <u>\$ 463,811</u> |

At December 31, 2010, permanently restricted net assets consist of the following:

| | |
|-----------------------|----------------------|
| Scholarship funds | \$ 29,257,591 |
| Other program support | <u>4,296,166</u> |
| | <u>\$ 33,553,757</u> |

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

**NOTE 17 – 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, 2010, 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 | \$ 3,151,379 | \$ - | \$ - | \$ 3,151,379 |
| Donor restricted endowment funds | <u>-</u> | <u>-</u> | <u>33,553,757</u> | <u>33,553,757</u> |
| | <u>\$ 3,151,379</u> | <u>\$ -</u> | <u>\$ 33,553,757</u> | <u>\$ 36,705,136</u> |

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> |

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

**NOTE 17 – COLLEGE HEIGHTS FOUNDATION, INC. –
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Changes in endowment net assets during the year ended December 31, 2010 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Beginning of the year | \$ 3,626,315 | \$ - | \$ 31,971,385 | \$ 35,597,700 |
| Contributions | 73,327 | - | 1,582,372 | 1,655,699 |
| Investment return | | | | |
| Investment income | 52,953 | - | - | 52,953 |
| Net depreciation (unrealized and realized) | 291,619 | - | - | 291,619 |
| Appropriation of endowment assets for expenditure | <u>(892,835)</u> | <u>-</u> | <u>-</u> | <u>(892,835)</u> |
| End of the year | <u>\$ 3,151,379</u> | <u>\$ -</u> | <u>\$ 33,553,757</u> | <u>\$ 36,705,136</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 | \$ 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 endowment 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> |

SUPPLEMENTAL INFORMATION

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2011

| <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> |
|--|---|-----------------|-------------------------------|----------------------------|
| Student Financial Aid Cluster | | | | |
| Direct Programs | | | | |
| U. S. Department of Education | | | | |
| SEOG | | 84.007 | P007A0101615 | \$ 487,363 |
| Federal Perkins Loan Program | | 84.038 | | 5,145,359 |
| Federal Family Education Loan Program | | 84.032 | | (121,253) |
| Federal Work Study | | 84.033 | P033A21615 | 704,527 |
| America Reads | | 84.033 | P033A21615 | 35,435 |
| FACG 2009-2010 | | 84.063 | P375A081508 | (188) |
| PACG 2010-2011 | | 84.063 | P375A101508 | 940,461 |
| SMART Grant | | 84.063 | P3765101508 | 723,599 |
| PELL Grants 2009-2010 | | 84.063 | P063P091508 | 14,871 |
| PELL Grants 2010-2011 | | 84.063 | P063P101508 | 32,280,258 |
| Federal Direct Sub Loan | | 84.268 | | 109,265,899 |
| Teach Grant FY11 | | 84.379 | | <u>11,870</u> |
| Total Student Financial Aid Cluster | | | | <u>149,488,201</u> |
| Research and Development Cluster | | | | |
| Direct Programs | | | | |
| U. S. Department of Agriculture | | | | |
| Poultry Waste Management | | 10.001 | 56-6445-6-68 | 935,852 |
| Support of Ag Research FY10 | | 10.001 | 58-6445-0-101 | 20,160 |
| Conservation Practices | | 10.902 | 69-5C16-4-220 and 6-23 | 31,915 |
| Conservation Practices – Upper GRB | | 10.902 | 69-SC16-10-053 | <u>444</u> |
| | | | | <u>988,371</u> |
| U.S. Department of Commerce | | | | |
| SURF – Gaithersburg | | 11.609 | Agreement #70NANB11H056 | <u>4,217</u> |
| U.S. Department of Defense | | | | |
| Detection of Toxic Materials | | 12.300 | N00014-10-1-0282 | <u>261,484</u> |
| U. S. Department of Interior | | | | |
| Archival Cataloging | | 15.916 | H5530060050 MOD 4 | 49,723 |
| Mammoth Cave Learning Center II | | 15.923 | J5536090204 | <u>24,090</u> |
| | | | | <u>73,813</u> |
| U.S. Department of State | | | | |
| WKU Hoffman Inst. China FY07 | | 19.UNK | 486-A-00-06-00014-00 | <u>21,450</u> |
| National Aeronautics and Space Administration | | | | |
| KY Space Grant Consortium Yr 14 | | 43.UNK | NNG05GH07H | 478,615 |
| NASA EPSCoR Research Dev. | | 43.UNK | NNX07AL55A | 83,213 |
| Efficacy Countermeasures of C.D. | | 43.UNK | NNX07AT58A | 119,925 |
| Versatile Biosensing Platform | | 43.UNK | NNX08BA13A | 191,785 |
| Coastal Forest Ecosystems | | 43.UNK | NNX09AR61G | 158,058 |
| Light Curves and Masses | | 43.UNK | NNX10AC42G | 25,064 |
| Spectroscopy of Solar Flares | | 43.UNK | NNX10AT78G | <u>35,690</u> |
| | | | | <u>1,092,350</u> |

