

Western Kentucky University Foundation, Inc.

Accountants' Report and Financial Statements

December 31, 2007 and 2006



Western Kentucky University Foundation, Inc.
December 31, 2007 and 2006

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Independent Accountants' Report

Board of Trustees
Western Kentucky University Foundation, Inc.
Bowling Green, Kentucky

We have audited the accompanying statements of financial position of Western Kentucky University Foundation, Inc. (Foundation) as of December 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD cccr

July 9, 2008

Western Kentucky University Foundation, Inc.

Statements of Financial Position

December 31, 2007 and 2006

Assets

	<u>2007</u>	<u>2006</u>
Assets		
Cash and cash equivalents	\$ 14,264,877	\$ 7,881,967
Investments	43,801,271	38,486,432
Accounts receivable	57,759	59,663
Receivable - WKU Real Estate Corporation	1,687,756	335,518
Contributions receivable, net of allowance of \$844,000 for 2007 and \$710,000 for 2006	13,672,679	10,113,811
Prepaid expenses and other assets	2,682	2,682
Assets held for others	<u>19,677,066</u>	<u>17,697,366</u>
Total assets	<u>\$ 93,164,090</u>	<u>\$ 74,577,439</u>

Liabilities and Net Assets

Liabilities		
Accounts payable	\$ 4,254	\$ 153,776
Notes payable	2,605,988	897,945
Annuities payable	3,467,913	2,382,892
Assets held for others	<u>19,677,066</u>	<u>17,697,366</u>
Total liabilities	<u>25,755,221</u>	<u>21,131,979</u>
Net Assets		
Unrestricted	19,377,138	13,087,737
Temporarily restricted	18,844,685	11,170,677
Permanently restricted	<u>29,187,046</u>	<u>29,187,046</u>
Total net assets	<u>67,408,869</u>	<u>53,445,460</u>
Total liabilities and net assets	<u>\$ 93,164,090</u>	<u>\$ 74,577,439</u>

Western Kentucky University Foundation, Inc.
Statements of Activities
Years Ended December 31, 2007 and 2006

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Contributions	\$ 4,853,741	\$ 10,426,508	\$ -	\$ 15,280,249
Investment return	3,336,706	493,833	-	3,830,539
Miscellaneous income	90	198,896	-	198,986
	<u>8,190,537</u>	<u>11,119,237</u>	<u>-</u>	<u>19,309,774</u>
Net assets released from restrictions	3,445,229	(3,445,229)	-	-
	<u>11,635,766</u>	<u>7,674,008</u>	<u>-</u>	<u>19,309,774</u>
Expenses				
Payments made on behalf of				
Western Kentucky University programs				
Salaries, benefits and related expenses	514,902	-	-	514,902
Awards and scholarships	1,194,098	-	-	1,194,098
Travel and entertainment	535,213	-	-	535,213
Services and professional fees	259,655	-	-	259,655
Supplies and office expenses	180,297	-	-	180,297
Printing	115,245	-	-	115,245
Prizes, gifts and donations	364,527	-	-	364,527
Equipment rental and maintenance	58,669	-	-	58,669
Freight and delivery	15,000	-	-	15,000
Subscriptions, dues and registration	306,164	-	-	306,164
Capital purchases	606,523	-	-	606,523
Miscellaneous	47,964	-	-	47,964
	<u>4,198,257</u>	<u>-</u>	<u>-</u>	<u>4,198,257</u>
Management and general				
Salaries, benefits and related expenses	317,837	-	-	317,837
Services and professional fees	286,701	-	-	286,701
Interest	55,230	-	-	55,230
Real estate expenses	442,448	-	-	442,448
Miscellaneous	(37,028)	-	-	(37,028)
	<u>1,065,188</u>	<u>-</u>	<u>-</u>	<u>1,065,188</u>
Fundraising				
Travel and entertainment	19,939	-	-	19,939
Service and professional fees	10,007	-	-	10,007
Supplies and printing	27,468	-	-	27,468
Gifts and donations	6,784	-	-	6,784
Equipment rental	1,993	-	-	1,993
Capital purchases	16,729	-	-	16,729
Miscellaneous	-	-	-	-
	<u>82,920</u>	<u>-</u>	<u>-</u>	<u>82,920</u>
	<u>5,346,365</u>	<u>-</u>	<u>-</u>	<u>5,346,365</u>
Change in Net Assets	6,289,401	7,674,008	-	13,963,409
Net Assets, Beginning of Year	13,087,737	11,170,677	29,187,046	53,445,460
Net Assets, End of Year	\$ 19,377,138	\$ 18,844,685	\$ 29,187,046	\$ 67,408,869

