

WESTERN KENTUCKY UNIVERSITY

Bowling Green, Kentucky

**REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Western Kentucky University ("University"), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Western Kentucky University Research Foundation, Inc., which represents 1.2% of the assets and 7.7% of revenues of Western Kentucky University's business-type activities for the years ended June 30, 2014 and 2013. 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 applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Western Kentucky University Research Foundation, Inc., Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University, as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
September 30, 2014

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

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, 2014 and 2013. 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, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended. Included in these financial statements are the financial statements that have not been audited by Crowe Horwath LLP, including the Research Foundation, which is a blended component unit of the University's financial statements. Also included are the financial statements of the Western Kentucky University Foundation, College Heights Foundation and the Student Life Foundation, which are each discretely presented within the financial statements of the University. Crowe Horwath LLP received and relied upon audit reports prepared and work performed by other auditors as a basis of their opinion on the University's financial statements.

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

Reporting Entity

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

Fiscal Year 2013 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>Fall 2013</u>	<u>Fall 2012</u>
<u>Enrollment Base (Headcount)</u>		
Undergraduate applications	9,904	10,549
Undergraduate enrollment (including returning students)	17,517	18,115
First-time freshmen	3,117	3,375
Total graduate enrollment	2,939	3,009
Total enrollment	20,456	21,124

The following data, with a comparison between the 2013/2014, 2012/2013 and 2011/2012 school years, is provided to help assess the financial viability of the University:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<u>Supporting Foundations</u>			
Endowments	\$ 132.8 million	\$ 118.8 million	\$ 111.0 million
Total cash receipts	15.2 million	18.1 million	17.9 million
<u>State Appropriations</u>			
General non-operating revenue	<u>\$ 72,425,200</u>	<u>\$ 72,425,200</u>	<u>\$ 75,879,500</u>
Total	<u>\$ 72,425,200</u>	<u>\$ 72,425,200</u>	<u>\$ 75,879,500</u>

Statement of Net Position

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

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

A summary of the University's assets, deferred outflows of resources, liabilities and net position, as of June 30, 2014 and 2013, are as follows:

Condensed Statement of Net Position (in Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Current and non-current other assets	\$ 149,895	\$ 144,103	\$ 169,857
Capital assets, net	<u>466,157</u>	<u>443,289</u>	<u>407,890</u>
Total assets	<u>616,052</u>	<u>587,392</u>	<u>577,747</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred penalty on refinancing	141	158	-
Deferred loss on bond refunding	<u>2,084</u>	<u>2,275</u>	<u>2,466</u>
Total deferred outflows of resources	<u>2,225</u>	<u>2,433</u>	<u>2,466</u>
Total assets and deferred outflows of resources	<u>\$ 618,277</u>	<u>\$ 589,825</u>	<u>\$ 580,213</u>
LIABILITIES			
Long-term obligations	215,383	186,940	178,097
Other liabilities	25,715	21,637	15,154
Unearned revenue	<u>10,737</u>	<u>11,364</u>	<u>9,579</u>
Total liabilities	<u>251,835</u>	<u>219,941</u>	<u>202,830</u>
NET POSITION			
Net investment in capital assets	256,439	266,181	236,527
Restricted			
Non-expendable	15,992	16,034	15,432
Expendable	39,720	27,212	59,316
Unrestricted	<u>54,291</u>	<u>60,457</u>	<u>66,108</u>
Total net position	<u>366,442</u>	<u>369,884</u>	<u>377,383</u>
Total liabilities and net position	<u>\$ 618,277</u>	<u>\$ 589,825</u>	<u>\$ 580,213</u>

Liabilities include pledges payable to the city of Bowling Green ("City") in the amount of \$27,382,560 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$157,612,063 with final payments on the bonds scheduled for fiscal year 2034.

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WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

Statement of Activities

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

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

Accordingly, the University reports net operating losses of \$(134,764,547), \$(136,971,370) and \$(142,088,153), for fiscal years 2014, 2013 and 2012, respectively.

A summary of the University's activities for the years ended June 30, 2014, 2013 and 2012, is as follows:

Statement of Activities (in Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues			
Net tuition and fees	\$ 129,435	\$ 123,535	\$ 117,876
Grants and contracts	688	614	265
Sales and services of educational departments	16,550	16,605	12,433
Auxiliary enterprises	20,981	20,944	20,861
Other	<u>19,457</u>	<u>20,051</u>	<u>16,787</u>
Total operating revenues	<u>187,111</u>	<u>181,749</u>	<u>168,222</u>
Operating expenses	<u>321,876</u>	<u>318,720</u>	<u>310,310</u>
Operating loss	<u>(134,765)</u>	<u>(136,971)</u>	<u>(142,088)</u>
Non-operating revenues (expenses)			
State appropriations	72,425	72,425	75,880
Grants and contracts	63,932	63,891	70,690
Investment income, net	578	1,278	669
Interest on capital asset-related debt	(5,257)	(5,415)	(4,912)
Other	<u>(355)</u>	<u>(718)</u>	<u>(422)</u>
Net non-operating revenues	<u>131,323</u>	<u>131,461</u>	<u>141,905</u>
Decrease in net position	(3,442)	(5,511)	(183)
Net position, beginning of year	<u>369,884</u>	<u>375,395</u>	<u>377,566</u>
Net position, end of year	<u>\$ 366,442</u>	<u>\$ 369,884</u>	<u>\$ 377,383</u>

