

WESTERN KENTUCKY UNIVERSITY

Bowling Green, Kentucky

**REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2012 and 2011**

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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, 2012 and 2011, 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 opinions on these financial statements based on our audits. We did not audit the financial statements of Western Kentucky University Research Foundation, Inc., which represents 1% of the assets and 13% of revenues of Western Kentucky University's business-type activities for the years ended June 30, 2012 and 2011. 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 the University as of June 30, 2012 and 2011, 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 November 20, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.


Crowe Horwath LLP

Louisville, Kentucky
November 20, 2012

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

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, 2012 and 2011. 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, 2012 and 2011, 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.

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Fiscal Year 2012 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 2011</u>	<u>Fall 2010</u>	<u>Fall 2009</u>
Undergraduate applications	12,487	10,363	11,803
Undergraduate enrollment (including returning students)	17,982	17,827	17,645
First-time freshmen	3,385	3,377	3,229
Total graduate enrollment	3,066	3,076	3,067
Total enrollment	21,048	20,903	20,712

The following data, with a comparison between 2010/2011 and 2009/2010, is provided to help assess the financial viability of the University:

<u>WKU Foundation</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Endowments	\$111.0 million	\$ 108.5 million	\$102.8 million
Total cash receipts	17.9 million	15.6 million	18.9 million
<u>State Appropriations</u>			
General nonoperating revenue	\$ 75,879,500	\$ 75,245,800	\$ 73,597,700
State fiscal stabilization funds (SFSF)	-	4,410,900	5,416,100
Retirement of debt obligations	-	549,800	473,700
Total	<u>\$ 75,879,500</u>	<u>\$ 80,206,500</u>	<u>\$ 79,487,500</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.

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

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, 2012, 2011 and 2010, are as follows:

Condensed Statements of Net Assets (in Thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
ASSETS			
Current assets	\$ 99,692	\$ 107,082	\$ 102,920
Capital assets, net	407,890	398,068	382,105
Other noncurrent assets	<u>70,165</u>	<u>43,707</u>	<u>44,884</u>
Total assets	<u>\$ 577,747</u>	<u>\$ 548,857</u>	<u>\$ 529,909</u>
LIABILITIES			
Current liabilities	\$ 33,711	\$ 32,364	\$ 39,329
Noncurrent liabilities	<u>166,653</u>	<u>138,927</u>	<u>137,600</u>
Total liabilities	<u>\$ 200,364</u>	<u>\$ 171,291</u>	<u>\$ 176,929</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 236,527	\$ 252,869	\$ 238,356
Restricted			
Nonexpendable	15,432	15,495	14,314
Expendable	59,316	34,793	40,959
Unrestricted	<u>66,108</u>	<u>74,409</u>	<u>59,351</u>
Total net assets	<u>\$ 377,383</u>	<u>\$ 377,566</u>	<u>\$ 352,980</u>

Liabilities include pledges payable to the city of Bowling Green ("City") in the amount of \$28,614,913 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$133,929,351 with final payments on the bonds scheduled for fiscal year 2032.

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.

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

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 \$(142,088,153), \$(138,248,108) and \$(123,134,139) for fiscal years 2012, 2011 and 2010 respectively.

A summary of the University's revenues, expenses and changes in net assets for the years ended June 30, 2012, 2011 and 2010, is as follows:

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues			
Net tuition and fees	\$ 117,876	\$ 110,239	\$ 104,669
Grants and contracts	265	1,872	1,740
Sales and services of educational departments	12,433	14,533	12,604
Auxiliary enterprises	20,861	21,463	21,935
Other	<u>16,787</u>	<u>14,360</u>	<u>19,075</u>
Total operating revenues	<u>168,222</u>	<u>162,467</u>	<u>160,023</u>
Operating expenses	<u>310,310</u>	<u>300,715</u>	<u>283,157</u>
Operating loss	<u>(142,088)</u>	<u>(138,248)</u>	<u>(123,134)</u>
Nonoperating revenues (expenses)			
State appropriations	75,880	75,796	74,071
State appropriations – SFSF funds	-	4,411	5,416
Grants and contracts	70,690	73,148	68,544
Investment income (expense)	669	2,277	1,805
Interest on capital asset-related debt	(4,912)	(5,341)	(4,735)
Other	<u>(422)</u>	<u>(643)</u>	<u>(118)</u>
Net nonoperating revenues	<u>141,905</u>	<u>149,648</u>	<u>144,983</u>
Income (loss) before other revenues, expenses, gains or losses	<u>(183)</u>	<u>11,400</u>	<u>21,849</u>
State contributions to endowment	-	-	2,439
State capital appropriations	<u>-</u>	<u>13,186</u>	<u>19,161</u>
Increase (decrease) in net assets	(183)	24,586	43,449
Net assets, beginning of year	377,566	352,980	309,193
Acquisition of KIIS net assets	<u>-</u>	<u>-</u>	<u>338</u>
Net assets, end of year	<u>\$ 377,383</u>	<u>\$ 377,566</u>	<u>\$ 352,980</u>

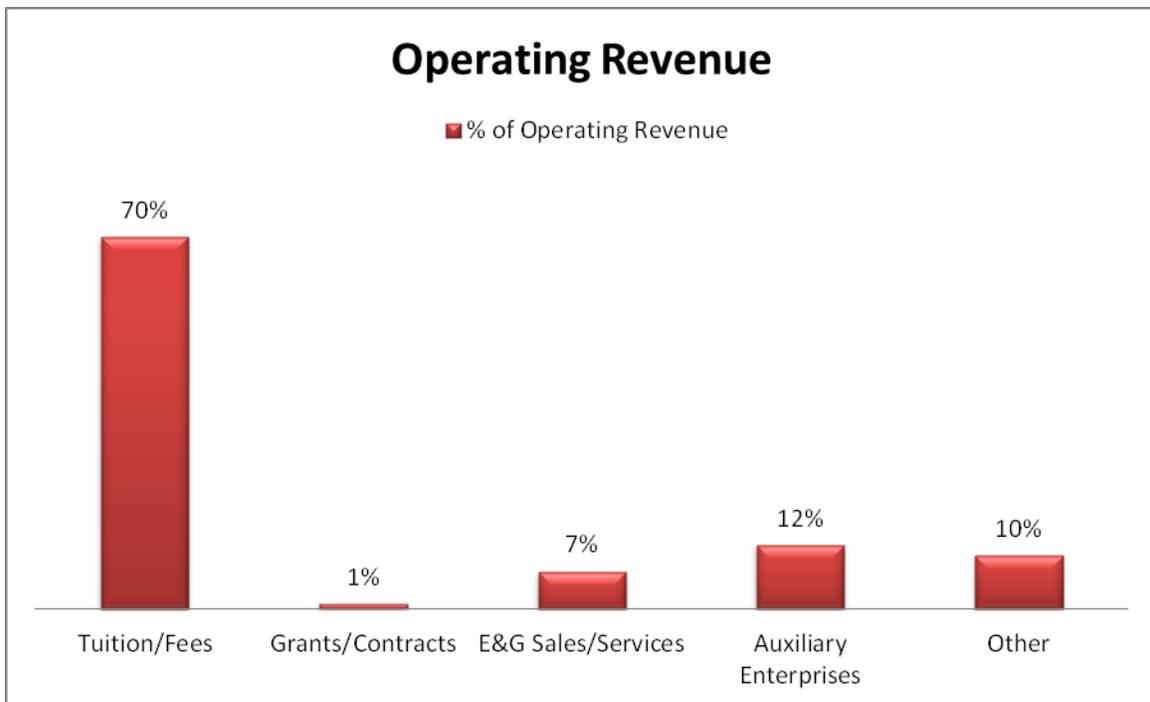
Operating Revenues

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 approximately 1.0% between fall 2011 and 2012, and fall 2010 and 2011, respectively. As of fall 2011, approximately 84.0% 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, 2012 and 2011, were 70.0% and 69.6%, respectively, of the gross tuition and fees with approximately \$49.6 million and \$48.2 million, respectively, being recorded as scholarship allowance.

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



WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

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.

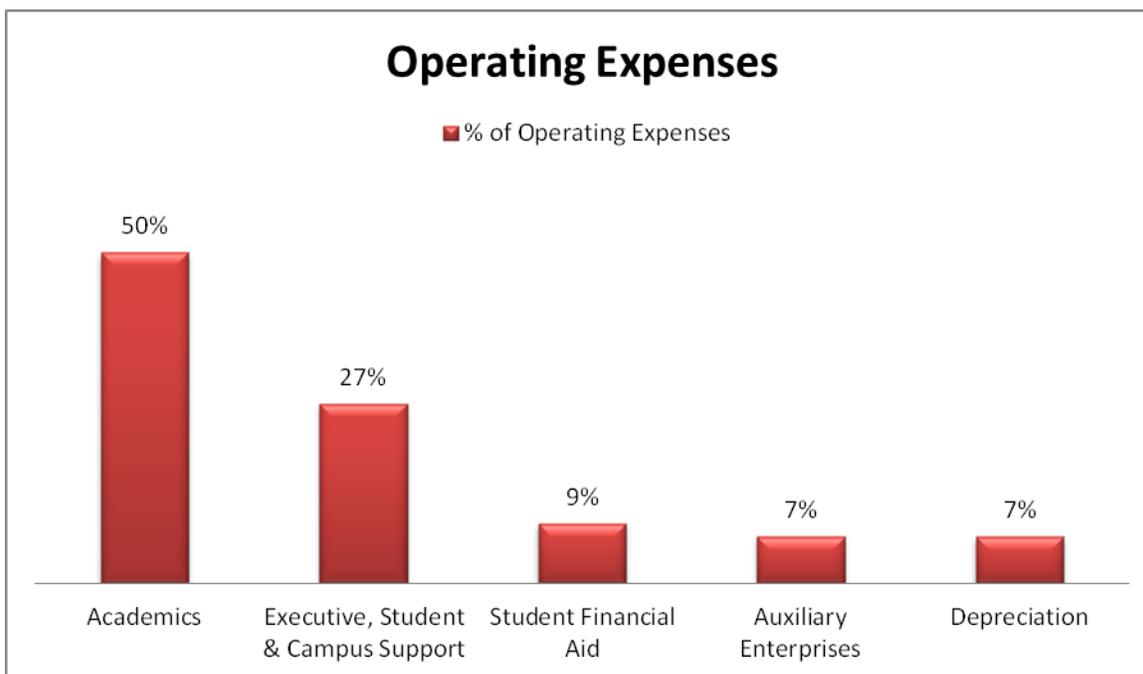
The grant and contract awards received in a given year are frequently multiyear awards for which only the current year activity related to the award will be recorded, *i.e.*, any cash received in excess of expenses incurred will be recorded as deferred revenue. Additionally, awards related to future 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 2012, 2011 and 2010 fiscal years.

Grants and Contracts Awards (Excluding Financial Aid)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Federal	\$ 13,406,247	\$ 17,648,541	\$ 14,536,620
State	2,581,896	3,459,078	2,945,181
Other	<u>1,621,706</u>	<u>1,848,183</u>	<u>3,423,103</u>
Total	<u>\$ 17,609,849</u>	<u>\$ 22,955,802</u>	<u>\$ 20,904,904</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, 2012, 2011 and 2010 is comprised of the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Investment income	\$ 918,959	\$ 811,864	\$ 1,096,145
Net change for the year in the fair value of investments	<u>(249,445)</u>	<u>1,465,464</u>	<u>708,652</u>
	<u>\$ 669,514</u>	<u>\$ 2,277,328</u>	<u>\$ 1,804,797</u>

State appropriations were \$75,879,500 for 2012 in comparison to \$80,206,500 and \$79,487,500 for 2011 and 2010, respectively.

Change in Net Assets

For the years ended June 30, 2012 and 2011, the University's net assets (decreased) increased \$(182,836) and \$24,586,319, respectively. The year-end net assets for June 30, 2012 and 2011 were \$377,383,497 and \$377,566,333, respectively.

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

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 \$118,196,258 and auxiliary enterprises of \$20,861,308. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$187,777,721 and to suppliers and contractors of \$104,082,197. A majority of the noncapital financing activities is state appropriations and grants and contracts. Principal and interest paid on capital debt and leases are recognized as capital and related financing activities. Investing activities recognize the cash flows from proceeds from sales and maturities of investments, purchases of investments and interest receipts.