See Notes to Financial Statements

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Contributions	\$ 2,627,408	\$ 3,503,017	\$ 3,200,382	\$ 9,330,807
Investment return	3,766,462	228,366	-	3,994,828
Miscellaneous income	-	276,217	-	276,217
	<u>6,393,870</u>	<u>4,007,600</u>	<u>3,200,382</u>	<u>13,601,852</u>
Net assets released from restrictions	3,384,930	(3,384,930)	-	-
Total revenues, gains and other support	<u>9,778,800</u>	<u>622,670</u>	<u>3,200,382</u>	<u>13,601,852</u>
Expenses				
Payments made on behalf of				
Western Kentucky University programs				
Salaries, benefits and related expenses	304,723	-	-	304,723
Awards and scholarships	848,889	-	-	848,889
Travel and entertainment	424,233	-	-	424,233
Services and professional fees	166,046	-	-	166,046
Supplies and office expenses	233,793	-	-	233,793
Printing	126,127	-	-	126,127
Prizes, gifts and donations	272,044	-	-	272,044
Equipment rental and maintenance	72,384	-	-	72,384
Freight and delivery	15,743	-	-	15,743
Subscriptions, dues and registration	330,271	-	-	330,271
Capital purchases	1,156,585	-	-	1,156,585
Miscellaneous	37,396	-	-	37,396
	<u>3,988,234</u>	<u>-</u>	<u>-</u>	<u>3,988,234</u>
Management and general				
Salaries, benefits and related expenses	175,047	-	-	175,047
Services and professional fees	339,786	-	-	339,786
Interest	85,690	-	-	85,690
Real estate expenses	238,286	-	-	238,286
Miscellaneous	20,205	-	-	20,205
	<u>859,014</u>	<u>-</u>	<u>-</u>	<u>859,014</u>
Fundraising				
Travel and entertainment	32,637	-	-	32,637
Service and professional fees	20,800	-	-	20,800
Supplies and printing	10,178	-	-	10,178
Gifts and donations	2,821	-	-	2,821
Equipment rental	-	-	-	-
Capital purchases	6,396	-	-	6,396
Miscellaneous	-	-	-	-
	<u>72,832</u>	<u>-</u>	<u>-</u>	<u>72,832</u>
Total expenses	<u>4,920,080</u>	<u>-</u>	<u>-</u>	<u>4,920,080</u>
Change in Net Assets	4,858,720	622,670	3,200,382	8,681,772
Net Assets, Beginning of Year	<u>8,229,017</u>	<u>10,548,007</u>	<u>25,986,664</u>	<u>44,763,688</u>
Net Assets, End of Year	<u>\$ 13,087,737</u>	<u>\$ 11,170,677</u>	<u>\$ 29,187,046</u>	<u>\$ 53,445,460</u>

Western Kentucky University Foundation, Inc.