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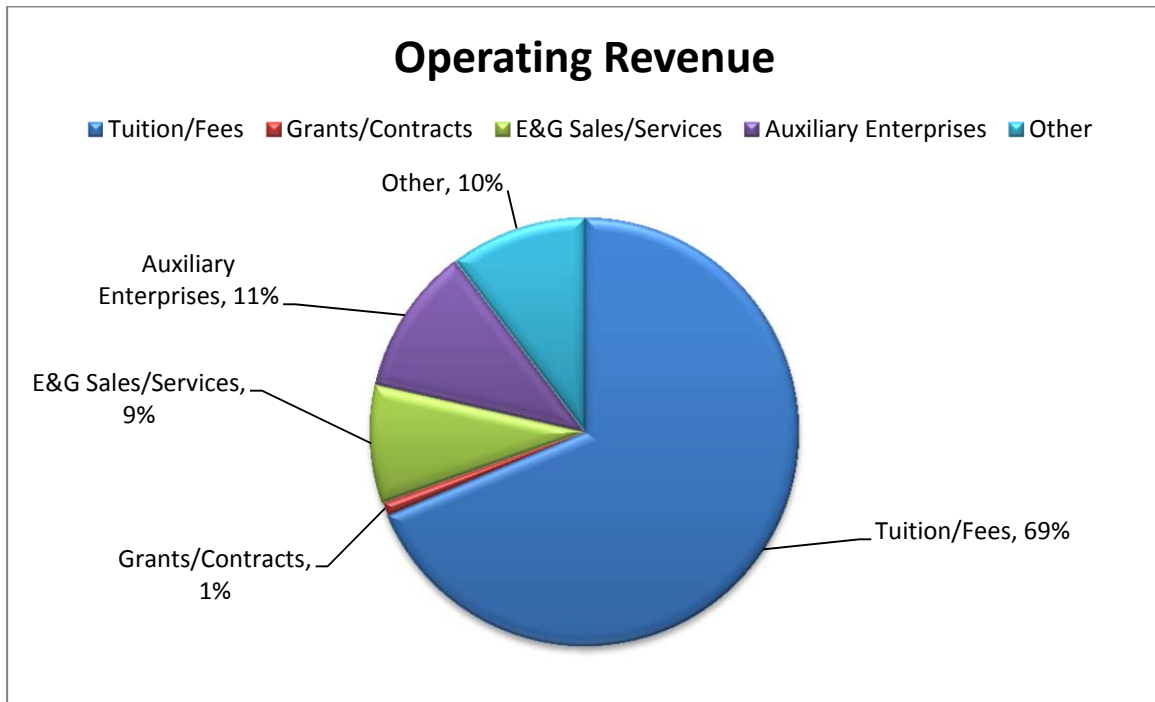
Operating Revenues

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

As previously noted, the University's total headcount enrollment decreased by approximately 3% between fall 2012 and fall 2013. As of fall 2013, approximately 83% of students enrolled at the University were Kentucky residents. An additional 7.7% of the student population came from Tennessee with many coming to the University through a state reciprocity agreement (*i.e.*, enrolled at in-state rates) or in the Tuition Incentive Program.

Tuition and fees revenue is recorded in the financial statements net of scholarship allowances, gift scholarships and institutional aid. A scholarship allowance is the difference between the stated charges for goods and services provided by the institution and the amount that is billed to students and third parties making payments on behalf of students. College Access Program and KEES Program have been included in the scholarship allowance after these sources have been used to satisfy a student's 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, 2014 and 2013, were approximately 70.0% of the gross tuition and fees with approximately \$53.9 million and \$52.4 million, respectively, being recorded as scholarship allowance.

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



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

The grant and contract awards received in a given year are frequently multiyear awards for which only the current year activity related to the award will be recorded, *i.e.*, any cash received in excess of expenses incurred will be recorded as unearned revenue. Additionally, awards related to future periods are not recorded in the University's financial statements. The following chart provides a three-year comparison of total grants and contracts awarded (not received/recorded) during the 2014, 2013 and 2012 fiscal years.