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2011

| <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> |
|--|--|-----------------|-------------------------------|----------------------------|
| Research and Development Cluster (Continued) | | | | |
| Direct Programs | | | | |
| National Science Foundation | | | | |
| RUI: Hydrocarbon Media | | 47.049 | CHE-0710021 | \$ 13,342 |
| Exploring Space – Large Knots & Links | | 47.049 | DMS-0712997 | 4,944 |
| RUI: Electronically Controlled Form | | 47.049 | CHE-1008356 | 22,572 |
| Transition of Knot Space | | 47.049 | DMS-1016420 | 4,807 |
| REU: Summer Research – Green River | | 47.050 | EAR-1004655 | 98,630 |
| Drosophila Embryonic Images | | 47.070 | IIS-1016668 | 18,974 |
| Phylogeny of Bat Flies – Insights | | 47.074 | DEB-1003459 | 21,870 |
| BREAD – Increase Crop Yield | | 47.074 | IOS-0965445 | 141,290 |
| MS Partnership | | 47.076 | DUE0832115 | 30,227 |
| Wand WW Technician Training | | 47.076 | DUE0903286 | 250,544 |
| Integration of NMR | | 47.076 | DUE-0942208 | 231,821 |
| CCL: Multi Transformation | | 47.076 | DUE-0942293 | <u>26,668</u> |
| | | | | <u>865,689</u> |
| Environmental Protection Agency | | | | |
| T.A.C. for Water Quality | | 66.202 | EM-83400201-0 | 1,836 |
| Green River Project | | 66.436 | X7-9643906-0 | <u>18,169</u> |
| | | | | <u>20,005</u> |
| U. S. Department of Energy | | | | |
| Feasibility Studies on Coupling | | 81.087 | DE-EE0003156 | <u>141,221</u> |
| U. S. Department of Health and Human Services | | | | |
| Reaction to Bulky Platinum Complex | | 93.390 | 1 R15 GM074663-01A1 | 10,829 |
| Mechanical Stress/Myofibroblast Fxn | | 93.390 | 1 R15 HL 087185-01 | 54,944 |
| Chlamydomonas Entrainment | | 93.859 | 1 R15 GM076079-01A1 | 20,161 |
| ID of RNA's in Ecoli | | 93.859 | 1 R15 GM79694-01 | <u>19,446</u> |
| | | | | <u>105,380</u> |
| Pass Through Programs | | | | |
| U. S. Department of Commerce | | | | |
| WKU Mesonet Project | NOAA | 11.467 | NA06NWS4670010 | <u>281,104</u> |
| U. S. Department of Defense | | | | |
| ID of Canonical Subsets | | 12.300 | PRIME-N00014-08-1-0925 | 8,886 |
| Examination of Fishes | | 12.401 | P02 95 11000042191 | 17,610 |
| Cyber Defense Phase III | | 12.902 | Letter SUB#EWAGSI-09-LS-001 | 387,102 |
| NACMAST EII | | 12.902 | EWAGSI-11-SC1-003 | <u>50,405</u> |
| | | | | <u>464,003</u> |
| U.S. Department of Interior | | | | |
| Assess Changes – Forest Harvesting | | 15.805 | UKRF 304698922-10-377 | <u>1,023</u> |
| U.S. Department of Labor | | | | |
| Invention Convention | Lincoln Trail Area Development District | 17.268 | Contract #LTADD-Wired 65-C-08 | <u>(65)</u> |
| National Science Foundation | | | | |
| ARRA Removable Surface Phases | ARRA | 47.082 | OISE-0936693 | <u>49,589</u> |
| Environmental Protection Agency | | | | |
| TMDL Development Project | Kentucky Division of Water | 66.463 | M06147994 & M-06148343 | <u>25,083</u> |