Statements of Cash Flows

Years Ended December 31, 2007 and 2006

	2007	2006
Operating Activities		
Change in net assets	\$ 13,963,409	\$ 8,681,772
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized gain on investments	(3,058,100)	(1,250,119)
Net unrealized (gains) losses on investments	1,183,776	(1,092,435)
Actuarial loss on annuity obligations	1,476,143	362,470
Changes in		
Accounts receivable	1,904	(336,655)
Receivable - WKU Real Estate Corporation	(1,352,238)	-
Contributions receivable	(3,558,868)	(1,136,142)
Accounts payable	(149,522)	(31,248)
Assets held for others	1,979,700	4,769,237
	<u>10,486,204</u>	<u>9,966,880</u>
Net cash provided by operating activities		
Investing Activities		
Purchases of investments	(36,958,118)	(20,413,123)
Disposals of investments	33,517,603	18,836,539
Change in assets held for others	(1,979,700)	(4,769,237)
	<u>(5,420,215)</u>	<u>(6,345,821)</u>
Net cash used in investing activities		
Financing Activities		
Payments of annuities	(391,122)	(312,188)
Proceeds from notes payable to bank	2,636,523	361,552
Payment of notes payable to bank	(928,480)	(336,884)
	<u>1,316,921</u>	<u>(287,520)</u>
Net cash provided by (used in) financing activities		
Increase in Cash and Cash Equivalents	6,382,910	3,333,539
Cash and Cash Equivalents, Beginning of Year	<u>7,881,967</u>	<u>4,548,428</u>
Cash and Cash Equivalents, End of Year	<u>\$ 14,264,877</u>	<u>\$ 7,881,967</u>
Supplemental Cash Flows Information		
Interest paid	\$ 55,230	\$ 85,690

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2007 and 2006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Western Kentucky University Foundation, Inc. (Foundation) is a charitable corporation established for the exclusive benefit of Western Kentucky University (WKU). The Foundation's primary source of revenue is contributions.

During 2001, the Foundation assumed an agency relationship on behalf of the Hilltopper Athletic Foundation (HAF) and Western Kentucky University Alumni Association (AA) whereby the Foundation provides bookkeeping services and safekeeping of assets for these entities; however, HAF and AA continue to maintain separate management control and oversight of these functions.

The Foundation has also assumed an agency relationship on behalf of the WKU Research Foundation (WKURF) and WKU, whereby the Foundation provides safekeeping of certain of those organizations' assets. WKURF and WKU, respectively, continue to maintain separate management control and oversight of these functions.

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 and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2007 and 2006, the Foundation's cash accounts exceeded federally insured limits by approximately \$8,585,000 and \$4,259,000, respectively.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost 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.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is 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.

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2007 and 2006

The investments of the Foundation are commingled with certain investments held for WKU, HAF and AA. Interest and dividend income and unrealized and realized gains and losses are allocated between the Foundation, WKU, HAF and AA based on the percentage of each fund's average balance to the total investments for the period.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations 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 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 explicit 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 net 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.

In-kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions of goods and services from various donors. The Foundation does not record the estimated fair value of in-kind donations, as such contributions are transferred to WKU. For the years ended December 31, 2007 and 2006, \$491,215 and \$296,630, respectively, in goods and services were received as in-kind contributions.

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2007 and 2006

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fund raising categories based on actual expenditures and other methods.

Self Insurance

Employee health and accident benefits are covered under WKU's insurance plan. WKU has elected to self insure certain costs related to these programs. The Foundation pays WKU for the estimated self-insured costs of its employees.

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Investments and Investment Return

Investments held at December 31 were as follows:

	<u>2007</u>	<u>2006</u>
Common equity fund	\$ 8,301,169	\$ 15,903,559
Common fixed income fund	17,742,476	15,156,931
Mutual funds	1,016,041	1,369,248
Stock funds	19,034,612	15,939,713
Stock	28,525	143,973
Taxable bonds	629,231	656,379
Growth index	2,881,065	2,306,538
Certificates of deposit	8,920,240	1,150,533
Real estate	1,528,500	1,528,500
	<u>60,081,859</u>	<u>54,155,374</u>

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2007 and 2006

	2007	2006
Investment held for HAF and AA included above	\$ (660,457)	\$ (498,913)
Investments held for WKU included above	(15,009,362)	(14,594,822)
Investments held for the WKURF included above	(610,769)	(575,207)
	\$ 43,801,271	\$ 38,486,432

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors. At December 31, 2007 and 2006, the fair value of all of the assets of these funds was more than the level required by donor stipulation or law.