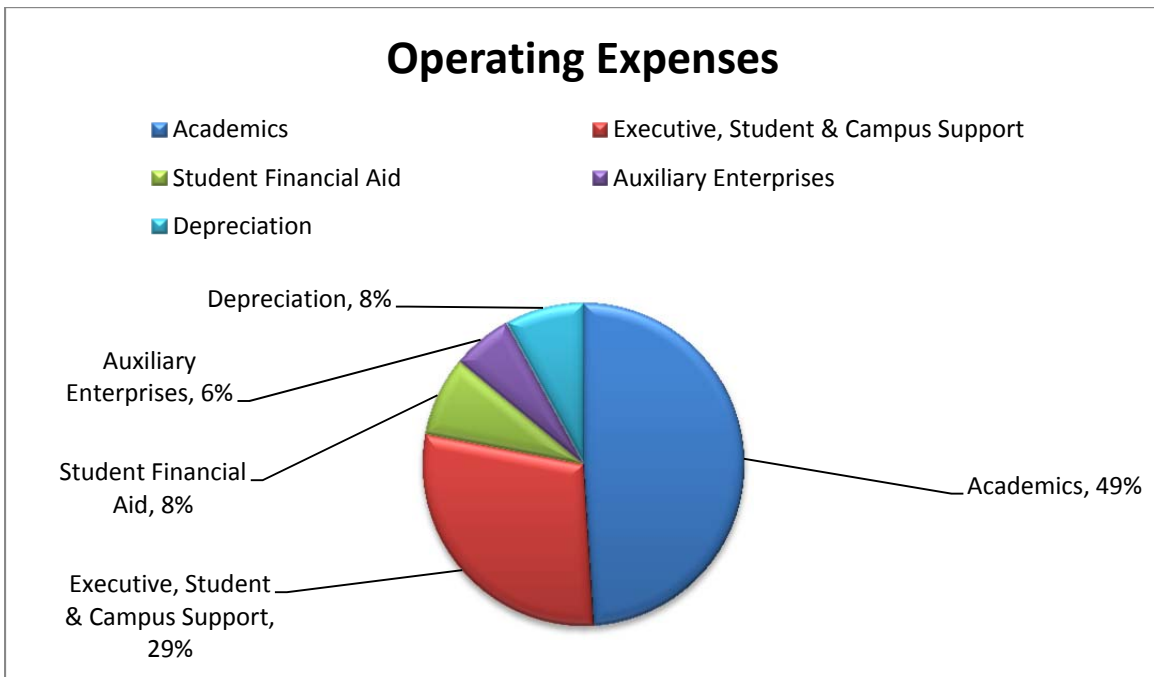
Grants and Contracts Awards (Excluding Financial Aid)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Federal	\$ 8,988,892	\$ 11,537,379	\$ 13,406,247
State	3,536,998	2,932,041	2,581,896
Other	<u>8,387,189</u>	<u>1,296,770</u>	<u>1,621,706</u>
Total	<u>\$ 20,913,079</u>	<u>\$ 15,766,190</u>	<u>\$ 17,609,849</u>

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Operating Expenses

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



Non-operating Revenues and Expenses

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

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WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

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, 2014, 2013 and 2012 is comprised of the following:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Investment income	\$ 564,426	\$ 559,306	\$ 918,959
Net change for the year in the fair value of investments	<u>13,686</u>	<u>718,304</u>	<u>(249,445)</u>
	<u>\$ 578,112</u>	<u>\$ 1,277,610</u>	<u>\$ 669,514</u>

State appropriations were \$72,425,200 for 2014 and 2013.

Change in Net Position

For the years ended June 30, 2014, 2013 and 2012, the University's net position (decreased) by \$(3,441,845), \$(5,510,720) and \$(182,836), respectively. The year-end net position for June 30, 2014, 2013 and 2012 were \$366,442,415, \$369,884,260 and \$375,394,980, respectively.

Statements of Cash Flows

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

- Operating cash flows and the net cash used for the operating activities of the University
- Cash flows from noncapital financing activities
- Cash flows from capital and related financing activities
- Cash flows from investing activities
- Reconciliation of the net cash flows from operating activities to the operating income or loss reflected on the Statement of Activities

The major sources of cash received for operating activities are tuition and fees of \$129,912,318 and auxiliary enterprises of \$20,981,168. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$194,888,175 and to suppliers and contractors of \$100,858,919. 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.