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2011

| <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> |
|--|---|-----------------|-------------------------------|----------------------------|
| Research and Development Cluster (Continued) | | | | |
| Pass Through Programs | | | | |
| U.S. Department of Energy | | | | |
| ARRA-Novel Oxygen Carriers | ARRA | 81.133 | DE-FE 0001808 | \$ <u>87,920</u> |
| U. S. Department of Health and Human Services | | | | |
| CHAMPS Grant | | 93.297 | ULRF 10-1353 | 26,396 |
| INBRE – Zebrafish FY11 | | 93.389 | OGMB090109A1 | 270,442 |
| INBRE – Human Interleukin – 1 FY11 | | 93.389 | MOA Dated 6/15/10 | 25,942 |
| INBRE – Zebrafish FY 12 | | 93.389 | OGMB90109B1 | 22,089 |
| Molecular Epidemiology – Kenya | | 93.389 | Letter dated 4/28/11 | 454 |
| Brain Research Neuro- development | University of Alabama of Birmingham | 93.865 | Sub #000257071-006 | <u>23,474</u> |
| | | | | <u>368,797</u> |
| U.S. Department of Homeland Security | | | | |
| PCIRS | | 97.001 | 05-07-WKU | 255,606 |
| Completed Neutron Interrogation System | | 97.001 | 04-07-WKU | 408,087 |
| WTI-Impulse Generation | | 97.065 | 06-07-WKU | <u>125,646</u> |
| | | | | <u>789,339</u> |
| National Aeronautics and Space Administration | | | | |
| Spectral Analysis – Supernova | | 43.UNK | 3049024102-11-186 | 6,013 |
| Stratospheric Ballooning | | 43.UNK | 3049024102-11-172 | 1,963 |
| Environmental Effects – Supernova | | 43.UNK | 3048107336-11-187 | 11,709 |
| Analysis of Large Optics | | 43.UNK | 3048107336-11-167 | 9,694 |
| Cold Diffuse Clouds – Star | | 43.UNK | 3048107336-11-183 | 2,647 |
| WKU H.S. Robotics Competition | | 43.UNK | 3048107336-11-179 | 5,000 |
| WKU NASA Lunabotics II | | 43.UNK | 3049024102-11-181 | 4,673 |
| STSCI:SN MCT | | 43.UNK | HST-GO-12099.12A | 52,922 |
| Effects of Supernovae Production | | 43.UNK | 3049023886-11-015 | 3,047 |
| Supporting CARS in Competition | | 43.UNK | 3048107336-11-180 | <u>2,182</u> |
| | | | | <u>99,850</u> |
| U. S. Department of Homeland Security | | | | |
| Disruptions in Water Service Best Practice-Water System | National Institute for Hometown Security | 97.UNK | HSHQDC07-3-00005 | 24,470 |
| | | Agreement | 09-09-WKU | <u>435,145</u> |
| | | | | <u>459,615</u> |
| Vietnam Education Foundation | | | | |
| Visiting Scholar – Dr. Nguyet | Vietnam Education Foundation | 99.UNK | VEG Grant 09-10 | <u>9,530</u> |
| Total Research and Development Cluster | | | | <u>6,209,768</u> |
| TRIO Cluster | | | | |
| Direct Programs | | | | |
| U. S. Department of Education | | | | |
| Student Support Services FY07 | | 84.042 | P042A060158 | 299,563 |
| Talent Search FY07 | | 84.044 | P044A060357 | 405,326 |
| Upward Bound FY09-11 | | 84.047 | P047A080368 | 312,926 |
| VUB FY08-11 | | 84.047 | P047V070027-1 | 257,502 |
| EOC – FY 2008-2012 | | 84.066 | P066A070115 | <u>217,581</u> |
| Total TRIO Cluster | | | | <u>1,492,898</u> |