Investment return during the years ended December 31 consisted of the following:

	2007	2006
Interest and dividends	\$ 1,956,215	\$ 1,652,274
Net realized and unrealized gains on investments reported at fair value	1,874,324	2,342,554
	\$ 3,830,539	\$ 3,994,828

Note 3: Contributions Receivable

Contributions receivable at December 31 consisted of the following unconditional promises to give:

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Due in less than one year	\$ -	\$ 1,413,639	\$ 1,561,504	\$ 2,975,143
Due in one to five years	-	3,430,002	5,370,453	8,800,455
Due in more than five years	-	985,289	5,112,540	6,097,829
	-	5,828,930	12,044,497	17,873,427
Less				
Allowance for doubtful accounts	-	757,948	86,052	844,000
Unamortized discount	-	657,109	2,699,639	3,356,748
	\$ -	\$ 4,413,873	\$ 9,258,806	\$ 13,672,679

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2007 and 2006

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Due in less than one year	\$ -	\$ 1,350,729	\$ 1,167,814	\$ 2,518,543
Due in one to five years	-	2,390,512	3,396,663	5,787,175
Due in more than five years	-	1,129,108	4,302,720	5,431,828
	-	4,870,349	8,867,197	13,737,546
Less:				
Allowance for doubtful accounts	-	690,123	20,000	710,123
Unamortized discount	-	586,446	2,327,166	2,913,612
	\$ -	\$ 3,593,780	\$ 6,520,031	\$ 10,113,811

Discount rates for all outstanding pledges ranged from 4.33% to 10% at December 31, 2007.

Note 4: Assets Held for Others

Assets held for others represent resources in the possession of, but not under the control of, the Foundation. Assets held for others were as follows as of December 31:

	2007	2006
WKU – Regional University Excellence Trust Fund	\$ 11,813,210	\$ 11,423,460
WKU – self-insurance fund	4,885,741	3,634,351
WKURF – endowment	611,772	575,207
HAF and AA – cash, investments and other assets	2,366,343	2,064,348
	\$ 19,677,066	\$ 17,697,366

The Regional University Excellence Trust Fund of the Commonwealth of Kentucky endowment program, commonly known as “Bucks for Brains”, provides state matching funds to WKU, which in turn, places these funds with the Foundation for investment purposes until they are needed for program purposes.

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2007 and 2006

Note 5: Notes Payable

	2007	2006
National City Bank (A)	\$ -	\$ 430,121
U.S. Bank (B)	58,757	58,757
National City Bank (C)	-	300,000
National City Bank (D)	12,309	109,067
Integra (E)	2,534,922	-
	<u>\$ 2,605,988</u>	<u>\$ 897,945</u>

- (A) Represents a draw down on a \$1,047,250 line of credit. This line of credit was repaid on April 16, 2007.
- (B) Represents the outstanding balance on the Foundation's \$100,000 line of credit. Interest is payable quarterly and varies with the bank's prime rate (7.25% at December 31, 2007), minus 1.50% annum. The line of credit agreement requires the Foundation to maintain \$100,000 of collateral in compensating balances with this bank. Principal and interest are due on or before September 30, 2008.
- (C) Represents a draw down on a \$300,000 line of credit. This line of credit was repaid on April 16, 2007.
- (D) Represents a note payable of \$175,000, the principal of which is due in five equal annual installments of \$35,000 through January 10, 2011. Interest varies with the bank's prime rate (7.25% at December 31, 2007), minus 1.375% per annum and is payable quarterly. The note grants the lender a security interest in a deposit account held with that bank. On March 21, 2008, the Foundation obtained a modification to this note, which provides that the outstanding principal balance of \$12,309 will mature on March 10, 2009.
- (E) Due April 5, 2012; payable \$60,878 quarterly at 4.50%. The Foundation receives donations from various donors for the principal portion of this note; donations are included in contributions receivable.