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WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

The Statements of Cash Flows are summarized as follows:

Condensed Statements of Cash Flows (in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash Provided By (Used In)			
Operating activities	\$ (110,285)	\$ (105,532)	\$ (123,859)
Non-capital financing activities	136,438	136,313	146,918
Capital and related financing activities	(18,265)	(59,767)	(7,537)
Investing activities	<u>1,718</u>	<u>(400)</u>	<u>1,599</u>
Net increase (decrease) in cash and cash equivalents	9,606	(29,386)	17,121
Cash and cash equivalents, beginning of year	<u>88,535</u>	<u>117,921</u>	<u>100,800</u>
Cash and cash equivalents, end of year	<u>\$ 98,141</u>	<u>\$ 88,535</u>	<u>\$ 117,921</u>

Capital Asset and Long-term Obligations

Capital Assets

As of June 30, 2014, 2013 and 2012, the University had \$466.2 million, \$443.3 million and \$407.9 million invested in capital assets, net of accumulated depreciation of \$280.2 million, \$256.7 million and \$234.3 million, respectively. Capital assets at June 30, 2014, 2013 and 2012 are summarized below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 10,673,507	\$ 8,948,955	\$ 9,033,176
Buildings and improvements	480,794,154	475,476,990	447,454,668
Infrastructure	61,440,232	55,306,690	44,148,611
Furniture, fixtures and equipment	70,633,921	65,596,121	60,883,980
Library materials	51,204,810	48,889,239	46,713,107
Construction in progress	<u>71,645,070</u>	<u>45,755,780</u>	<u>34,003,360</u>
Total capital assets	746,391,694	699,973,775	642,236,902
Less accumulated depreciation	<u>(280,235,121)</u>	<u>(256,684,408)</u>	<u>(234,346,659)</u>
Capital assets, net	<u>\$ 466,156,573</u>	<u>\$ 443,289,367</u>	<u>\$ 407,890,243</u>

The major construction projects in progress, as of June 30, 2014, consisted of the Downing University Center, Phase IV renovation and the construction of the Honors College and International Student Building.

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WESTERN KENTUCKY UNIVERSITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2014 and 2013

Long-Term Obligations

As of June 30, 2014, 2013 and 2012, the University had \$215.4 million, \$186.9 million and \$175.6 million, respectively, in long-term obligations consisting of pledges payable to the city of Bowling Green, bonds payable (Consolidated Educational Buildings Revenue Bonds and General Receipts Bonds), capital leases and other long-term obligations. The long-term obligations, including the current portion, are summarized as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Pledges to the City	\$ 27,382,560	\$ 28,933,607	\$ 28,614,913
General Receipts Bonds	157,612,063	127,966,371	133,929,351
Capital leases	19,478,197	17,531,006	2,593,114
Other long-term obligations	<u>10,909,744</u>	<u>12,509,087</u>	<u>10,493,351</u>
Total	<u>\$ 215,382,564</u>	<u>\$ 186,940,071</u>	<u>\$ 175,630,729</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) was 40.5% in fall 2013. The slight decline in the enrollment yield is reflected in the total headcount enrollment of just above 20,000. The decline in enrollment can be attributed to a decline in the part time student population, mitigating the fiscal impact. It should be noted that WKU recorded its second consecutive year of record average ACT score (22) for the freshmen class, placing it in the top 70th percentile for the first time. WKU's continuing emphasis on the academic quality of the incoming class has resulted in an increase in retention as well as a second consecutive year of a graduation rate of approximately 50%, and further supports an expectation of a stable revenue base. WKU noted a 43.2% increase in the number of international students from fall 2012 to fall 2013 resulting in an increase in tuition revenue. This increase is critical due to the continued lack of growth in state funding. While this unexpected rate of growth is the exception, it reflects WKU's emphasis on efforts to increase its international recruitment efforts including new partnerships with Brazil and others underway.
- The Council on Postsecondary Education (CPE) has the statutory responsibility to approve tuition rates. Significant emphasis continues to be placed on setting tuition rates with modest increases that will not impede economic access to postsecondary education. At its April 29, 2014 meeting, the Council on Postsecondary Education approved a resident, undergraduate tuition and mandatory fee ceiling for academic years 2014-15 and 2015-16 that equates to a maximum increase of 8.2 percent over the two years for WKU. CPE gives each institution more flexibility in determining all nonresident, online and graduate rates. WKU's 2014-15 Tuition and Fees Schedule, which is included in the Executive Summary, has been submitted for CPE approval at its June 20, 2014 meeting. WKU's 2014-15 resident, undergraduate tuition and mandatory fees increase is \$209/semester for a total increase of 4.8 percent.

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WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

With the exception of undergraduate distance learning and nonresident domestic graduate tuition rates, a five percent rate increase is recommended for most rates. The undergraduate distance learning rate will increase 4 percent with the multi-year goal to return to the distance learning rate being 20 percent higher than the resident undergraduate tuition rate. For 2014-15, this rate is 21.5 percent of the resident undergraduate tuition rate. WKU's goal is to gradually increase the graduate nonresident domestic tuition rate and eliminate the graduate nonresident international tuition rate. The rate increase for graduate nonresident domestic is 8 percent.