The Statements of Cash Flows are summarized as follows:

Condensed Statements of Cash Flows (in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash Provided By (Used In)			
Operating activities	\$ (123,859)	\$ (118,848)	\$ (110,209)
Noncapital financing activities	146,918	152,725	147,684
Capital and related financing activities	(7,537)	(28,690)	(49,359)
Investing activities	<u>1,599</u>	<u>(192)</u>	<u>5,690</u>
Net increase (decrease) in cash and cash equivalents	17,121	4,995	(6,194)
Cash and cash equivalents, beginning of year	<u>100,800</u>	<u>95,805</u>	<u>101,999</u>
Cash and cash equivalents, end of year	<u>\$ 117,921</u>	<u>\$ 100,800</u>	<u>\$ 95,805</u>

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Capital Asset and Long-term Obligations

Capital Assets

As of June 30, 2012, 2011 and 2010, the University had \$407.9 million, \$398.1 million and \$382.1 million invested in capital assets, net of accumulated depreciation of \$234.3 million, \$213.0 million and, \$193.1 million, respectively. Capital assets at June 30, 2012, 2011 and 2010 are summarized below:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 9,033,176	\$ 8,517,342	\$ 7,638,470
Buildings and improvements	447,454,668	440,770,797	399,405,456
Infrastructure	44,148,611	38,604,018	36,109,821
Furniture, fixtures and equipment	60,883,980	53,329,329	49,492,751
Library materials	46,713,107	44,989,615	42,662,060
Construction in progress	<u>34,003,360</u>	<u>24,866,179</u>	<u>39,854,994</u>
Total capital assets	642,236,902	611,077,280	575,163,552
Less accumulated depreciation	<u>(234,346,659)</u>	<u>(213,009,689)</u>	<u>(193,058,548)</u>
Capital assets	<u>\$ 407,890,243</u>	<u>\$ 398,067,591</u>	<u>\$ 382,105,004</u>

The major construction projects in progress, as of June 30, 2012, consisted of the Downing University Center, Phase IV renovation and Energy Savings Performance improvements to various campus buildings.

Long-Term Obligations

As of June 30, 2012, 2011 and 2010, the University had \$175.6 million, \$146.3 million and \$144.7 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>2012</u>	<u>2011</u>	<u>2010</u>
Pledges to the City	\$ 28,614,913	\$ 29,778,021	\$ 30,199,434
Consolidated Educational Buildings Revenue Bonds	-	15,860,051	17,345,412
General Receipts Bonds	133,929,351	88,541,757	92,333,347
Capital leases	2,593,114	2,697,770	2,174,217
Other long-term obligations	<u>10,493,351</u>	<u>9,415,587</u>	<u>2,615,183</u>
Total	<u>\$ 175,630,729</u>	<u>\$ 146,293,186</u>	<u>\$ 144,667,593</u>

Economic Factors Impacting Future Periods

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

- WKU's enrollment yield (accepted to enrolled students) increased from 45.7% to 49.2% in fall 2011 while total headcount enrollment exceeded 21,000 for the first time. However, the rate of growth in the numbers of first-time freshmen has been minimal compared to the total headcount enrollment. More emphasis is being placed on increasing the enrollment rates of first-time students accepted and on retaining more students which will yield tuition revenue that is critical due to stagnant state funding. With a slow economic recovery, WKU will see minimal overall enrollment growth especially in the full-time student category. The exception will be in specially targeted areas such as nursing and physical therapy where funds have been allocated to grow these specific high demand programs.
- The University's Board of Regents, at its June 2012 meeting, approved tuition rates for fiscal year 2013. The rates approved for fiscal year 2013 reflect an increase of 4.8% for Kentucky residents and 5-6.5% for most nonresident students to support operating cost increases. The tuition increase includes an additional \$70/semester fee that was approved to support the debt service on 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 2013 Operating Budget reflects a 6.4% reduction in state funding. This funding reduction of \$4,952,100 was implemented in a manner to minimize the campus's ability to address its strategic priorities and to protect resources needed for delivery of instruction. However, this reduction will have an impact on replacing and upgrading equipment across the campus.
- House Bill 265 was passed by the 2012 Regular Session of the Kentucky General Assembly and provides a state expenditure plan for 2012-14 biennium. The budget is premised on modest revenue growth of 2.4 percent in FY 2013 and 3.0 percent in FY 2014. Postsecondary education institutions will receive no additional funds in FY 2014 over the amount budgeted for FY 2013.
- 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 2013 Operating Budget includes \$845,000 allocated to retirement systems based on rates approved by the General Assembly. A comparable amount will need to be allocated for an additional rate increase in FY 2014.

- 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. 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 finished FY 2012 with a health insurance reserve of \$6.2 million, which is approximately 41 percent of the previous year's claims and administrative expenses.
- Health care benefits are among the most significant of employee benefits. Over the past several years, the University has implemented initiatives to better control its rate of increase and to encourage employees to choose the lowest cost health care plan that meets their needs. In addition, WKU will be launching a new Employee Wellness Program in January 2013. In partnership with a strong wellness provider, the program encourages health assessment activities and offers various health improvement activities while providing attractive incentives for employees who choose to participate.
- WKU plans to issue general receipts bonds in FY 2014 for the completion of the renovation of Downing University Center in the amount of approximately \$14 million. The total debt service will be funded by the budgeted 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. The capital campaign was completed with total gifts and pledges exceeding \$202.3 million. A mini-campaign is planned for increasing the University's student scholarships capacity.

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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 78,244,366	\$ 88,169,847
Accounts receivable, net of allowance of \$959,563 and \$900,795, respectively	7,376,749	7,756,442
Interest receivable	-	524,295
Federal and state grants receivable	5,680,951	4,924,761
Inventories	2,770,235	2,883,779
Loans to students, net	529,503	598,362
Prepaid expenses and other	<u>5,090,578</u>	<u>2,224,507</u>
Total current assets	<u>99,692,382</u>	<u>107,081,993</u>
Noncurrent assets		
Restricted cash and cash equivalents	39,676,874	12,630,450
Long-term investments	181,522	183,533
Loans to students, net of allowance of \$548,366 for 2012 and 2011	3,543,599	4,004,424
Assets held in trust	24,773,535	25,436,900
Capital assets	642,236,902	611,077,280
Accumulated depreciation on capital assets	(234,346,659)	(213,009,689)
Deferred bond issuance costs, net of accumulated amortization of \$1,084,525 and \$814,172, respectively	<u>1,988,517</u>	<u>1,452,820</u>
Total noncurrent assets	<u>478,054,290</u>	<u>441,775,718</u>
Total assets	<u>577,746,672</u>	<u>548,857,711</u>
LIABILITIES		
Current liabilities		
Accounts payable	7,740,499	7,355,019
Self-insured health liability	980,507	980,507
Self-insured workers' compensation liability	100,472	100,472
Accrued payroll and withholdings	1,167,824	1,954,969
Accrued compensated absences	2,988,495	2,876,745
Accrued interest	1,452,788	1,375,558
Deferred revenue	9,578,701	9,840,533
Long-term obligations - current portion	8,977,365	7,366,089
Deposits held in custody for others	<u>723,160</u>	<u>514,389</u>
Total current liabilities	<u>33,709,811</u>	<u>32,364,281</u>
Long-term obligations	<u>166,653,364</u>	<u>138,927,097</u>
Total liabilities	<u>200,363,175</u>	<u>171,291,378</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 236,526,729	\$ 252,869,200
Restricted		
Nonexpendable - endowments	15,431,649	15,494,746
Expendable		
Loans	4,683,295	4,986,350
Capital projects	54,633,494	27,549,562
Debt service	10	2,257,395
Unrestricted	<u>66,108,320</u>	<u>74,409,080</u>
Total net assets	<u>\$ 377,383,497</u>	<u>\$ 377,566,333</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 3,412,967	\$ 3,145,612
Investments	48,279,496	49,567,277
Accounts receivable	93,949	71,426
Receivable - WKU Real Estate Corporation	820,303	1,268,905
Receivable - Warren County Economic Development Authority	2,149,850	1,986,893
Contributions receivable, net of allowance of \$1,930,800 and \$1,137,500, respectively	12,211,874	14,724,906
Prepaid expenses and other assets	91,233	91,438
Investments held for Western Kentucky University	17,148,621	17,123,094
Assets held for others	<u>-</u>	<u>377,531</u>
Total assets	<u>\$ 84,208,293</u>	<u>\$ 88,357,082</u>
LIABILITIES		
Accounts payable	\$ -	\$ 12,000
Notes payable	2,243,026	3,342,891
Due to Hilltopper Athletic Foundation	382,997	504,013
Annuities payable	1,377,634	2,555,825
Assets held for others	<u>17,148,621</u>	<u>17,500,625</u>
Total liabilities	21,152,278	23,915,354
NET ASSETS		
Unrestricted	11,526,035	14,371,636
Temporarily restricted	15,628,584	14,893,369
Permanently restricted	<u>35,901,396</u>	<u>35,176,723</u>
Total net assets	<u>63,056,015</u>	<u>64,441,728</u>
Total liabilities and net assets	<u>\$ 84,208,293</u>	<u>\$ 88,357,082</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
 WKU STUDENT LIFE FOUNDATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2012 and 2011

	<u>2012</u>	<u>2011 - restated</u>
ASSETS		
Cash and cash equivalents	\$ 7,134,946	\$ 8,230,093
Accounts receivable, net of allowance of \$26,324 and \$21,414 for 2012 and 2011, respectively	778,171	659,481
Net investment in direct financing lease	2,125,592	2,176,726
Accrued interest receivable	75	81
Prepaid expenses	298,965	295,981
Assets limited as to use	9,813,215	10,234,686
Assets held for others - student deposits	497,263	627,592
Assets held by others - student deposits	211,462	43,113
Derivative instruments at fair value	2,693,483	1,824,560
Property and equipment, net	82,748,293	80,336,810
Other assets	<u>562,899</u>	<u>593,857</u>
Total assets	<u>\$ 106,864,364</u>	<u>\$ 105,022,980</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 1,155,192	\$ 1,133,502
Accrued expenses	198,717	181,922
Student deposits	708,725	670,705
Interest rate collar and swap agreements, at fair value	17,018,459	11,249,502
Asset retirement obligation	741,220	697,949
Long-term debt, net of unamortized discounts of \$166,084 and \$175,354 for 2012 and 2011, respectively	<u>76,463,916</u>	<u>78,814,646</u>
Total liabilities	96,286,229	92,748,226
Net assets - unrestricted	<u>10,578,135</u>	<u>12,274,754</u>
Total liabilities and net assets	<u>\$ 106,864,364</u>	<u>\$ 105,022,980</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 683,310	\$ 945,709
Interest and dividends receivable	73,151	72,214
Short-term investments	<u>3,445,544</u>	<u>2,678,432</u>
Total current assets	4,202,005	3,696,355
Investments and long-term receivables		
Long-term investments	31,591,722	33,752,549
Assets held in trust	1,906,408	2,002,134
Investments held for Western Kentucky University and others	<u>3,789,888</u>	<u>3,830,377</u>
Total investments and long-term receivables	37,288,018	39,585,060
Other assets		
	<u>94,697</u>	<u>94,697</u>
Total assets	<u>\$ 41,584,720</u>	<u>\$ 43,376,112</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,562,480	\$ 1,020,701
Current portion of long-term debt	303,122	87,643
Current portion of refundable advances and gift annuity liabilities	<u>436,038</u>	<u>3,094,517</u>
Total current liabilities	2,301,640	4,202,861
Long-term liabilities		
Notes payable	128,500	580,881
Refundable advances and gift annuity liabilities	2,686,939	409,710
Assets held for Western Kentucky University	<u>3,789,888</u>	<u>3,830,377</u>
Total long-term liabilities	<u>6,605,327</u>	<u>4,820,968</u>
Total liabilities	<u>8,906,967</u>	<u>9,023,829</u>
Net assets		
Donor restricted		
Permanently	35,384,268	33,553,757
Temporarily	<u>597,496</u>	<u>463,811</u>
	35,981,764	34,017,568
Unrestricted		
Designated by board for perpetual scholarship fund	<u>(3,304,011)</u>	<u>334,715</u>
Total net assets	<u>32,677,753</u>	<u>34,352,283</u>
Total liabilities and net assets	<u>\$ 41,584,720</u>	<u>\$ 43,376,112</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Operating revenues		
Tuition and fees, net of discounts and allowances of \$49,590,421 and \$48,154,273 for 2012 and 2011, respectively	\$ 117,876,037	\$ 110,238,716
Federal grants and contracts	214,818	1,789,187
State grants and contracts	49,832	83,156
Sales and services of educational activities	12,432,331	14,532,568
Auxiliary enterprise revenues, net of discounts and allowances of \$1,271,549 and \$1,234,725 for 2012 and 2011, respectively	20,861,308	21,463,280
Other operating revenues	<u>16,787,244</u>	<u>14,359,542</u>
Total operating revenues	<u>168,221,570</u>	<u>162,466,449</u>
EXPENSES		
Operating expenses		
Education and general		
Instruction	102,637,722	99,238,624
Research	10,312,775	10,965,502
Public service	15,400,952	14,819,604
Libraries	6,023,956	5,811,795
Academic support	19,949,982	18,901,888
Student services	29,692,365	26,744,838
Institutional support	29,706,578	28,181,922
Operation and maintenance of plant	25,644,119	26,808,441
Student financial aid	28,340,698	27,730,041
Depreciation	22,661,139	20,741,002
Auxiliary enterprises	<u>19,939,437</u>	<u>20,770,900</u>
Total operating expenses	<u>310,309,723</u>	<u>300,714,557</u>
Operating loss	(142,088,153)	(138,248,108)