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2011

| <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> | |
|--|---|---|-------------------------------|----------------------------|----------------|
| Head Start Cluster | | | | | |
| Direct Programs | | | | | |
| U.S. Department of Health and Human Services | | | | | |
| Direct Programs | | | | | |
| | Head Start General 22 2010 | 93.600 | 04CH0201/26 | \$ 443,637 | |
| | Head Start PA22 FY11 PD | 93.600 | 04CH0201/27 | <u>887,612</u> | |
| | | | | <u>1,331,249</u> | |
| Pass Through Programs | | | | | |
| | Early Head Start FY10 | 93.600 | 04CH2692-001 | 195,242 | |
| | PDM Center | 93.600 | 04CH0004/0 | 571,020 | |
| | Head Start 2009 ARRA/COLA | 93.708 | 04SE0201/01 | <u>8,943</u> | |
| | | | | <u>775,205</u> | |
| Total Head Start Cluster | | | | <u>2,106,454</u> | |
| Child Care R&R Cluster | | | | | |
| Pass Through Programs | | | | | |
| U.S. Department of Health and Human Services | | | | | |
| | Child Care R&R FY11 | 93.596 | UKRF 3048107443-11-038 | 173,483 | |
| | CCRR ARRA FY11 | 93.713 | UKRF 3049024194-11-074,075, 0 | <u>82,300</u> | |
| Total Child Care R&R Cluster | | | | <u>255,783</u> | |
| GSKY Teach Cluster | | | | | |
| Direct Programs | | | | | |
| U.S. Department of Education | | | | | |
| | GSKY Teach | 84.336 | U3365090054 | <u>1,032,316</u> | |
| Fund for the Improvement of Postsecondary Education | | | | | |
| U.S. Department of Education | | | | | |
| | WKU-OCSE High Performance Computing | 84.116 | P1162 090036 | 45,000 | |
| | Alliance in North America | 84.116 | Award # P116N080017 | 30,702 | |
| | BGCC FISPE Initiative | 84.116 | P116Y090035 | 103,983 | |
| | Equipment Acquisition in Biotech | 84.116 | Grant # P116Z100129 | 1,989,684 | |
| | WKY Building in Owensboro | 84.116 | P116Z100177 | <u>418,560</u> | |
| Total Fund for the Improvement of Postsecondary Education | | | | <u>2,587,929</u> | |
| Other Federal | | | | | |
| U. S. Department of Defense | | | | | |
| Pass Through Programs | | | | | |
| | Chinese Language Acquisition | Institute of International Education | 12.550 | NSEP-U631033-WKU-CHN-PG | <u>203,442</u> |
| U.S. Housing and Urban Development | | | | | |
| Direct Programs | | | | | |
| | HABG FY11 | Housing Authority of Bowling Green | 14.218 | Agreement dated 9/20/10 | <u>38,000</u> |