- House Bill 235, the Executive Branch Budget, was passed by the 2014 Regular Session of the Kentucky General Assembly and provides a state expenditure plan for the 2014-16 biennium. The budget is premised on modest revenue growth of 2.6 percent in each year of the biennium. However, the fiscal plan still calls for one-time funds to balance the budget. While Governor Beshear included a state funding reduction of 2.5 percent for postsecondary education institutions in his recommended budget, the General Assembly reduced the cut to 1.5 percent for FY 2015. This is in comparison to 5.0 percent state funding reductions to be implemented by many state agencies. Funding is being provided to increase the enrollment in the Gatton Academy of Math and Science from 120 to 200 students in the second year of the biennium. Funding, with the exception of the Gatton Academy, will remain at the FY 2015 level for FY 2016.

In regard to state funding for WKU, the following state appropriation changes are included in the enacted biennial budget:

	<u>2014-15</u>	<u>2015-16</u>
Base Operating Funds:		
KERS Employer Contribution	\$ 1,330,500	\$ -
1.5% Reduction	(1,106,300)	-
Gatton Academy of Mathematics and Science	-	<u>2,000,000</u>
Total	<u>\$ 224,200</u>	<u>\$ 2,000,000</u>

WKU's 2014-15 operating budget includes the 1.5% reduction in State General Fund with permanent reductions implemented across the University.

- 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. A rate increase was approved by the General Assembly for FY 2015 with approximately one-half of the increase being funded by an increase in WKU's State General Fund allocation.
- Under its self-funded health insurance plan, the University provides a comprehensive health insurance program for employees and their dependents. The University Benefits Committee analyzes claims history, projected health care costs, and the University's premium structure and then makes recommendations to the WKU administration regarding any rate revisions for the upcoming calendar year. In partnership with a very reputable benefit plan consultant, WKU developed and will launch a completely redesigned health plan for calendar year 2015. That plan incorporates several options including a High Deductible Health Plan (HDHP) along with several incentives to promote employee and family wellness. The new plan encourages health assessment activities and offers various health improvement activities while providing attractive incentives for employees who choose to participate. The self-funded insurance program continues to be financially sound with a health insurance reserve of \$4.7 million, which is approximately 29 percent of the previous year's claims and administrative expenses.

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

- WKU has no plans to issue general receipts bonds in FY 2015 or FY 2016.