(Continued)

WESTERN KENTUCKY UNIVERSITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Nonoperating revenues (expenses)		
State appropriations	\$ 75,879,500	\$ 75,795,600
State appropriations SFSF	-	4,410,900
Federal grants and contracts	48,090,411	51,262,866
Federal grants and contracts – ARRA	303,678	301,868
State grants and contracts	18,092,554	17,262,612
Local and private grants and contracts	4,203,744	4,321,262
Net investment income	669,514	2,277,328
Interest on capital asset-related debt	(4,912,210)	(5,341,821)
Gain (loss) on disposal of capital assets	39,604	(239,804)
Income on sale of investments	14,252	65,140
Other nonoperating expenses	<u>(475,730)</u>	<u>(467,860)</u>
Net nonoperating revenues	<u>141,905,317</u>	<u>149,648,091</u>
(Loss) income before other revenues, expenses, gains or losses	(182,836)	11,399,983
State capital appropriations	<u>-</u>	<u>13,186,336</u>
(Decrease) increase in net assets	(182,836)	24,586,319
Net assets, beginning of year	<u>377,566,333</u>	<u>352,980,014</u>
Net assets, end of year	<u>\$ 377,383,497</u>	<u>\$ 377,566,333</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Changes in unrestricted net assets		
Unrestricted revenues, gains and other support		
Contributions	\$ 565,143	\$ 466,011
Investment return	(829,865)	3,884,477
Net assets released from restrictions	<u>5,099,854</u>	<u>5,166,117</u>
Total unrestricted revenues, gains and other support	<u>4,835,132</u>	<u>9,516,605</u>
 Expenses		
Payments made on behalf of Western Kentucky University - Programs	6,204,658	5,866,780
Management and general	1,448,014	1,630,285
Fundraising	<u>28,061</u>	<u>35,992</u>
Total expenses	<u>7,680,733</u>	<u>7,533,057</u>
 Changes in unrestricted net assets	 <u>(2,845,601)</u>	 <u>1,983,548</u>
 Changes in temporarily restricted net assets		
Contributions	5,040,980	6,535,314
Investment return	611,072	1,160,902
Miscellaneous income (expense)	183,017	(130,304)
Net assets released from restrictions	<u>(5,099,854)</u>	<u>(5,166,117)</u>
 Changes in temporarily restricted net assets	 <u>735,215</u>	 <u>2,399,795</u>
 Changes in permanently restricted net assets		
Contributions	<u>724,673</u>	<u>1,423,227</u>
 (Decrease) increase in net assets	 (1,385,713)	 5,806,570
 Net assets, beginning of period, as restated	 <u>64,441,728</u>	 <u>58,635,158</u>
 Net assets, end of period	 <u>\$ 63,056,015</u>	 <u>\$ 64,441,728</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
 WKU STUDENT LIFE FOUNDATION, INC.
 STATEMENTS OF ACTIVITIES
 Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011 - restated</u>
Operating revenues		
Rent	\$ 18,408,104	\$ 17,458,382
Interest income – direct financing lease	143,016	146,269
Other	<u>1,399,095</u>	<u>1,340,608</u>
Total operating revenues	<u>19,950,215</u>	<u>18,945,259</u>
Operating expenses		
Salaries, benefits and related expenses	5,042,766	5,037,467
Utilities	2,138,831	2,111,671
Repairs, maintenance and supplies	1,240,754	1,172,438
Management fee	71,309	69,200
Professional fees	87,705	187,587
Insurance	600,930	584,157
Depreciation and amortization	3,562,615	3,641,450
Bad debt expense	134,886	140,219
Other	<u>708,061</u>	<u>517,732</u>
Total operating expenses	<u>13,587,857</u>	<u>13,461,921</u>
Changes in net assets from operations	<u>6,362,358</u>	<u>5,483,338</u>
Nonoperating revenues (expenses)		
Interest income	601,034	422,421
Interest expense and fees	(521,723)	(614,913)
Change in fair value of interest rate collar and swap agreements, net of settlement payments of \$3,238,254 and \$3,379,968 for 2012 and 2011, respectively	<u>(8,138,288)</u>	<u>(1,075,384)</u>
Total nonoperating revenues (expenses)	<u>(8,058,977)</u>	<u>(1,267,876)</u>
Changes in unrestricted net assets	(1,696,619)	4,215,462
Unrestricted net assets, beginning of year, as previously reported	-	6,212,398
Adjustments applicable to prior years	<u>-</u>	<u>1,846,894</u>
Unrestricted net assets, beginning of year, as restated	<u>12,274,754</u>	<u>8,059,292</u>
Unrestricted net assets, end of year	<u>\$ 10,578,135</u>	<u>\$ 12,274,754</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Changes in unrestricted net assets		
Unrestricted revenues, gains and other support		
Investment income	\$ 27,784	\$ 33,141
Net realized and unrealized gains on investments	(81,006)	742,837
Other revenue	51,219	40,473
Net assets released from restrictions:		
Satisfaction of program restrictions	<u>2,277,903</u>	<u>6,076,718</u>
Total unrestricted revenues, gains and other support	<u>2,275,900</u>	<u>6,893,169</u>
 Expenses		
Program		
Scholarships and awards	4,852,009	4,259,249
Other	<u>539,565</u>	<u>620,225</u>
Total expenses	<u>5,391,574</u>	<u>4,879,474</u>
 Management and general		
Salaries and benefits	377,948	383,402
Interest expense	17,591	16,078
Other	<u>127,513</u>	<u>73,289</u>
Total expenses	<u>523,052</u>	<u>472,769</u>
Total expenses	<u>5,914,626</u>	<u>5,352,243</u>
 Changes in unrestricted net assets	<u>(3,638,726)</u>	<u>1,540,926</u>
 Changes in temporarily restricted net assets		
Contributions	2,797,770	2,516,178
Investment income	502,672	461,962
Net realized and unrealized gains on investments	(1,196,698)	3,211,448
Net change in value of split interest agreements	307,844	(184,286)
Net assets released from restrictions	<u>(2,277,903)</u>	<u>(6,076,718)</u>
	<u>133,685</u>	<u>(71,416)</u>
 Changes in permanently restricted net assets		
Contributions	<u>1,830,511</u>	<u>1,582,373</u>
 (Decrease) increase in net assets	<u>(1,674,530)</u>	<u>3,051,883</u>
 Net assets, beginning of year	<u>34,352,283</u>	<u>31,300,400</u>
 Net assets, end of year	<u>\$ 32,677,753</u>	<u>\$ 34,352,283</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Tuition and fees	\$ 118,196,258	\$ 108,953,789
Grants and contracts	(805,591)	1,744,694
Payments to employees	(179,963,034)	(170,346,089)
Payments to suppliers	(92,070,991)	(88,471,347)
Collection of loans issued to students	529,684	436,988
Sales and services of educational departments	12,432,331	14,532,568
Other operating revenues	16,787,244	14,118,248
Auxiliary enterprise revenues	20,861,308	21,463,280
Auxiliary enterprise payments		
Payments to employees	(7,814,687)	(7,850,659)
Payments to suppliers	<u>(12,011,206)</u>	<u>(13,429,687)</u>
Net cash used in operating activities	<u>(123,858,684)</u>	<u>(118,848,215)</u>
Cash flows from noncapital financing activities		
State appropriations	75,879,500	75,245,800
State appropriations – SFSF	-	4,410,900
Grants and contracts receipts	70,386,709	72,846,740
Grants and contracts receipts – ARRA	303,678	301,868
Student organization agency receipts (disbursements) - net	208,771	(214,263)
Other non-operating receipts	<u>139,400</u>	<u>134,400</u>
Net cash provided by noncapital financing activities	<u>146,918,058</u>	<u>152,725,445</u>
Cash flows from capital and related financing activities		
State capital appropriations	-	13,086,590
State appropriations designated for debt service	-	549,800
Proceeds from sale of capital assets	175,760	648,557
Purchases of capital assets	(28,992,874)	(30,527,196)
Proceeds from new debt issuance	35,860,000	-
Payment of bond issue cost	(281,393)	-
Principal paid on capital debt and leases	(9,464,155)	(6,951,086)
Interest paid on capital debt and leases	<u>(4,834,980)</u>	<u>(5,496,584)</u>
Net cash used in capital and related financing activities	<u>(7,537,642)</u>	<u>(28,689,919)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	182,988	132,921
Purchase of investments	(492,798)	(1,449,599)
Investment income	<u>1,909,021</u>	<u>1,124,748</u>
Net cash provided by (used in) investing activities	<u>1,599,211</u>	<u>(191,930)</u>
Net change in cash and cash equivalents	17,120,943	4,995,381
Cash and cash equivalents, beginning of year	<u>100,800,297</u>	<u>95,804,916</u>
Cash and cash equivalents, end of year	<u>\$ 117,921,240</u>	<u>\$ 100,800,297</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of net operating loss		
to net cash used in operating activities		
Operating loss	\$ (142,088,153)	\$ (138,248,108)
Contributions of capital assets by Foundations	-	(241,294)
Depreciation expense	22,661,139	20,741,002
Changes in operating assets and liabilities		
Accounts receivable, net	379,693	(1,216,656)
Federal and state grants receivable	(756,190)	6,032,511
Assets held in trust	68,737	203,112
Investments	-	125,462
Inventories	113,544	(509,446)
Loans to students, net	529,684	436,988
Prepaid expenses and other	(2,878,268)	(224,769)
Accounts payable and other current liabilities	(951,643)	(814,997)
Health insurance liability	-	263,696
Accrued payroll and payroll withholdings	(787,145)	255,147
Accrued compensated absences	111,750	131,183
Deferred revenue	(261,832)	(5,782,046)
	<u>\$ (123,858,684)</u>	<u>\$ (118,848,215)</u>
Net cash used in operating activities		
Supplemental cash flows information		
Capital leases incurred for capital assets	\$ -	\$ 648,578
Long-term financing of capital projects	2,101,484	5,923,701
Trust assets used for acquisition of capital assets	2,289,950	-
Construction in process included in accounts payable	1,337,123	251,181
Bond issue costs paid out of proceeds	524,658	246,383
	<u>\$ 6,253,215</u>	<u>\$ 7,069,843</u>
Reconciliation of cash and cash equivalents		
to the statement of net assets		
Cash and cash equivalents	\$ 78,244,366	\$ 88,169,847
Restricted cash and cash equivalents	39,676,874	12,630,450
	<u>\$ 117,921,240</u>	<u>\$ 100,800,297</u>
Total cash and cash equivalents		

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 21,000 and 20,900 in 2012 and 2011, 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, 2011 and 2010. 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, 2012 and 2011.