Note 6: Annuities and Trusts Payable

The Foundation has been the recipient of several gift annuities, which require future payments to the contributors or their designated beneficiaries. The assets received from the donors are recorded at fair value. The Foundation has recorded a liability at December 31, 2007 and 2006, of \$275,477 and \$227,304, respectively, which represents the estimated present value of the future annuity obligations. The liability has been determined using discount rates ranging from 3.82% to 7.96%.

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2007 and 2006

trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the future interest of the Foundation is recorded in the statement of activities as temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the Foundation's statement of financial position. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The Foundation has recorded a liability at December 31, 2007 and 2006, of \$3,192,436 and \$2,155,588, which represents the present value of the future distributions to beneficiaries. The present value of the estimated future payments is calculated using discount rates ranging from 4.97% to 9.33% and applicable mortality tables.

Note 7: Related-party Transactions

The Foundation has advanced funding to the WKU Real Estate Corporation (WKUREC), an affiliate of WKU, for its various campus improvement projects. Such advances are unsecured and noninterest bearing. Accounts receivable from WKUREC at December 31, 2007 and 2006, were \$1,687,756 and \$335,518, respectively.

Accounts payable include \$0 and \$18,611 payable to WKU at December 31, 2007 and 2006, respectively, for program expenses including salaries, benefits and other expenses.

During 2007, the Foundation also transferred \$31,908 in charitable gifts to the College Heights Foundation. These were received by CHF and not considered Foundation gifts.

The Foundation leases real estate to WKU from a charitable remainder trust from which it is a remainder beneficiary. The Foundation leases the real estate for \$700 per month and sublets the property to WKU for the same amount.

The Foundation leases to WKU real estate from a charitable remainder trust for which it is a remainder beneficiary. Rental income for the years ended 2007 and 2006 were \$180,000 and \$15,000, respectively.

WKU provides the facilities in which the Foundation offices are located. The Foundation has no objective basis for determining the value of these donated facilities and, accordingly, does not recognize revenue or expense related to these transactions.

During 2007 and 2006, respectively, the Foundation contributed approximately \$581,749 and \$340,444 to the WKUREC.

Note 8: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 were available for the following purposes:

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Scholarships	\$ 845,920	\$ 498,291
Other program support	<u>17,998,765</u>	<u>10,672,386</u>
	<u>\$ 18,844,685</u>	<u>\$ 11,170,677</u>

Permanently Restricted Net Assets

Permanently restricted net assets at December 31 were restricted to:

	<u>2007</u>	<u>2006</u>
Scholarships	\$ 11,333,508	\$ 10,730,263
Other program support	<u>17,853,538</u>	<u>18,456,783</u>
	<u>\$ 29,187,046</u>	<u>\$ 29,187,046</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2007</u>	<u>2006</u>
Satisfaction of program restrictions	<u>\$ 3,445,229</u>	<u>\$ 3,384,930</u>

Note 9: Pension Plans

Through WKU, the Foundation participates in two multi-employer pension plans maintained by the state of Kentucky. The plans provide defined benefits to eligible employees of the Foundation. The Foundation reimburses WKU for the Foundation's share of the actuarially determined contributions to the plans, which are currently established at 13.84% and 5.89%, respectively, of the covered payroll of eligible employees. Contributions made to the plans on behalf of Foundation employees were \$13,254 and \$10,325, respectively, for the years ended December 31, 2007 and 2006.

Note 10: Subsequent Events

During June 2008, the Foundation issued promissory notes for \$500,000 and \$300,000 secured by certificates of deposit, maturing in June 2013. The notes are used to fund expansion projects.