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 POSITION
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 72,911,048	\$ 79,441,657
Accounts receivable, net of allowance of \$995,091 and \$1,217,731	8,100,886	8,434,361
Federal and state grants receivable	7,488,357	5,549,643
Inventories	1,583,480	2,526,025
Loans to students	439,399	454,218
Lease receivable	230,000	46,835
Prepaid expenses and other	5,093,663	4,160,443
Total current assets	<u>95,846,833</u>	<u>100,613,182</u>
Noncurrent assets:		
Restricted cash and cash equivalents	25,230,548	9,093,766
Long-term investments	278,459	211,141
Loans to students, net of allowance of \$548,366 each year	2,940,594	3,039,765
Assets held in trust	24,303,930	26,988,652
Lease receivable	1,295,000	4,156,370
Capital assets	746,391,694	699,973,775
Accumulated depreciation	<u>(280,235,121)</u>	<u>(256,684,408)</u>
Total noncurrent assets	<u>520,205,104</u>	<u>486,779,061</u>
Total assets	<u>616,051,937</u>	<u>587,392,243</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred penalty on refinancing	141,365	157,676
Deferred loss on bond refunding	2,084,177	2,274,924
Total deferred outflows of resources	<u>2,225,542</u>	<u>2,432,600</u>
Total assets and deferred outflows of resources	<u>\$ 618,277,479</u>	<u>\$ 589,824,843</u>
LIABILITIES		
Current liabilities:		
Accounts payable	15,554,697	13,569,231
Self-insured health liability	952,201	1,247,421
Self-insured workers' compensation liability	257,903	166,455
Accrued payroll and withholdings	2,804,886	1,390,075
Accrued compensated absences	3,190,869	3,121,559
Accrued interest	2,153,411	1,421,620
Unearned revenue	10,736,708	11,363,613
Long-term obligations - current	12,021,112	10,186,225
Deposits held in custody for others	801,825	720,538
Total current liabilities	<u>48,473,612</u>	<u>43,186,737</u>
Long-term obligations	<u>203,361,452</u>	<u>176,753,846</u>
Total liabilities	<u>251,835,064</u>	<u>219,940,583</u>
NET POSITION		
Net investment in capital assets	256,439,342	266,180,951
Restricted		
Non-expendable - endowments	15,992,204	16,034,366
Expendable		
Loans	3,950,513	4,238,870
Capital projects	35,769,916	22,972,677
Debt service	-	12
Unrestricted	<u>54,290,440</u>	<u>60,457,384</u>
Total net position	<u>366,442,415</u>	<u>369,884,260</u>
Total liabilities and net position	<u>\$ 618,277,479</u>	<u>\$ 589,824,843</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF NET ASSETS
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 4,483,392	\$ 6,496,024
Investments	56,319,631	50,442,395
Accounts receivable	65,588	107,561
Receivable - WKU Real Estate Corporation	469,286	469,286
Receivable - Warren County Economic Development Authority	1,948,048	1,948,048
Receivable - College Heights Foundation	-	39,250
Contributions receivable, net of allowance of \$1,035,709 and \$1,408,600	6,565,847	9,059,172
Prepaid expenses and other assets	73,297	66,969
Property, net	9,877,698	-
Investments held for Western Kentucky University	<u>20,040,620</u>	<u>17,546,457</u>
Total assets	<u>\$ 99,843,407</u>	<u>\$ 86,175,162</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 107,638	\$ 120,356
Notes payable	1,102,207	1,659,249
Due to Hilltopper Athletic Foundation	251,647	269,147
Annuities payable	1,103,837	1,161,345
Capital lease obligation	1,560,681	-
Assets held for others	<u>20,040,620</u>	<u>17,546,457</u>
Total liabilities	<u>24,166,630</u>	<u>20,756,554</u>
Unrestricted	13,120,409	10,147,340
Temporarily restricted	24,579,703	18,671,057
Permanently restricted	<u>37,976,665</u>	<u>36,600,211</u>
Total net assets	<u>75,676,777</u>	<u>65,418,608</u>
Total liabilities and net assets	<u>\$ 99,843,407</u>	<u>\$ 86,175,162</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
 WKU STUDENT LIFE FOUNDATION, INC.
 STATEMENTS OF NET ASSETS
 June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 5,789,188	\$ 7,628,179
Accounts receivable, net of allowance of \$131,422 and \$26,087	679,907	966,174
Net investment in direct financing lease	2,012,668	2,070,985
Prepaid expenses	375,952	379,777
Assets limited as to use	9,541,272	9,512,031
Assets held for others - student deposits	597,980	551,575
Assets held by others - student deposits	142,131	159,910
Derivative instruments at fair value	1,799,258	1,970,716
Property and equipment, net	95,414,194	82,576,574
Other assets	<u>513,088</u>	<u>532,009</u>
Total assets	<u>\$ 116,865,638</u>	<u>\$ 106,347,930</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,248,757	\$ 805,887
Accrued expenses	192,774	196,221
Student deposits	740,111	711,485
Interest rate collar and swap agreements, at fair value	10,209,600	11,427,231
Asset retirement obligation	789,415	786,249
Long-term debt, net of unamortized discounts of \$166,084 and \$156,814	<u>79,756,040</u>	<u>73,973,186</u>
Total liabilities	<u>94,936,697</u>	<u>87,900,259</u>
Net assets - unrestricted	<u>21,928,941</u>	<u>18,447,671</u>
Total liabilities and net assets	<u>\$ 116,865,638</u>	<u>\$ 106,347,930</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENTS OF NET ASSETS