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

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2011

| <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> |
|--|---|-----------------|-------------------------------|----------------------------|
| Other Federal (Continued) | | | | |
| U. S. Department of Interior | | | | |
| Direct Programs | | | | |
| Student Intern Support - Cumberland | | 15.916 | H5000 04 0800 (T0#J211301001) | \$ 46,528 |
| Mammoth Cave International Center | | 15.916 | H55530060045 | 21,037 |
| Archival Cataloging III | | 15.916 | P11AC00229A | 20,138 |
| Using MCNP as a Classroom | | 15.921 | H5000 09 5041/J5533 11 0001 | <u>53,035</u> |
| Total U.S. Department of Interior | | | | <u>140,738</u> |
| U. S. Department of Justice | | | | |
| Direct Programs | | | | |
| CCTV Project Phase II | | 16.710 | 2008CKWX0485 | <u>50,672</u> |
| U.S. Department of Transportation | | | | |
| Pass Through Programs | | | | |
| Radio Fiscal Stab. Grant | | 20.UNK | 1/14/10 Email | 5,333 |
| TV Fiscal Stabilization Grant | | 20.UNK | 1/14/10 Email | <u>35,716</u> |
| Total U.S. Department of Transportation | | | | <u>41,049</u> |
| National Science Foundation | | | | |
| Direct Program | | | | |
| REU: Investigating Biotechnology | | 47.074 | DBI-1004665 | 99,589 |
| ARRA: WKU SMARRT | ARRA | 47.082 | DUE-0934804 | <u>70,585</u> |
| | | | | <u>170,174</u> |
| Pass Through Programs | | | | |
| KY-West VA LSAMP FY07 | University of Kentucky Research Foundation | 47.076 | UKRF3048032200-07-248 | <u>41,630</u> |
| Total National Science Foundation | | | | <u>211,804</u> |
| Small Business Administration | | | | |
| Pass Through Programs | | | | |
| Small Business Center FY10 | | 59.037 | UKRF 3048106648-10-188 | 18,844 |
| Small Business Center FY11 | | 59,037 | UKRF 3048107699-11-225 | <u>38,713</u> |
| Total Small Business Administration | | | | <u>57,557</u> |
| Environmental Protection Agency | | | | |
| Direct Programs | | | | |
| Tech. Assistance for Water Quality | | 66.202 | EM-83440301-0 | <u>99,464</u> |
| Pass Through Programs | | | | |
| Radon Mitigation FY10 | KY Cabinet for Health Services | 66.032 | P02 728 0900023420 1 | 3,400 |
| Radon Mitigation FY11 | KY Cabinet for Health Services | 66.032 | P0N2 728 1000003557 1 | 48,757 |
| Habitat for Humanity Demonstration | | 66.460 | P0N2 129 1100001150 1 | 30,664 |
| Bacon Creek | | 66.460 | MOA Dated 4/8/11 | 923 |
| KY Water Response Network FY10 | | 66.474 | Agreement #900025383 | <u>18,756</u> |
| | | | | <u>102,500</u> |
| Total Environmental Protection Agency | | | | <u>201,964</u> |
| U.S. Department of Energy | | | | |
| Pass Through Programs | | | | |
| ARRA: Electric Power Engineering | ARRA | 81.122 | A00211576 | <u>2,530</u> |

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

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2011

| <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> |
|--|--|-----------------|-------------------------------|----------------------------|
| Other Federal (Continued) | | | | |
| U. S. Department of Education | | | | |
| Direct Programs | | | | |
| Asian Studies at WKU | | 84.016 | P016A090066 | \$ 83,364 |
| GEMS FY 09 | | 84.206 | S206A080048 | 337,335 |
| Project Child | | 84.325 | H325K070111 | <u>202,366</u> |
| | | | | <u>623,065</u> |
| Pass Through Programs | | | | |
| KYAE-Program Directors | | | | |
| Inst. FY11 | | 84.002 | P02 415 1100002739 1 | 4,952 |
| Project TREE FY10 | Kentucky Department of Education | 84.027 | P02 540 0900024720 1 | 44,405 |
| Perkins – Teacher Prep FY10 | | 84.048 | P02 531 0900024687 1 | (9) |
| Perkins – Teacher Prep FY11 | | 84.048 | P0N2 531 1100000026 1 | 26,191 |
| Perkins FY10 CFS | | 84.048 | P902 531 1000000610 1 | 1,923 |
| Perkins Admin FY11 | | 84.048 | P02 531 1000000 6173 1 | 76,589 |
| Perkins P.D. For Teachers FY11 | | 84.048 | P0N2 531 110000007 1 | 13,030 |
| State Personnel Grant FY11 | | 84.323 | P0N2 540 1100000521 1 | 12,306 |
| Gear Up FY10 | Kentucky Council on Postsecondary Education | 84.334 | P02 415 0800018152 3 | 70,460 |
| Gear UP FY11 | Kentucky Council on Postsecondary Education | 84.334 | P02 415 1100000136 1 | 215,690 |
| Reading First Coach FY10 | Kentucky Department of Education | 84.357 | P02 540 0900023731 | 10,662 |
| Civic Engagement – Earth Force | Murray State University | 84.367 | MOA #OSP 2010-104 | 148 |
| IEQ Year 9 “Readers Matter” Advancement in M.S. S & M | | 84.367 | P02 415 1100002599 1 | 13,117 |
| Learning Capacity Adv. Yr 8. | Kentucky Council on Postsecondary Education | 84.367 | Letter dated 11/10/2008 | 17,102 |
| Center for Learning Excellence | Kentucky Council on Postsecondary Education | 84.367 | P02 415 1000003518 1 | 75,399 |
| Center for Learning Excellence FY12 | | 84.377 | P0N2 540 1000003959 1 | 117,612 |
| NWP Writing Project | National Writing Project Corporation | 84.377 | P0N2 540 1100002777 1 | 8,028 |
| | | 84.928 | 92KY-06 | 40,085 |
| Inside Inquiry Funding | National Writing Project Corporation | 84.928 | Funds Received 8/26/2008 | 19 |
| NWP Minigrant-Holocaust Institute | National Writing Project Corporation | 84.928 | 3/11/10 letter | 3,086 |
| ARRA-State Fiscal Stabilization Funds | State of Kentucky | 84.394A | | <u>4,410,900</u> |
| | | | | <u>5,161,695</u> |
| Total U.S. Department of Education | | | | <u>5,784,760</u> |
| U.S. Department of Health and Human Services | | | | |
| Direct Programs | | | | |
| Advanced Ed Nursing FY11 | | 93.358 | 2 A10HP00189-11-00 | 42,860 |
| WKU CyberMedicine Program | | 93.888 | D1ECS10479A0 | <u>86,075</u> |
| | | | | <u>128,935</u> |