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, 2012 and 2011

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>2012</u>	<u>2011</u>
Total interest expense incurred on borrowings for project	\$ 770,059	\$ 619,718
Interest income from investment of proceeds of borrowings for project	<u>(12,157)</u>	<u>(17,550)</u>
Net interest cost capitalized	<u>757,902</u>	<u>602,168</u>
Interest capitalized	757,902	602,168
Interest charged to expense	<u>4,912,210</u>	<u>5,341,821</u>
Total interest incurred	<u>\$ 5,670,112</u>	<u>\$ 5,943,989</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.

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

Recent Accounting Pronouncements Adopted/Implemented: GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53.*, issued June 2011. This Statement is intended to improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty’s credit support provider, is replaced. Adoption of this Statement did not have a material impact on the University’s financial position or results of operations.

(Continued)

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

Recent Accounting Pronouncements: As of June 30, 2012, the GASB has issued the following statements not yet implemented by the University.

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*, issued November 2010. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership into which state and local governments are increasingly entering. Adoption of this statement will not have a material impact on the University's financial position or results of operations.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, issued November 2010. The provisions of this Statement are effective for periods beginning after June 15, 2012. This Statement 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. Adoption of this statement will not have a material impact on the University's financial position or results of operations.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued December 2010. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board and American Institute of Certified Public Accountants ("AICPA") pronouncements. Adoption of this statement will not have a material impact on the University's financial position or results of operations.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. Adoption of this statement will not have a material impact on the University's financial position or results of operations.
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The University's management has not yet determined the effect these statements will have on the University's financial statements.

(Continued)

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

- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement is intended to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, *Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*, and *No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The University's management has not yet determined the effect these statements will have on the University's financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement is intended to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The University's management has not yet determined the effect these statements will have on the University's financial statements.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2014. This Statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The University's management has not yet determined the effect these statements will have on the University's financial statements.

NOTE 2 – ASSETS HELD IN TRUST

Assets held in trust consisted of:

	<u>2012</u>	<u>2011</u>
Cash equivalents	\$ 4,996,400	\$ 5,723,065
Common equity, common fixed income and mutual funds	<u>19,777,135</u>	<u>19,713,835</u>
Fair value of assets held in trust	<u>\$ 24,773,535</u>	<u>\$ 25,436,900</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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash

The carrying amount of cash and cash equivalents was \$117,921,240 and \$100,800,297 at June 30, 2012 and 2011, while the bank balances were \$119,314,963 and \$71,716,693 at June 30, 2012 and 2011, 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, 2012 and 2011 was \$122,643 and \$119,479, 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.

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the University's investments at June 30, 2012:

<u>Investment Type</u>	<u>Fair Value</u>	<u>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	\$ 165,755	\$ 165,755	\$ -	\$ -	\$ -
Cambridge Holdings EURO	15,767	15,767	-	-	-
Total	<u>\$ 181,522</u>	<u>\$ 181,522</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, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>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>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

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, 2012 and 2011, consisted solely of investments in U.S. Treasuries, which are not considered to have credit risk.

Foreign Currency Risk: As of June 30, 2012, the University was holding \$15,767 in Euros for the KIIS program. Any such exchange rate risk is deemed immaterial. The University was not exposed to foreign currency risk as of June 30, 2011.

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, 2012 and 2011.

Of the University's cash and investment balance as of June 30, 2012 and 2011, \$500,000 is secured by FDIC insurance, and \$54,339,571 and \$60,651,814, respectively, is secured by U.S. Treasury Notes held in the University's name, collateralized by the pledging institution. Additionally, as of June 30, 2012 and 2011, \$63,081,669 and \$39,648,483, 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, 2012 and 2011 consisted of:

	<u>2012</u>	<u>2011</u>
Interest income, including interest earned on cash equivalents	\$ 918,959	\$ 811,864
Net increase in fair value of investments	<u>(249,445)</u>	<u>1,465,464</u>
	<u>\$ 669,514</u>	<u>\$ 2,277,328</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of June 30:

	<u>2012</u>	<u>2011</u>
Tuition, fees, sales and services	\$ 7,508,674	\$ 7,373,187
Credit memos	384,579	374,621
Miscellaneous, other	<u>443,059</u>	<u>909,429</u>
	8,336,312	8,657,237
Less allowance for doubtful accounts	<u>(959,563)</u>	<u>(900,795)</u>
Accounts receivable, net	<u>\$ 7,376,749</u>	<u>\$ 7,756,442</u>

NOTE 5 – CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2012, are summarized as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2012</u>
Cost					
Land	\$ 8,517,342	\$ 515,834	\$ -	\$ -	\$ 9,033,176
Buildings and improvements	440,770,797	-	-	6,683,871	447,454,668
Infrastructure	38,604,018	-	-	5,544,593	44,148,611
Furniture, fixtures and equipment	53,329,329	6,423,072	(715,581)	1,847,160	60,883,980
Library materials	44,989,615	2,468,236	(744,744)	-	46,713,107
Construction in progress	<u>24,866,179</u>	<u>23,212,805</u>	<u>-</u>	<u>(14,075,624)</u>	<u>34,003,360</u>
	<u>611,077,280</u>	<u>32,619,947</u>	<u>(1,460,325)</u>	<u>-</u>	<u>642,236,902</u>
Accumulated depreciation					
Buildings and improvements	130,995,276	13,741,313	-	-	144,736,589
Infrastructure	11,630,796	1,766,740	-	-	13,397,536
Furniture, fixtures, and equipment	36,676,471	5,070,888	(579,425)	-	41,167,934
Library materials	<u>33,707,146</u>	<u>2,082,198</u>	<u>(744,744)</u>	<u>-</u>	<u>35,044,600</u>
	<u>213,009,689</u>	<u>22,661,139</u>	<u>(1,324,169)</u>	<u>-</u>	<u>234,346,659</u>
Net capital assets	<u>\$ 398,067,591</u>	<u>\$ 9,958,808</u>	<u>\$ (136,156)</u>	<u>\$ -</u>	<u>\$ 407,890,243</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 5 – CAPITAL ASSETS (Continued)

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	39,854,994	29,210,442	-	(44,199,257)	24,866,179
	<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	31,922,421	1,887,765	(103,040)	-	33,707,146
	<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>

A summary of construction in progress at June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
College of Education	\$ 735,956	\$ -
Fine Arts Center – Music Hall	9,344,506	3,696,502
Upgrade Underground Electric	-	2,975,371
Knicely Conference Center – Phase III	-	1,628,439
Energy Savings Performance Contract	10,440,508	10,005,236
Upgrade Kentucky Building HVAC	946,698	-
Gas Fired Boiler #2	-	1,014,449
College of Business Design	1,893,395	1,937,547
Renovation – DUC Phase IV	5,537,828	-
Others under \$500,000	5,104,469	3,608,635
	<u>\$ 34,003,360</u>	<u>\$ 24,866,179</u>

Contractual commitments in connection with all projects totaled \$8,026,725 and \$11,823,870 at June 30, 2012 and 2011, respectively.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 6 – DEFERRED REVENUE

Deferred revenue as of June 30 consisted of:

	<u>2012</u>	<u>2011</u>
Unexpended state capital appropriations	\$ 435,849	\$ 435,849
Summer school tuition and fees	4,471,662	4,531,135
Grants and contracts	3,783,126	4,097,177
Advance sale of football tickets	197,444	149,246
University master plan	99,450	89,950
Miscellaneous	<u>591,170</u>	<u>537,176</u>
Total deferred revenue	<u>\$ 9,578,701</u>	<u>\$ 9,840,533</u>

NOTE 7 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2012:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>	<u>Current Portion</u>
Capital lease obligations	\$ 2,697,770	\$ -	\$ (104,656)	\$ 2,593,114	\$ 107,699
Bonds payable, net of discounts and deferred loss on refinancing	15,860,051	-	(15,860,051)	-	-
General receipts bonds payable, net of discounts	88,541,757	49,739,659	(4,352,065)	133,929,351	6,636,102
Other long-term debt	9,415,587	2,101,484	(1,023,720)	10,493,351	950,456
Pledges payable, net of discount premiums and deferred loss on refinancing	<u>29,778,021</u>	<u>-</u>	<u>(1,163,108)</u>	<u>28,614,913</u>	<u>1,283,108</u>
Total bonds, pledges and capital leases	<u>\$ 146,293,186</u>	<u>\$ 51,841,143</u>	<u>\$(22,503,600)</u>	<u>\$ 175,630,729</u>	<u>\$ 8,977,365</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

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>

Bonds Payable

Bonds payable as of June 30, 2012, are composed of General Receipts Bonds, Series 2006A, 2007A, 2009A, 2011A, 2012A, and 2012B. The bonds mature in varying amounts through September 1, 2032, with interest payable at annual rates ranging from 1.50% to 5.00%. Buildings and revenues from student registration fees are pledged as collateral against the Consolidated Educational Buildings Revenue Bond payable, whereas general receipts of the University are pledged as collateral against the General Receipts Bonds payable.

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

	<u>2012</u>	<u>2011</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
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
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
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	8,110,229	8,508,176

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

	<u>2012</u>	<u>2011</u>
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	\$ 34,044,465	\$ 35,791,580
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	42,465,473	44,242,001
General Receipts Bonds, Series 2011A, dated November 15, 2011, with interest rates from 2.00% to 3.00%. Final principal payment date May 1, 2023	6,192,630	-
General Receipts Bonds, Series 2012A, dated June 6, 2102, with interest rates from 2.00% to 5.00%. Final principal payment date May 1, 2032	36,816,906	-
General Receipts Bonds, Series 2012B, dated June 6, 2012, with interest rates from 2.00% to 3.00%. Final principal payment date May 1, 2023	<u>6,299,648</u>	<u>-</u>
Total bonds payable	<u>\$ 133,929,351</u>	<u>\$ 104,401,808</u>

The debt service requirements for the bonds payable as of June 30, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 6,660,000	\$ 4,639,359	\$ 11,299,359
2014	6,745,000	4,561,097	11,306,097
2015	6,780,000	4,362,513	11,142,513
2016	6,980,000	4,158,366	11,138,366
2017	7,200,000	3,942,313	11,142,313
2018-2022	39,795,000	15,908,613	55,703,613
2023-2027	42,025,000	8,204,390	50,229,390
2028-2032	<u>17,705,000</u>	<u>1,789,494</u>	<u>19,494,494</u>
	133,890,000	47,566,145	181,456,145
Add: unamortized premiums, net of discounts	780,005	-	780,005
Less: unamortized portion, deferred loss on refinance	<u>(740,654)</u>	<u>-</u>	<u>(740,654)</u>
	<u>\$ 133,929,351</u>	<u>\$ 47,566,145</u>	<u>\$ 181,495,496</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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. This issue was refunded on November 15, 2011 with the issuance of Western Kentucky University General Receipts Bonds, Series 2011A, as noted below.

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. This issue was refunded on June 6, 2012 with the issuance of Western Kentucky University General Receipts Bonds, Series 2012B, as noted below.

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

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

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

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

Capital Lease Obligations

The University has acquired certain equipment under various lease-purchase contracts and other capital lease agreements. The costs of University assets held under capital leases totaled and \$3,107,005 at June 30, 2012 and 2011, net of accumulated depreciation of \$355,095 and \$279,416, respectively as of June 30, 2012 and 2011. 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, 2012:

Year ending June 30	<u>Total to be Paid</u>	<u>Present Value of Future Minimum Lease Payments</u>	<u>Interest Portion</u>
2013	\$ 260,737	\$ 107,699	\$ 153,038
2014	260,737	114,317	146,420
2015	260,737	121,342	139,395
2016	260,737	128,799	131,938
2017	260,737	136,715	124,022
Thereafter	<u>2,679,445</u>	<u>1,984,242</u>	<u>695,203</u>
	<u>\$ 3,983,130</u>	<u>\$ 2,593,114</u>	<u>\$ 1,390,016</u>

Other Long-Term Debt

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

On March 28, 2011, The University entered into a Master Lease Agreement with PNC Bank. Under the provisions of this agreement, the University acquired certain communications and conferencing equipment. The annual percentage rate for this financing is 3.49%. Payments of principal and interest of \$62,348,.78 are due annually, beginning on March 28, 2011.