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,409,160	\$ 668,181
Interest and dividends receivable	37,419	51,620
Investments	46,020,895	39,306,572
Other assets	94,697	94,697
Investments held for Western Kentucky University and others	<u>2,520,961</u>	<u>2,135,913</u>
Total assets	<u>\$ 50,083,132</u>	<u>\$ 42,256,983</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 91,413	\$ 145,000
Notes payable	273,939	361,471
Refundable advances and gift annuity liabilities	3,463,511	3,403,655
Assets held for Western Kentucky University	<u>2,520,961</u>	<u>2,135,913</u>
Total liabilities	<u>6,349,824</u>	<u>6,046,039</u>
Net assets		
Donor restricted		
Permanently	41,890,646	38,144,339
Temporarily	<u>1,627,548</u>	<u>2,174,921</u>
	<u>43,518,194</u>	<u>40,319,260</u>
Unrestricted		
Designated by board for perpetual scholarship fund	<u>215,114</u>	<u>(4,108,316)</u>
Total net assets	<u>43,733,308</u>	<u>36,210,944</u>
Total liabilities and net assets	<u>\$ 50,083,132</u>	<u>\$ 42,256,983</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF ACTIVITIES
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
REVENUES		
Operating revenues		
Tuition and fees, net of discounts and allowances of \$53,918,046 and \$52,370,201	\$ 129,435,073	\$ 123,535,178
Federal grants and contracts	607,167	521,421
State grants and contracts	80,516	92,116
Sales and services of educational activities	16,549,685	16,604,978
Auxiliary enterprise revenues, net of discounts and allowances of \$1,382,514 and \$1,342,826	20,981,168	20,943,979
Other operating revenues	<u>19,457,411</u>	<u>20,051,191</u>
Total operating revenues	<u>187,111,020</u>	<u>181,748,863</u>
EXPENSES		
Operating expenses		
Education and general		
Instruction	109,799,967	105,760,999
Research	6,757,102	8,759,003
Public service	16,308,240	15,550,611
Libraries	5,878,010	5,635,954
Academic support	18,286,281	19,178,521
Student services	34,299,870	32,524,757
Institutional support	30,722,873	32,385,053
Operation and maintenance of plant	29,161,415	28,349,841
Student financial aid	25,739,833	25,762,437
Depreciation	24,868,572	24,315,649
Auxiliary enterprises	<u>20,053,404</u>	<u>20,497,408</u>
Total operating expenses	<u>321,875,567</u>	<u>318,720,233</u>
Operating loss	<u>(134,764,547)</u>	<u>(136,971,370)</u>
Non-operating revenues (expenses)		
State appropriations	\$ 72,425,200	\$ 72,425,200
Federal grants and contracts	40,095,758	42,828,442
Federal grants and contracts – ARRA	272,629	262,150
State grants and contracts	19,270,555	16,475,227
Local and private grants and contracts	4,293,313	4,325,288
Net investment income	578,112	1,277,610
Interest on capital asset-related debt	(5,257,164)	(5,414,771)
Gain (loss) on disposal of capital assets	435,519	(618,996)
Income on sale of investments	3,685	59,447
Other non-operating expenses	<u>(794,905)</u>	<u>(158,947)</u>
Net non-operating revenues	<u>131,322,702</u>	<u>131,460,650</u>
Decrease in net position	(3,441,845)	(5,510,720)
Net position, beginning of year	<u>369,884,260</u>	<u>375,394,980</u>
Net position, end of year	<u>\$ 366,442,415</u>	<u>\$ 369,884,260</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Changes in unrestricted net assets		
Unrestricted revenues, gains and other support		
Contributions	\$ 4,853,934	\$ 266,080
Investment return	1,829,741	613,237
Net assets released from restrictions	<u>5,452,869</u>	<u>6,939,758</u>
Total unrestricted revenues, gains and other support	<u>12,136,544</u>	<u>7,819,075</u>
 Expenses		
Payments made on behalf of Western Kentucky University - Programs	7,256,196	7,641,976
Management and general	1,887,356	1,538,298
Fundraising	<u>19,923</u>	<u>17,496</u>
Total expenses	<u>9,163,475</u>	<u>9,197,770</u>
 Changes in unrestricted net assets	 <u>2,973,069</u>	 <u>(1,378,695)</u>
 Changes in temporarily restricted net assets		
Contributions	5,269,891	4,709,190
Investment return	5,911,624	5,149,372
Miscellaneous income	180,000	123,669
Net assets released from restrictions	<u>(5,452,869)</u>	<u>(6,939,758)</u>
 Changes in temporarily restricted net assets	 <u>5,908,646</u>	 <u>3,042,473</u>
 Changes in permanently restricted net assets		
Contributions	<u>1,376,454</u>	<u>698,815</u>
 Increase in net assets	 10,258,169	 2,362,593
Net assets, beginning of period	<u>65,418,608</u>	<u>63,056,015</u>
 Net assets, end of period	 <u>\$ 75,676,777</u>	 <u>\$ 65,418,608</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
 WKU STUDENT LIFE FOUNDATION, INC.
 STATEMENTS OF ACTIVITIES
 Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues		
Rent	\$ 19,043,413	\$ 18,945,197
Interest income – direct financing lease	135,832	139,542
Other	<u>1,430,680</u>	<u>1,046,532</u>
Total operating revenues	<u>20,609,925</u>	<u>20,131,271</u>
Operating expenses		
Salaries, benefits and related expenses	5,625,878	5,220,769
Utilities	2,003,064	2,212,891
Repairs, maintenance and supplies	1,595,695	1,334,208
Management fee	69,200	69,200
Professional fees	147,521	154,882