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2011

| <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> |
|---|---|-----------------|-------------------------------|----------------------------|
| Other Federal (Continued) | | | | |
| U.S. Department of Health and Human Services | | | | |
| Pass Through Programs | | | | |
| MSSA FY10 | University of Louisville | 93.107 | 9/28/09 Subcontract | \$ 23,309 |
| MSSA FY11 | University of Louisville | 93.107 | Contract date 11/13/10 | 34,346 |
| Inbre: Community Base Core | | 93.389 | OGMB090109 A1 | 44,488 |
| KY Office of Refugees – Agreement | | 93.576 | | 6,118 |
| Project Match Eval. FY11 | | 93.652 | ULRF 09-0492 | 23,963 |
| Training Resource Center FY10 | Eastern Kentucky University | 93.658 | 451912-10-207 | 115 |
| TRC/MSW FY11 | | 93.658 | 452129-11-167 | 199,128 |
| PCWCP FY11 | | 93.658 | EKU Sub Award #452127-11-192 | <u>6,852</u> |
| | | | | <u>338,319</u> |
| Total U.S. Department of Health and Human Services | | | | <u>467,254</u> |
| Corporation for National and Community Service | | | | |
| Direct Programs | | | | |
| KUPEE Energy Initiative | | 94.005 | 09-LHSKY001 | <u>327,939</u> |
| Total Other Federal | | | | <u>7,527,709</u> |
| Total Federal Expenditures | | | | <u>\$ 170,701,058</u> |

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

WESTERN KENTUCKY UNIVERSITY
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2011

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) and the Federal Direct Sub Loan Program.

Western Kentucky University administers the Federal Perkins Loan Program (CFDA Number 84.038). At June 30, 2011, the University had loans outstanding in the amount of \$5,145,359 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 | Eastern State University | \$ 62,636 |
| KUPEE Energy Initiative | Morehead State University | 77,054 |
| KUPEE Energy Initiative | Murray State University | 101,830 |
| Reading First Coach FY 10 | Bowling Green Board of Education | 9,872 |
| Project TREE FY 10 | Georgetown College | 8,000 |
| Project TREE FY 10 | Pikeville College | 12,500 |
| Project TREE FY 10 | Spalding University | 12,500 |
| KY Space Grant Consortium Yr 14 | Bellarmine University | 25,993 |
| KY Space Grant Consortium Yr 14 | Eastern Kentucky University | 22,425 |
| KY Space Grant Consortium Yr 14 | Morehead State University | 25,052 |
| KY Space Grant Consortium Yr 14 | Murray State University | 1,900 |
| KY Space Grant Consortium Yr 14 | University of Kentucky | 310,102 |
| KY Space Grant Consortium Yr 14 | University of Louisville | 39,740 |
| KSGC ESMD Augmentation | Morehead State University | 4,000 |
| NASA EPSCoR Research Dev. | Murray State University | 16,056 |
| NASA EPSCoR Research Dev. | University of Kentucky | 19,448 |
| NASA EPSCoR Research Dev. | University of Louisville | 22,496 |
| Efficacy Countermeasures of C.D. | University of Kentucky | 98,661 |
| Versatile Biosensing Platform | Murray University | 53,723 |
| Versatile Biosensing Platform | University of Kentucky | 108,707 |
| Coastal Forest Ecosystems | Mississippi State University | 79,868 |