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

Debt service requirements on the other long-term debt at June 30, 2012, were as follows:

Year ending June 30	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,293,971	\$ 950,456	\$ 343,515
2014	1,293,972	981,835	312,137
2015	1,293,971	1,014,271	279,700
2016	1,231,624	985,454	246,170
2017	1,231,623	1,018,116	213,507
2018-2022	5,022,526	4,441,220	581,306
2023-2027	<u>1,127,130</u>	<u>1,101,999</u>	<u>25,131</u>
	<u>\$ 12,494,817</u>	<u>\$ 10,493,351</u>	<u>\$ 2,001,466</u>

Pledges Payable

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

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

The University has recorded the 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.

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 <u>be Paid</u>	Principal <u>2002B</u>	Principal <u>2002C</u>	Principal <u>Series 2010</u>	Principal <u>Series 2011</u>	Interest <u>2002B</u>	Interest <u>2002C</u>	Interest <u>Series 2010</u>	Interest <u>Series 2011</u>
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	2,743,605	-	-	1,915,000	-	-	-	828,605	-
2018-2022	14,769,125	-	-	11,595,000	-	-	-	3,174,125	-
2023-2026	<u>11,325,536</u>	-	-	<u>10,315,000</u>	-	-	-	<u>1,010,536</u>	-
	38,902,349	1,055,000	-	27,775,000	1,370,000	44,838	-	8,625,186	32,325
Less unamortized discount	(14,723)	(14,723)	-	-	-	-	-	-	-
Less deferred loss on refinance	(1,725,018)	-	-	(1,725,018)	-	-	-	-	-
Add unaccrued premium	<u>154,654</u>	-	-	<u>154,654</u>	-	-	-	-	-
	<u>\$37,317,262</u>	<u>\$ 1,040,277</u>	<u>\$ -</u>	<u>\$26,204,636</u>	<u>\$ 1,370,000</u>	<u>\$ 44,838</u>	<u>\$ -</u>	<u>\$ 8,625,186</u>	<u>\$ 32,325</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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, 2012, were:

2013	\$ 842,283
2014	772,047
2015	622,188
2016	567,712
2017	403,912
Thereafter	<u>3,623,136</u>
	<u>\$ 6,831,278</u>

Lease expense was \$941,717 and \$892,145 for the year ended June 30, 2012 and 2011, respectively.

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 6.50% (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 14.18% (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, 2012, 2011 and 2010, were \$7,926,341, \$7,832,779 and \$7,434,539, 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.

(Continued)

NOTE 9 – PENSION PLAN (Continued)

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, 2012, 2011 and 2010, were \$4,724,343, \$4,059,056 and \$2,830,694, respectively, which equal the required contributions for each year.

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, 2012, 2011 and 2010, were \$3,526,231, \$3,230,631 and \$3,061,374, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2012, 2011 and 2010, were \$2,479,670, \$2,276,964 and \$2,157,670, 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

NOTE 11 – RISK MANAGEMENT (Continued)

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

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

Changes in the balance of the self-insured health liability are summarized as follows:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 980,507	\$ 755,358
Claims and changes in estimates	14,564,189	12,830,928
Claims payments	<u>(14,564,189)</u>	<u>(12,605,779)</u>
Balance, end of year	<u>\$ 980,507</u>	<u>\$ 980,507</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>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 100,472	\$ 61,925
Claims and changes in estimates	289,590	207,026
Claims payments	<u>(289,590)</u>	<u>(168,479)</u>
Balance, end of year	<u>\$ 100,472</u>	<u>\$ 100,472</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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 12 – REGIONAL UNIVERSITY EXCELLENCE TRUST FUND (RUETF)

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

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

Following is a summary of the funding for the RUETF as of June 30, 2012:

	CPE Funding <u>Received</u>	---External Matched Pledges--- <u>Received</u>	<u>Pledged</u>
Balance, July 1, 2011	\$ 14,211,209	\$ 14,179,974	\$ 896,070
New Pledges	-	-	338,923
Current year collections	<u>-</u>	<u>300,794</u>	<u>(300,794)</u>
Balance, June 30, 2012	<u>\$ 14,211,209</u>	<u>\$ 14,480,768</u>	<u>\$ 934,199</u>

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>

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, 2012 and 2011

NOTE 13 – NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

The University's operating expenses by functional classification on June 30, 2012, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	\$ 89,801,750	\$ 11,934,486	\$ 37,054	\$ 864,432	\$ -	\$ -	\$ 102,637,722
Research	5,153,225	3,930,707	8,011	1,220,832	-	-	10,312,775
Public service	9,726,836	4,999,518	38,136	636,462	-	-	15,400,952
Libraries	5,090,082	925,092	-	8,782	-	-	6,023,956
Academic support	14,897,427	4,655,377	9,323	387,855	-	-	19,949,982
Student services	18,481,731	10,980,732	4,217	225,685	-	-	29,692,365
Institutional support	22,912,041	6,617,741	12,458	164,338	-	-	29,706,578
Operation and maintenance of plant	13,183,495	5,661,456	7,180,233	(381,065)	-	-	25,644,119
Student financial aid	87,495	863,539	-	1,621	27,388,043	-	28,340,698
Depreciation	-	-	-	-	-	22,661,139	22,661,139
Auxiliary enterprise	<u>7,814,687</u>	<u>9,465,642</u>	<u>2,416,699</u>	<u>242,409</u>	<u>-</u>	<u>-</u>	<u>19,939,437</u>
Total operating expenses	<u>\$ 187,148,769</u>	<u>\$ 60,034,290</u>	<u>\$ 9,706,131</u>	<u>\$ 3,371,351</u>	<u>\$ 27,388,043</u>	<u>\$ 22,661,139</u>	<u>\$ 310,309,723</u>

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>

(Continued)

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

Nature of Operations: Western Kentucky University Foundation, Inc. (the "Foundation") is a Kentucky nonprofit corporation formed to receive, invest, and expend funds for the enhancement and improvement of Western Kentucky University. The Foundation's fiscal year ends on December 31. It is a legally separate, tax-exempt component unit of the University that manages certain endowments and investments on behalf of the University. The Foundation has a Board of Trustees separate from that of the University; however, the President and certain other officers of the University are also officers of the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the use of a majority of the resources, or income thereon, which the Foundation holds and invests is restricted by the donors to the activities of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statement package. Complete financial statements for the Foundation can be obtained from the WKU Foundation Office, Alumni House, 1906 College Heights Blvd., Bowling Green, Kentucky, 42101.

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

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

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

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

Spending Policy: The annual distribution goal of the Foundation is 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 14 – WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. –
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

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

Related Party Transactions: Accounts receivable from the Foundation and accounts payable to the Foundation as of the University's fiscal year ended June 30, 2012 and 2011 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

**NOTE 14 – 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, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Certificates of deposit	\$ 4,811,627	\$ 4,171,111
Mutual funds	30,494,856	40,847,339
U.S. Government and government agency obligations	8,542,335	8,061,450
Corporate bonds and notes	5,536,239	5,465,900
Equities and exchange traded funds	12,146,895	4,125,554
Real Estate and other	<u>3,896,165</u>	<u>4,392,408</u>
Total investments	65,428,117	67,063,762
Investments held for the University included above	(16,259,524)	(16,256,833)
Investments held for WKU Research Foundation included above	(889,097)	(866,261)
Investments held for HAF and AA included above	<u>-</u>	<u>(373,391)</u>
	<u>\$ 48,279,496</u>	<u>\$ 49,567,277</u>

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors. At December 31, 2011, the fair value of all of the assets of these funds was more than the level required by donor stipulation or law.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

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

Contributions Receivable

Contributions receivable at December 31, 2011 and 2010, consisted of the following unconditional promises to give:

	<u>2011</u>	<u>2010</u>
Due in less than one year	\$ 5,229,739	\$ 5,418,282
Due in one to five years	7,211,382	9,986,269
Due in more than five years	<u>2,163,173</u>	<u>2,879,001</u>
	14,604,294	18,283,552
Less		
Allowance for doubtful accounts	(1,165,800)	(1,930,800)
Unamortized discount	<u>(1,226,620)</u>	<u>(1,627,846)</u>
	<u>(2,392,420)</u>	<u>(3,558,646)</u>
	<u>\$ 12,211,874</u>	<u>\$ 14,724,906</u>

Discount rates ranged from 1.44% to 7.00% at December 31, 2011.

Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Scholarships	\$ 351,345	\$ 717,771
Public services	905,458	923,927
Athletics	99,989	473,878
University program support	<u>14,271,792</u>	<u>12,777,793</u>
	<u>\$ 15,628,584</u>	<u>\$ 14,893,369</u>

Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2011 and 2010 are restricted to:

	<u>2011</u>	<u>2010</u>
Scholarships	\$ 12,415,031	\$ 12,591,816
Professorships	9,665,515	8,323,807
University program support	<u>13,820,850</u>	<u>14,261,100</u>
	<u>\$ 35,901,396</u>	<u>\$ 35,176,723</u>

(Continued)

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

Fair Value Measurements

The Foundation has adopted the fair value provisions of the ASC. These provisions define fair value as the price that would be received by the Foundation to sell an asset or be paid by the Foundation to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. These provisions also expand disclosures about fair value measurements and establish a framework for measuring fair value, a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy prioritizes the inputs (from the most objective to the most subjective) to the valuation techniques used to measure fair value into the three 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, 2011 and 2010, items carried at fair value on a recurring basis consist principally of investments for which the fair values are generally determined by referring to quoted market prices and other relevant information generated by market transactions and deferred gift liabilities for which fair value is the estimated present value of the future obligations calculated using the appropriate discount rates. The Foundation has made the determination that the accompanying statements of financial position do not reflect any non-financial assets or non-financial liabilities for which additional disclosure requirements would apply.

Fair values of assets measured on a recurring basis at December 31, 2011 and 2010 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2011	<u>\$ 65,428,117</u>	<u>\$ 47,453,378</u>	<u>\$ 15,623,335</u>	<u>\$ 2,351,404</u>
December 31, 2010	<u>\$ 67,063,762</u>	<u>\$ 49,144,004</u>	<u>\$ 15,233,493</u>	<u>\$ 2,686,265</u>

At December 31, 2011 and 2010, investments included above under Level 2 represent investments in U.S. government/government agency obligations and corporate bonds/notes (fixed income securities).

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

At December 31, 2011, 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	\$ 2,686,265
Net additional investments	(371,141)
Net unrealized & realized appreciation	<u>36,280</u>
End of the year	<u>\$ 2,351,404</u>

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.

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, 2011 and 2010, endowment net assets consist of the following:

December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 7,405,805	\$ -	\$ -	\$ 7,405,805
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>35,901,396</u>	<u>35,901,396</u>
	<u>\$ 7,405,805</u>	<u>\$ -</u>	<u>\$ 35,901,396</u>	<u>\$ 43,307,201</u>

December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 10,449,554	\$ -	\$ -	\$ 10,449,554
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>35,176,723</u>	<u>35,176,723</u>
	<u>\$ 10,449,554</u>	<u>\$ -</u>	<u>\$ 35,176,723</u>	<u>\$ 45,626,277</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

Changes in endowment net assets during the year ended December 31, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of the year, (as restated)	\$ 10,449,554	\$ -	\$ 35,176,723	\$ 45,626,277
Contributions	368,432	-	724,673	1,093,105
Investment return	35,338	1,627,782	-	1,663,120
Net appreciation (unrealized and realized)	(893,190)	(1,627,782)	-	(2,520,972)
Appropriation of endowment assets for expenditure	<u>(2,554,329)</u>	<u>-</u>	<u>-</u>	<u>(2,554,329)</u>
End of the year	<u>\$ 7,405,805</u>	<u>\$ -</u>	<u>\$ 35,901,396</u>	<u>\$ 43,307,201</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	1,336,542	-	1,614,439
Net appreciation (unrealized and realized)	1,716,599	519,083	-	2,235,682
Appropriation of endowment assets for expenditure	<u>(534,535)</u>	<u>(1,855,625)</u>	<u>-</u>	<u>(2,390,160)</u>
End of the year	<u>\$ 10,449,554</u>	<u>\$ -</u>	<u>\$ 35,176,723</u>	<u>\$ 45,626,277</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.

(Continued)

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

Prior Period Adjustment applicable to Fiscal Period Ended December 31, 2010

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.

Reclassifications

Certain amounts for 2010 have been reclassified to conform to the 2011 presentation. These reclassifications had no effect on the previously reported change in net assets.

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

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

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, 2012 and 2011, 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

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.

Capital asset activity for the year ended June 30, 2012 was:

	Balance July 1, 2011	Additions	Disposals	Balance June 30, 2012
Cost				
Land	\$ 4,030,850	\$ -	\$ -	\$ 4,030,850
Land improvements	1,302,814	-	-	1,302,814
Buildings and improvements	92,924,672	321,190	-	93,245,862
Furniture, fixtures and equipment	7,214,392	88,547	-	7,302,939
Construction-in-progress	<u>119,773</u>	<u>5,480,864</u>	-	<u>5,600,637</u>
	<u>105,592,501</u>	<u>5,890,601</u>	-	<u>111,483,102</u>
Less accumulated depreciation				
Land improvements	135,350	32,570	-	167,920
Building and improvements	20,216,192	2,712,452	-	22,928,644
Furniture, fixtures and equipment	<u>4,904,149</u>	<u>734,096</u>	-	<u>5,638,245</u>
	<u>25,255,691</u>	<u>3,479,118</u>	-	<u>28,734,809</u>
Net capital assets	<u>\$ 80,336,810</u>	<u>\$ 2,411,483</u>	<u>\$ -</u>	<u>\$ 82,748,293</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

**NOTE 15 – 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>

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, 2012:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds payable	\$ 78,990,000	\$ -	\$ (2,360,000)	\$ 76,630,000	\$ 2,500,000
Less: unamortized discount	<u>(175,354)</u>	<u>-</u>	<u>9,270</u>	<u>(166,084)</u>	<u>(9,269)</u>
	<u>\$ 78,814,646</u>	<u>\$ -</u>	<u>\$ (2,350,730)</u>	<u>\$ 76,463,916</u>	<u>\$ 2,490,731</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

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

Bonds payable as of June 30, 2012 and 2010 were as follows:

	<u>2012</u>	<u>2011</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.	\$ 52,990,000	\$ 54,550,000
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>23,640,000</u>	<u>24,440,000</u>
	76,630,000	78,990,000
Less unamortized discount	<u>(166,084)</u>	<u>(175,354)</u>
	<u>\$ 76,463,916</u>	<u>\$ 78,814,646</u>

The debt service requirements for the bonds payable as of June 30, 2012, are as follows:

	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30			
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	3,192,000	3,040,000	152,000
2018-2022	17,829,000	17,635,000	194,000
2023-2027	22,752,500	22,505,000	247,500
2028-2031	<u>23,275,250</u>	<u>22,675,000</u>	<u>600,250</u>
	78,362,500	76,630,000	1,732,500
Less: unamortized discount	<u>(166,084)</u>	<u>(166,084)</u>	<u>-</u>
	<u>\$ 78,196,416</u>	<u>\$ 76,463,916</u>	<u>\$ 1,732,500</u>

(Continued)

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

Student Life has an \$79 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, 2012, the Foundation was in compliance with its debt covenants.

Related Party Transactions

During Student Life's fiscal years ended June 30, 2012 and 2011, Student Life received rental revenues from University students of \$18,408,104 and \$17,458,382, respectively. Accounts receivable from the University totaled \$778,171 and \$659,481 at June 30, 2012 and 2011, respectively. Net investment in a direct financing lease receivable from the university was \$2,125,592 and \$2,176,726 at June 30, 2012 and 2011, respectively. Likewise, accounts payable to the University totaled \$808,406 and \$885,556 at June 30, 2012 and 2011, 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 fees were \$71,309 and \$69,200 for the years ended June 30, 2012 and 2011, respectively.

Student Life receives fees from the University relating to chilled water services. The fees were \$942,794 and \$859,242 for the years ended June 30, 2012 and 2011, 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 entered into a collar agreement with a bank. The collar agreement is based on 70 percent of the 30-day U.S. LIBOR rate on a notional amount equal to 67 percent of the outstanding amount of bonds payable (\$35,503,300 as of June 30, 2012), and established a minimum (floor) annual rate of 4.67 percent. The cap portion of the agreement expired in May 2010. At both June 30, 2012 and 2011, 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 percent of the 30-day U.S. LIBOR rate and pays interest to the counterparty at 3.69 percent on notional amounts of \$4,055,000, as of June 30, 2012, which is reduced periodically over the term of the swap.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

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 percent of the 30-day U.S. LIBOR rate and pays interest to the counterparty at 3.63 percent on notional amounts of \$19,085,913 as of June 30, 2012, which is reduced periodically over the term of the swap.
4. In June, 2010, the Foundation entered into two agreements with a bank. Effective June 1, 2012, the Foundation began participating in a cap agreement at the rate of 4.67 percent. The cap agreement is based on 67 percent 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 percent on notional amounts beginning at \$47,795,000 that reduces periodically over the term of the swap agreement. The Foundation will receive interest from the counterparty at 67 percent of the 30-day U.S. LIBOR rate. This agreement has a termination date of June 1, 2025.
5. In August 2000, the Foundation entered into a forward sale agreement with a bank in conjunction with its Series 2000 Bonds. This agreement provides for a guaranteed rate of return of 6.3 percent annually on the balance of commercial paper or other investments (minimum required balance of \$6,275,000) held in the debt reserve fund of the 2000 series bonds. This agreement has a termination date of May 1, 2022. Balances of \$6,464,905 and \$6,966,455 were on deposit as of June 30, 2012 and 2011, respectively.

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

<u>Type</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Underlying Index</u>	<u>Fair Value June 30, 2012</u>	<u>Fair Value June 30, 2011 - Restated</u>
(1) – Floor	May 25, 2000	June 1, 2015	LIBOR	\$ (6,796,272)	\$ (7,799,331)
(2) – Swap	February 1, 2006	February 1, 2016	LIBOR	(459,940)	(445,261)
(3) – Swap	January 25, 2008	June 3, 2024	LIBOR	(3,890,562)	(2,365,902)
(4) – Swap	June 1, 2015	June 1, 2025	LIBOR	<u>(5,871,685)</u>	<u>(639,008)</u>
Liabilities				<u>\$ (17,018,459)</u>	<u>\$ (11,249,502)</u>
(4)–Cap	June 1, 2012	June 1, 2015	LIBOR	\$ 18,462	\$ 105,207
(5)–Forward Sale Agreement	August 8, 2000	May 1, 2022	Return on Underlying Investments	<u>2,675,021</u>	<u>1,719,353</u>
Assets				<u>\$ 2,693,483</u>	<u>\$ 1,824,560</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

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

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>2012</u>	<u>2011 - Restated</u>
Net cash payments made under the collar agreement	\$ (2,426,857)	\$ (2,544,594)
Net cash payments made under the interest rate swap agreements	(811,397)	(835,374)
Change in fair value of the derivative agreements	<u>(4,900,034)</u>	<u>2,304,584</u>
	<u>\$ (8,138,288)</u>	<u>\$ (1,075,384)</u>

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

	<u>2012</u>	<u>2011 - Restated</u>
Fair value of forward and cap agreements	\$ 2,693,483	\$ 1,824,560
Statement of financial position location of fair value Amount	Asset	Asset
Fair value of interest rate swap and collar agreements	\$ 17,018,459	\$ 11,249,502
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>2012</u>	<u>2011</u>
Student housing program	\$ 12,540,373	\$ 12,333,441
Management and general	<u>1,047,484</u>	<u>1,128,480</u>
	<u>\$ 13,587,857</u>	<u>\$ 13,461,921</u>

Litigation

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

(Continued)

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

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>2012</u>	<u>2011</u>
Balance, July 1	\$ 697,949	\$ 657,204
Accretion expense	<u>43,271</u>	<u>40,745</u>
Balance, June 30	<u>\$ 741,220</u>	<u>\$ 697,949</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.
- 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

Derivative Instruments: Derivative instruments are classified within both Level 2 and Level 3 of the valuation hierarchy. For derivative instruments in Level 2, the fair 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.

For derivative instruments in Level 3, the fair value is estimated by a third party and is derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. As the estimated fair value is derived from inputs that are unobservable, they are classified within Level 3 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:

	2012			
	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	\$ (6,796,272)	\$ -	\$ (6,796,272)	\$ -
Cap – 2000 bond series	18,462	-	18,462	-
Swap – 2000 bond series	(5,871,685)	-	(5,871,685)	-
Swap – 2006 bond series	(459,940)	-	-	(459,940)
Swap – 2008 bond series	(3,890,562)	-	-	(3,890,562)
Forward sale agreement – 2000 bond series	<u>2,675,021</u>	<u>-</u>	<u>-</u>	<u>2,675,021</u>
	<u>\$ (14,324,976)</u>	<u>\$ -</u>	<u>\$ (12,649,495)</u>	<u>\$ (1,675,481)</u>
Cash equivalents – money market accounts	\$ 5,171,948	\$ 5,171,948	\$ -	\$ -
Assets limited as to use – money market accounts	\$ 3,347,567	\$ 3,347,567	\$ -	\$ -
Assets limited as to use – Commercial paper	\$ 6,464,905	\$ 6,464,905	\$ -	\$ -
Assets held for others – student deposits – bonds	\$ 263,850	\$ -	\$ 263,850	\$ -
Assets held for others – Student deposits – money market accounts	\$ 20,250	\$ -	\$ 20,250	\$ -

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

	2011 (Restated)			
	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)	\$ -	\$ (7,799,331)	\$ -
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)
Forward sale agreement - 2000 bond series	<u>1,719,353</u>	<u>-</u>	<u>-</u>	<u>1,719,353</u>
	<u>\$ (9,424,942)</u>	<u>\$ -</u>	<u>\$ (8,333,132)</u>	<u>\$ (1,091,810)</u>
Cash equivalents – money market accounts	\$ 5,525,222	\$ 5,525,222	\$ -	\$ -
Assets limited as to use – money market accounts	\$ 3,768,155	\$ 3,768,155	\$ -	\$ -
Assets limited as to use - commercial paper	\$ 6,466,455	\$ 6,466,455	\$ -	\$ -
Assets held for others – student deposits – bonds	\$ 242,309	\$ -	\$ 242,309	\$ -
Assets held for others – Student deposits – money market accounts	\$ 175,259	\$ -	\$ -	\$ -

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, 2012 and 2011

**NOTE 15 – 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, 2012 and 2011.

	<u>2012</u>		<u>2011 - restated</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Amount</u>	<u>Value</u>	<u>Amount</u>	<u>Value</u>
Financial assets				
Cash and cash equivalents	\$ 7,134,946	\$ 7,134,946	\$ 8,230,093	\$ 8,230,093
Net investment in direct financing lease	2,125,592	2,125,592	2,176,726	2,176,726
Assets limited as to use – guaranteed investment contract	9,813,215	9,813,215	10,234,686	10,234,686
Assets held for and by other – student deposits - certificates of deposit and claims on cash	708,725	708,725	670,705	670,705
Derivative instruments	2,693,483	2,693,483	1,824,560	1,824,560
Financial liabilities				
Long-term debt	76,463,916	76,463,916	78,814,646	78,814,646
Derivative instruments	17,018,459	17,018,459	11,249,502	11,249,502

Commitments

During the fiscal year ended June 30, 2012, 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	\$ 7,500,000
Hugh Poland Hall	426,000
Gilbert Hall	46,000
McCormack Hall	46,000
McLean Hall	46,000
Southwest Hall	32,000

Restatement of Prior Years’ Financial Statements

In connection with the establishment of the debt service reserve account for the Series 2000 bonds, the Foundation entered into a forward sale agreement that had not been recognized and recorded as a derivative instrument. Also, the underlying investments in the debt service reserve account had been previously recorded at cost, rather than at fair value. During 2012, the Foundation retroactively changed its accounting method to record this derivative and adjust the investment values. Adjustments of \$1,846,894 applicable to 2010 and prior years have been included in the restated 2011 beginning net asset balance.