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2011

NOTE 3 – SUBRECIPIENTS (Continued)

| <u>Grant</u> | <u>Subrecipient</u> | <u>Amount</u> |
|-----------------------------------|--|---------------------|
| WTI-Impulse Generation | West Virginia High Technology Conso | \$ 69,689 |
| PCIRS | Murray State University | 17,487 |
| PCIRS | West Virginia Technology Conso | 140,981 |
| Integration of NMR | Kentucky Community & Technical College | 91,900 |
| W and WW Technician Training | KWWOA | 1,977 |
| W and WW Technician Training | Tennessee Association of Utility Di | 25,110 |
| Best Practice – Water Systems | University of Kentucky | 140,776 |
| Best Practice – Water Systems | University of Louisville | 54,000 |
| Best Practice – Water Systems | University of Missouri | 30,000 |
| GEMS FY 09 | Warren County Board of Education | 90,128 |
| Alliance in North America | Western Illinois University | 9,873 |
| Tech Assistance for Water Quality | Kentucky Rural Water Association | 35,438 |
| WKU Hoffman Inst. China FY 07 | Woodrow Wilson International Center | 20,084 |
| Head Start 2009 ARRA/COLA | Audubon Area Community Services Inc. | 4,820 |
| Head Start 2009 ARRA/COLA | Murray Head Start | 4,123 |
| Head Start General 22 2010 | Audubon Area Community Services Inc. | 35,831 |
| Head Start General 22 2010 | Murray Head Start | 143,335 |
| Head Start General T/TAS 22 2010 | Audubon Area Community Services Inc. | 1,653 |
| Head Start General T/TAS 22 2010 | Murray Head Start | 3,151 |
| Head Start PA22 FY 11 PD | Audubon Area Community Services Inc. | 160,709 |
| Head Start PA22 FY 11 PD | Murray Head Start | 232,861 |
| Head Start PA20 T&TA/CDA | Audubon Area Community Services Inc. | 3,791 |
| Head Start PA20 T&TA/CDA | Murray Head Start | 1,330 |
| Detection of Toxic Materials | University of Idaho | <u>109,029</u> |
| | | <u>\$ 2,540,639</u> |

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, 2011, and have issued our report thereon dated September 29, 2011, 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

Management of the University is responsible for establishing and maintaining effective 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 and correct 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 29, 2011

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, 2011. 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, 2011.

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.

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 29, 2011

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2011

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)? | _____ | Yes | _____ X _____ 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? | _____ | Yes | _____ X _____ 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 |
| 84.033 | Federal Work Study Program |
| 84.007 | Federal Supplemental Educational Opportunity Grant Program |
| 84.032 | Federal Family Education Loan Program |
| 84.038 | Federal Perkins Loan Program |
| 84.268 | Federal Direct Student Loan |
| 84.379 | TEACH Grant |
| 84.394A | State Fiscal Stabilization Fund |
| 84.336 | GSKY Teach |
| | Total TRIO Cluster (consisting of): |
| 84.042 | Student Support Services FY07 |
| 84.044 | Talent Search FY07 |
| 84.047 | Upward Bound FY09-11 |
| 84.047 | VUB FY08-11 |
| 84.066 | EOC – FY 2008-2012 |
| | Total Child Care R&R Cluster (consisting of): |
| 93.596 | Child Care R&R FY11 |
| 93.713 | CCRR ARRA FY11 |

| | | | |
|--|-------------------|-----|----------|
| Dollar threshold used to distinguish between Type A and Type B programs | <u>\$ 636,386</u> | | |
| Auditee qualified as low-risk auditee? | _____ X _____ | Yes | _____ No |

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011

PART II – FINANCIAL STATEMENT FINDINGS

None

PART III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS

None

PART IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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)

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.

Status: Corrective action has been taken.