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

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

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

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

Cash Equivalents: The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, 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
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June 30, 2012 and 2011

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

Investments at December 31, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Short-term investments		
Mutual Funds	\$ 3,445,544	\$ 2,678,432
	<u>\$ 3,445,544</u>	<u>\$ 2,678,432</u>
Long-term investments		
Equity securities	\$ 22,146,676	\$ 23,364,529
U. S. Treasury securities	837,936	1,099,424
Government agency securities	-	107,073
Mortgage-backed securities	850,272	843,693
Corporate bonds	4,543,780	5,067,827
Certificates of deposit	2,104,594	2,096,539
Real estate	<u>1,108,464</u>	<u>1,173,464</u>
	<u>\$ 31,591,722</u>	<u>\$ 33,752,549</u>

Related Party Transactions: During the fiscal years ended December 31, 2010 and 2009, College Heights made scholarship payments of \$4,852,009 and \$4,259,249, 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, 2012 and 2011 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.
 - 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.
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WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

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

At December 31, 2011 and 2010, 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, 2011 consist principally of investments as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	<u>\$ 38,599,916</u>	<u>\$ 31,259,464</u>	<u>\$ 6,231,988</u>	<u>\$ 1,108,464</u>

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>

At December 31, 2011 and 2010, 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, 2011 and 2010, investments included above under Level 3 represent Foundation investments in real estate. The 2011 and 2010 activity, with respect to the investments included above under level 3, is as follows:

	<u>2011</u>	<u>2010</u>
Beginning of the year	\$ 1,173,464	\$ 1,410,150
Investments sold	<u>(65,000)</u>	<u>(236,686)</u>
End of the year	<u>\$ 1,108,464</u>	<u>\$ 1,173,464</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).

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

A charitable gift annuity is an arrangement between a donor and the Foundation in which the donor contributes assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount to the donor or to others designated by the donor for a specific period of time. Obligations continue until the death of the beneficiary. The accompanying statements of financial position as of December 31, 2010 and 2009 reflect liabilities totaling \$2,344,592 and \$2,417,155, respectively, relative to the estimated present value of the future annuity obligations calculated using discount rates ranging from 5.1% to 9.5%. At December 31, 2011 and 2010, investments relative to charitable gift annuities totaled \$3,380,109 and \$3,652,301, 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, 2011 and 2010 reflects liabilities totaling \$778,385 and \$1,087,072, respectively, relative to the estimated present value of the future obligations calculated using discount rates ranging from 5.3% to 8.0%. At December 31, 2011 and 2010 investments relative to charitable remainder trusts totaled \$1,906,408 and \$2,002,134, 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, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Western Kentucky University – investments	\$ 2,620,789	\$ 2,647,475
WKU Foundation trust	242,919	199,111
WKU – Athletics	698,942	739,449
Assets held – future trust	<u>227,238</u>	<u>244,342</u>
	<u>\$ 3,789,888</u>	<u>\$ 3,830,377</u>

Accordingly, the statement of financial position reflects liabilities for assets held for others in the amounts of \$3,789,888 and \$3,830,377 as of December 31, 2011 and 2010, respectively.

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

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

Notes Payable: Notes Payable at December 31, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</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.	\$ 285,122	\$ 504,024
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>146,500</u>	<u>164,500</u>
	<u>\$ 431,622</u>	<u>\$ 668,524</u>

At December 31, 2011, aggregate principal payments required on notes payable for each of the succeeding five years are:

2012	\$ 303,122
2013	18,000
2014	18,000
2015	92,500
2016	<u>-</u>
	<u>\$ 431,622</u>

Restricted Net Assets

At December 31, 2011, temporarily restricted net assets consist of the following:

Scholarship funds	\$ 583,796
Other program support	<u>13,700</u>
	<u>\$ 597,496</u>

At December 31, 2011, permanently restricted net assets consist of the following:

Scholarship funds	\$ 30,934,341
Other program support	<u>4,449,928</u>
	<u>\$ 35,384,269</u>

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

FASB Staff Position 117-1: In August, 2008, the FASB issued Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures of All Endowment Funds*. FASB Staff Position 117-1 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. To date, the state of Kentucky has not enacted a version of UPMIFA legislation.

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

At December 31, 2011, 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	\$ 2,417,271	\$ -	\$ -	\$ 2,417,271
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>35,384,268</u>	<u>35,384,268</u>
	<u>\$ 2,417,271</u>	<u>\$ -</u>	<u>\$ 35,384,268</u>	<u>\$ 37,801,539</u>

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>

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

Changes in endowment net assets during the year ended December 31, 2011 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Beginning of the year	\$ 3,151,379	\$ -	\$ 33,553,757	\$ 36,705,136
Contributions	126,730	-	1,830,511	1,957,241
Investment return				
Investment income	44,475	-	-	44,475
Appropriation of endowment assets for expenditure	<u>(905,313)</u>	<u>-</u>	<u>-</u>	<u>(905,313)</u>
End of the year	<u>\$ 2,417,271</u>	<u>\$ -</u>	<u>\$ 35,384,268</u>	<u>\$ 37,801,539</u>

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

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>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>

SUPPLEMENTAL INFORMATION

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Student Financial Aid Cluster			
Direct Programs			
U. S. Department of Education			
SEOG		84.007	\$ 437,707
Federal Perkins Loan Program		84.038	4,629,018
Federal Direct Student Loan		84.032	4,616,572
Federal Work Study		84.033	667,742
America Reads		84.033	72,220
PELL Grants 2010-2011		84.063	48,171
PELL Grants 2011-2012		84.063	30,925,857
Federal Direct Sub Loan		84.268	112,506,666
Teach Grant FY12		84.379	<u>41,000</u>
Total Student Financial Aid Cluster			<u>153,944,953</u>
Research and Development Cluster			
Direct Programs			
U. S. Department of Agriculture			
Poultry Waste Management		10.001	816,137
Support of Ag Research FY10		10.001	5,092
Conservation Practices		10.902	37,841
Conservation Practices – Upper GRB		10.902	<u>65,382</u>
			<u>924,452</u>
U. S. Department of Commerce			
SURF – Gaithersburg		11.609	<u>3,708</u>
U. S. Department of Defense			
Detection of Toxic Materials		12.300	<u>338,471</u>
U. S. Department of Interior			
Archival Cataloging II		15.916	(1,349)
Mammoth Cave National Park Lot Filters		15.916	<u>17,051</u>
			<u>15,702</u>
National Aeronautics and Space Administration			
KY Space Grant Consortium Yr 14		43.UNK	(470)
NASA EPSCoR Research Dev.		43.UNK	34,492
Efficacy Countermeasures of C.D.		43.UNK	95,617
Versatile Biosensing Platform		43.UNK	162,506
Cold Diffuse Clouds		43.UNK	28,639
Coastal Forest Ecosystems		43.UNK	168,024
Light Curves and Masses		43.UNK	8,982
Spectroscopy of Solar Flares		43.UNK	<u>50,229</u>
			<u>548,019</u>
National Science Foundation			
RUI: Hydrocarbon Media		47.049	4,499
RUI: Electronically Controlled Form		47.049	25,924
Transition of Knot Space		47.049	50,585
Mapping the Cold Atomic Medium		47.049	41,136
REU: Summer Research – Green River		47.050	128,620
Drosophila Embryonic Images		47.070	26,139
Phylogeny of Bat Flies – Insights		47.074	62,593
BREAD – Increase Crop Yield		47.074	118,166
W and WW Technician Training		47.076	163,566
Integration of NMR		47.076	12,064
CCLI: Multi Transformation		47.076	11,395
ARRA: WKU Smart		47.082	<u>132,823</u>
			<u>777,510</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, 2012

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Research and Development Cluster (Continued)			
Direct Programs			
Small Business Administration			
WKU-BG Data Center		59.059	\$ <u>1,100,000</u>
U.S. Department of Energy			
Feasibility Studies on Coupling		81.087	<u>294,160</u>
Pass Through Programs			
U. S. Department of Agriculture			
Promoting Entrep in Communities	UKRF 3048108761-12-464	10.310	<u>4,580</u>
U. S. Department of Defense			
Examination of Fishes	P02 95 11000042191	12.401	5,989
NACMAST EII	EWAGSI-11-SC1-003	12.902	77,136
Cyber Defense	Letter SUB#EWAGSI-09-LS-001	12.902	<u>40,334</u>
			<u>123,459</u>
U. S. Department of Interior			
By-Proxy Monitoring of ANP	UKRF 3048108119-12-363	15.805	3,321
Tourist Trail Options – MCNP	P11AT50365	15.921	<u>6,987</u>
			<u>10,308</u>
U. S. Department of Transportation			
Haz Mat Comm Flow Analysis	PON2 095 1200001148 1	20.703	9,113
Madison County HazMat Assessment	Letter dated 7/5/11	20.710	<u>17,132</u>
			<u>26,245</u>
National Science Foundation			
Expanding Geoscience Diversity	Project # 60029499	47.050	5,126
ARRA Removable Surface Phases	OISE-0936693	47.082	<u>38,676</u>
			<u>43,802</u>
Environmental Protection Agency			
TMDL Development Project	M06147994 & M-06148343	66.463	6,150
Evaluation of Scrubber Additives	Subaward # 1278	66.469	<u>63,289</u>
			<u>69,439</u>
U. S. Department of Energy			
ARRA-Novels Oxygen Carriers	DE-FE 0001808	81.133	<u>127,486</u>
U. S. Department of Health and Human Services			
CHAMPS Grant	ULRF 10-1353	93.297	7,410
INBRE – Lead Faculty FY11	OGMB090109A1	93.389	576
INBRE – Human Interlukin – 1 FY11	MOA Dated 6/15/10	93.389	58
INBRE – Zebrafish FY12	OGMB90109B1	93.389	77,065
INBRE – Human Interlukin-1 FY12	OGMB090109B1-MSU	93.389	25,724
INBRE – Circadian Timing FY12	OGMB090109B1-WKU	93.389	61,316
INBRE – Lead Faculty FY12	OGMB090109B1	93.389	35,334
Molecular Epidemiology – Kenya	Letter dated 4/28/11	93.389	24,865
INBRE – Genome Wide Search FY12	OGMB090109B1-MSU	93.389	26,000
INBRE – Comm. Participatory Care	OGMB090109B1-WKU	93.389	49,633
INBRE – Circadian Timing FY13	OGMB090109C1-MSU	93.389	7,240
INBRE – Zebrafish FY13	OGMB090109C1-WKU	93.389	5,671
INBRE – Lead Faculty FY13	OGMB090109C1-WKU AMEND 4	93.389	1,906
KBRIN – Molecular Epidemic FY13	OGMB090109C1-MSU	93.389	3,408
INBRE – Genome Wide Search FY13	2011-12-159-002	93.389	12,167
KBRIN Area FY13	OGMB090109C1-MSU	93.389	4,350

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Research and Development Cluster (Continued)			
Pass Through Programs (Continued)			
KAPHTC & Appalachia	UKRF 3048107780-11-322	93.516	\$ 20,955
KAPHTC & Appalachia	UKRF 3048108687-12-572	93.516	19,925
Brain Research Neurodevelopment	Sub #000257071-006	93.865	<u>4,222</u>
			<u>387,825</u>
U. S. Department of Homeland Security			
PCIRS	05-07-WKU	97.001	29,685
Completed Neutron Interrogation System	04-07-WKU	97.001	124,546
WTI-Impulse Generation	06-07-WKU	97.065	<u>(9,182)</u>
			<u>145,049</u>
National Aeronautics and Space Administration			
STSCI:SN MCT	HST-GO-12099.12A	43.UNK	60,928
Spectral Analysis – Supernova	3049024102-11-186	43.UNK	(29)
Environmental Effects – Supernova	3048107336-11-187	43.UNK	2,562
Analysis of Large Optics	3048107336-11-167	43.UNK	4,879
Cold Diffuse Clouds – Star	3048107336-11-183	43.UNK	11,995
Cold Diffuse Clouds – Phase	3049024102-11-177	43.UNK	6,000
Supporting CARS in Competition 2012	3049024102-12-584	43.UNK	9,852
Supporting CARS in Competition	3048107336-11-180	43.UNK	<u>2,793</u>
			<u>98,980</u>
U. S. Department of Homeland Security			
Disruptions in Water Service	HSHQDC07-3-00005	97.CON	303,366
Best Practice – Water Systems	09-09 WKU	97.UNK	485,000
Hydraulics – WDS	3048108070-11-356	97.UNK	<u>17,543</u>
			<u>805,909</u>
Total Research and Development Cluster			<u>5,845,104</u>
TRIO Cluster			
Direct Programs			
U. S. Department of Education			
Student Support Services FY07		84.042	38,538
Talent Search FY07		84.044	90,705
TRIO Talent Search FY12		84.044	104,173
TRIO Talent Search Surrounding		84.044	297,768
Upward Bound FY09-11		84.047	360,243
EOC – FY 2008-2012		84.066	<u>233,027</u>
Total TRIO Cluster			<u>1,124,454</u>
Child Care R&R Cluster			
Pass Through Programs			
U. S. Department of Health and Human Services			
Child Care R&R FY12	UKRF 3048108256-12-314	93.596	<u>173,483</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, 2012

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
GSKY Teach Cluster			
Direct Programs			
U. S. Department of Education			
GSKY Teach		84.336	\$ <u>844,488</u>
Fund for the Improvement of Postsecondary Education			
Direct Programs			
U. S. Department of Education			
WKU-OCSE High Performance Computing		84.116	2,333,056
Alliance in North America		84.116	20,596
BGCC FISPE Initiative		84.116	95,447
Equipment Acquisition in Biotech		84.116	3,459
WKY Building in Owensboro		84.116	<u>81,440</u>
Total Fund for the Improvement of Postsecondary Education			<u>2,533,998</u>
Other Federal			
U. S. Department of Agriculture			
Direct Programs			
Support of Ag. Research FY12		10.001	10,415
Acquisition of Goods – Services		10.001	<u>2,030</u>
			<u>12,445</u>
U. S. Department of Defense			
Pass Through Programs			
Chinese Language Acquisition	NSEP-U631033-WKU-CHN-PG	12.550	41,703
Chinese Flagship Pilot Program	NSEP-U631063-WKU-CHN	12.550	<u>67,918</u>
			<u>109,621</u>
U. S. Housing and Urban Development			
Direct Programs			
HABG FY11		14.218	38,000
WKU Small Business Accelerator Exp.		14.251	<u>166,250</u>
			<u>204,250</u>
U. S. Department of Interior			
Direct Programs			
Student Intern Support - Cumberland		15.916	28,825
Archival Cataloging III		15.916	50,131
MACA's Bats		15.921	80,126
Using MCNP as a Classroom		15.921	82,824
Student Support – CPIMN		15.921	15,102
MACA Youth Citizen Science Initi.		15.945	2,164
Environmental M & M to Restore Air		15.945	10,345
Accelerate P & C of SER Collections		15.945	<u>46,324</u>
			<u>315,841</u>
Pass Through Programs			
Report on NPS Units: Background Information	Subcontract dated 11/14/11	15.923	<u>848</u>
Total U. S. Department of Interior			<u>316,689</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, 2012

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Other Federal (Continued)			
U. S. Department of Justice			
Direct Programs			
CCTV Project Phase II		16.710	\$ 9,517
Pass Through Programs			
Kentucky State Victim Assistance Academy	DG-2011-KASAP-00010	16.582	27,311
Total U. S. Department of Justice			<u>36,828</u>
U. S. Department of Transportation			
Pass Through Programs			
WKU Comm. Bikeway Project	P026281100003434	20.205	14,482
Radio Fiscal Stab. Grant	1/14/10 Email	20.CAA	12,527
Total U. S. Department of Transportation			<u>27,009</u>
National Endowment for the Humanities			
Direct Programs			
Louisa Alcott – Outreach Programs		45.164	2,500
National Science Foundation			
Direct Programs			
REU: Investigating Biotechnology		47.074	144,703
Pass Through Programs			
Kentucky – West Virginia LSAMP FY-07	UKRF 3048032200-07-248	47.076	28,858
Total National Science Foundation			<u>173,561</u>
Small Business Administration			
Pass Through Programs			
Small Business Center FY11	UKRF 3048107699-11-225	59.037	17,846
Small Business Center FY12	3048108692-12-591	59.037	47,054
Total Small Business Administration			<u>64,900</u>
Environmental Protection Agency			
Direct Programs			
Tech. Assistance for Water Quality		66.202	41,874
Pass Through Programs			
Radon Mitigation FY11	P0N2 728 1000003557 1	66.032	(518)
Radon Mitigation FY12	P0N2 728 1100002153 1	66.032	23,461
Habitat for Humanity Demonstration	P0N2 129 1100001150 1	66.460	76,639
Bacon Creek	MOA Dated 4/8/11	66.460	21,954
			<u>121,536</u>
Total Environmental Protection Agency			<u>163,410</u>
U.S. Department of Energy			
Pass Through Programs			
ARRA: Electric Power Engineering	A00211576	81.122	4,692

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

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2012

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Other Federal (Continued)			
U. S. Department of Education			
Direct Programs			
Asian Studies at WKU		84.016	\$ 31,431
Student Support Services FY12		84.042	242,736
VUB FY08-11		84.047	270,285
Perkins Dental Hygiene FY12		84.048	19,348
GEMS FY 09		84.206	183,186
Project Child		84.325	<u>40,806</u>
			<u>787,792</u>
Pass Through Programs			
Perkins Teacher Ed FY12	P0N2 531 110000 24521	84.048	20,056
Perkins CFS FY12	P0N2 531 11000030491	84.048	10,949
Perkins PD for Educators FY12	P0N2 531 11000024591	84.048	7,500
Perkins FY12 Nursing	P0N2 531 1100003049 1	84.048	12,145
Perkins Basic Carryforward	P0N2 531 120000378 1	84.048	1,768
Perkins FY12 University College	P0N2 531 1100003049 1	84.048	37,590
Perkins Admin FY12	P0N2 531 1100003049 1	84.048	3,748
Perkins Adn'l FY12 Dental Hygiene	P0N2 531 1100003049 2	84.048	2,984
Perkins Adn'l FY12 AD Nursing	P0N2 531 1100003049 2	84.048	2,900
Perkins FY12 – University College PT 2	P0N2 531 1100003049 2	84.048	648
State Personnel Grant FY11	P0N2 540 1100000521 1	84.323	194
Gear UP FY11	P02 415 1100000136 1	84.334	41,543
Gear Up Year Six Extension	P02 415 1200002172 1	84.334	143,227
Learning Capacity Adv. Year 8	P02 415 1000003518 1	84.367	31,150
IEQ Year 9 "Readers Matter"	P02 415 1100002599 1	84.367	86,941
IEQ Year 10 "Readers Matter"	P02 415 1200003859 1	84.367	9,031
Empowering Teachers – Dig. Content	OSP 2011-080	84.367	11,061
LBL Summer Institute FY12	MOA # OSP 2012-084	84.367	4,360
Center for Learning Excellence	P0N2 540 1000003959 1	84.377	4,302
Center for Learning Excellence FY12	P0N2 540 1100002777 1	84.377	344,691
Center for Learning Excellence FY 13	P0N2 540 120000 2906 1	84.377	61
NWP Writing Project	92KY-06	84.928	<u>3,241</u>
			<u>780,090</u>
Total U.S. Department of Education			<u>1,567,882</u>
U.S. Department of Health and Human Services			
Direct Programs			
Advanced Ed Nursing FY12		93.358	40,995
Head Start PA22 FY11 PD		93.600	458,052
Head Start PA20 T&TA/CDA		93.600	11,571
Head Start PA22 FY12		93.600	782,682
Head Start PA20 TTAS		93.600	<u>10,622</u>
			<u>1,303,922</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, 2012

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Other Federal (Continued)			
U.S. Department of Health and Human Services			
Pass Through Programs			
MSSA FY11	Contract date 11/13/10	93.107	\$ 38,035
MSSA AHEC FY12	10/14/11 Contract	93.107	53,099
Nurses Using Research	UKRF 3049024632-12-509	93.262	12,290
Refugee Empowerment Services	257-108170-2012	93.584	18,569
Early Head Start FY11	04CH2692-001	93.584	36,219
EHS Training PA II FY11	04CH2692-001	93.600	2,402
PDM Center	04CH0004/01	93.600	236,674
Early Head Start FY12	04CH2692-001	93.600	159,994
EHS Training PA II FY12	04CH2692-001	93.600	1,262
Project Match Eval. FY11	ULRF 09-0492	93.652	24,922
PCWCP FY12	452312-12-12-123	93.658	7,408
TRC/MSW FY12	EKU 452314 12 142	93.658	203,833
			<u>794,707</u>
Total U.S. Department of Health and Human Services			<u>2,098,629</u>
Corporation for National and Community Service			
Direct Programs			
KUPEE Energy Initiative		94.005	<u>210,258</u>
Executive Office of the President			
Pass Through Programs			
Warren County DTF – WKU Police	Sub Signed 01/5/12-G12AP0001A	95.001	<u>4,622</u>
U. S. Department of Homeland Security			
Direct Programs			
WKU Stem Program		97.104	<u>89,424</u>
Total Other Federal			<u>5,086,720</u>
Total Federal Expenditures			<u>\$ 169,553,200</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, 2012

NOTE 1 – BASIS OF ACCOUNTING

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

NOTE 2 – LOANS

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

The University administers the Federal Perkins Loan Program (CFDA Number 84.038). At June 30, 2012, the University had loans outstanding in the amount of \$4,629,018 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	\$ 60,785
KUPEE Energy Initiative	Morehead State University	47,864
KUPEE Energy Initiative	Murray State University	27,135
Tourist Trail Options – MCNP	Northern Kentucky University	3,756
KY Space Grant Consortium Yr 14	Refund check – Morehead St./Sub Agreement	(470)
NASA EPSCoR Research Dev.	Kentucky Science and Technology Cor.	16,000
NASA EPSCoR Research Dev.	University of Kentucky	14,137
NASA EPSCoR Research Dev.	University of Louisville	4,355
Efficacy Countermeasures of C.D.	Kentucky Science and Technology Cor.	16,000
Efficacy Countermeasures of C.D.	University of Kentucky	77,176
Versatile Biosensing Platform	Kentucky Science and Technology Cor.	24,000
Versatile Biosensing Platform	Murray State University	4,612
Versatile Biosensing Platform	University of Kentucky	97,631
Coastal Forest Ecosystems	Mississippi State University	122,663
Compact Neutron Interrogation System	Indiana University	16,341
Disruptions in Water Service	University of Missouri	171,729
Using MCNP as a Classroom	Tennessee State University	43,447
W and WW Technician Training	KWVOA	9,750
W and WW Technician Training	Tennessee Association of Utility	8,007
Best Practice – Water Systems	University of Kentucky	48,000
Best Practice – Water Systems	University of Louisville	44,400

WESTERN KENTUCKY UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

NOTE 3 – SUBRECIPIENTS (Continued)

<u>Grant</u>	<u>Subrecipient</u>	<u>Amount</u>
Best Practice – Water Systems	University of Missouri	\$ 170,000
GEMS FY09	Warren County Board of Education	102,230
Alliance in North America	Western Illinois University	10,040
GSKy Teach	Jefferson County Board of Education	172,726
Head Start PA22 FY11 PD	Audubon Area Community Services, Inc.	50,086
Head Start PA22 FY11 PD	Murray Head Start	132,520
Head Start PA20 T&TA/CDA	Murray Head Start	3,874
Head Start PA22 FY12	Audubon Area Community Services, Inc.	147,679
Head Start PA22 FY12	Murray Head Start	163,768
Head Start PA20 TTAS	Audubon Area Community Services, Inc.	2,242
Head Start PA20 TTAS	Murray Head Start	2,077
Detection of Toxic Materials	University of Idaho	<u>142,193</u>
Total Federal Awards Paid to Subcontractors		<u>\$ 1,956,753</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, 2012, and have issued our report thereon dated November 20, 2012, 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 consolidated 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 consolidated 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
November 20, 2012

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, 2012. 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, 2012.

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
November 20, 2012

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2012

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	<u> X </u> No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____	Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	_____	Yes	<u> X </u> None Reported

Federal Awards

Internal control over major programs: Material weakness(es) identified?	_____	Yes	<u> X </u> No
Significant deficiency(ies) identified not considered to be material weakness(es)?	_____	Yes	<u> X </u> 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	<u> X </u> None Reported

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
	Total Federal Student Aid (consisting of):
84.007	SEOG
84.038	Federal Perkins Loan Program
84.032	Federal Direct Student Loan
84.033	Federal Work Study
84.033	America Reads
84.063	PELL Grants 2010-2011
84.063	PELL Grants 2011-2012
84.268	Federal Direct Sub Loan
84.379	Teach Grant FY12

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$468,247</u>		
Auditee qualified as low-risk auditee?	<u> X </u>	Yes	_____ No

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

PART II – FINANCIAL STATEMENT FINDINGS

None

PART III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS

None

PART IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None