Insurance	677,123	608,106
Depreciation and amortization	3,726,263	3,689,366
Bad debt expense	265,484	101,653
Other	<u>735,617</u>	<u>476,791</u>
Total operating expenses	<u>14,845,845</u>	<u>13,867,866</u>
Changes in net assets from operations	<u>5,764,080</u>	<u>6,263,405</u>
Non-operating revenues (expenses)		
Interest income	416,107	414,351
Interest expense and fees	(672,439)	(520,574)
Change in fair value of interest rate collar and swap agreements, net of settlement payments of \$3,072,651 and \$3,156,107	<u>(2,026,478)</u>	<u>1,712,354</u>
Total non-operating revenues	<u>(2,282,810)</u>	<u>1,606,131</u>
Changes in unrestricted net assets	3,481,270	7,869,536
Unrestricted net assets, beginning of year	<u>18,477,671</u>	<u>10,578,135</u>
Unrestricted net assets, end of year	<u>\$ 21,928,941</u>	<u>\$ 18,447,671</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Changes in unrestricted net assets		
Unrestricted revenues, gains and other support		
Investment income	\$ 479,089	\$ 138,779
Net realized and unrealized gains on investments	510,084	124,997
Other revenue	5,959	43,613
Net assets released from restrictions	<u>9,713,508</u>	<u>5,359,676</u>
Total unrestricted revenues, gains and other support	<u>10,708,640</u>	<u>5,667,065</u>
Expenses		
Program		
Scholarships and awards	5,491,207	5,485,209
Other	<u>230,839</u>	<u>458,653</u>
Total program expenses	<u>5,722,046</u>	<u>5,943,862</u>
Management and general		
Salaries and benefits	376,427	383,252
Interest expense	11,777	12,355
Other	<u>274,960</u>	<u>131,901</u>
Total expenses	<u>6,385,210</u>	<u>6,471,370</u>
Changes in unrestricted net assets	<u>4,323,430</u>	<u>(804,305)</u>
Changes in temporarily restricted net assets		
Contributions	2,624,387	2,856,549
Investment income	460,057	702,276
Net realized and unrealized gains on investments	6,111,545	1,972,261
Net change in value of split interest agreements	-	(359,082)
Gain (loss) on exchange of assets	(29,854)	1,765,097
Net assets released from restrictions	<u>(9,713,508)</u>	<u>(5,359,676)</u>
	<u>(547,373)</u>	<u>1,577,425</u>
Changes in permanently restricted net assets		
Contributions	<u>3,746,307</u>	<u>2,760,071</u>
Increase in net assets	7,522,364	3,533,191
Net assets, beginning of year	<u>36,210,944</u>	<u>32,677,753</u>
Net assets, end of year	<u>\$ 43,733,308</u>	<u>\$ 36,210,944</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Tuition and fees	\$ 129,912,318	\$ 122,665,784
Grants and contracts	(1,552,350)	620,502
Payments to employees	(186,578,454)	(183,446,978)
Payments to suppliers	(90,057,781)	(83,288,161)
Collection of loans issued to students, net	113,990	579,119
Sales and services of educational departments	16,549,685	16,604,978
Other operating revenues	19,457,411	20,042,043
Auxiliary enterprise revenues	20,981,168	20,943,979
Auxiliary enterprise payments		
Payments to employees	(8,309,721)	(7,893,704)
Payments to suppliers	(10,801,138)	(12,359,494)
Net cash used in operating activities	<u>(110,284,872)</u>	<u>(105,531,932)</u>
Cash flows from noncapital financing activities		
State appropriations	72,425,200	72,425,200
Grants and contracts receipts	63,659,626	63,628,957
Grants and contracts receipts – ARRA	272,629	262,150
Student organization agency receipts (disbursements) - net	<u>81,287</u>	<u>(2,624)</u>
Net cash provided by noncapital financing activities	<u>136,438,742</u>	<u>136,313,683</u>
Cash flows from capital and related financing activities		
Proceeds from sale of capital assets	561,566	254,219
Purchases of capital assets	(39,991,765)	(45,190,366)
Proceeds from issuance of bond debt	36,095,000	-
Premium paid on bond issue	351,026	-
Principal paid on capital debt and leases	(10,101,550)	(9,385,336)
Interest paid on capital debt and leases	(4,525,373)	(5,445,939)
Other non-operating revenues (expenses)	<u>(654,288)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(18,265,324)</u>	<u>(59,767,422)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,735,079	131,803
Purchase of investments	(433,667)	(1,051,119)
Investment income	<u>416,215</u>	<u>519,170</u>
Net cash provided by (used in) investing activities	<u>1,717,627</u>	<u>(400,146)</u>
Net change in cash and cash equivalents	9,606,173	(29,385,817)
Cash and cash equivalents, beginning of year	<u>88,535,423</u>	<u>117,921,240</u>
Cash and cash equivalents, end of year	<u>\$ 98,141,596</u>	<u>\$ 88,535,423</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (134,764,547)	\$ (136,971,370)
Depreciation expense	24,868,572	24,315,649
Changes in operating assets and liabilities		
Accounts receivable, net	333,475	(980,218)
Federal and state grants receivable	(1,938,714)	131,308
Assets held in trust	805,428	416,286
Inventories	942,545	244,210
Loans to students, net	113,990	579,119
Lease receivable	-	71,828
Prepaid expenses and other	(939,893)	930,135
Accounts payable and other current liabilities	(359,172)	3,257,997
Health insurance liability	(203,772)	332,897
Accrued payroll and payroll withholdings	1,414,811	222,251
Accrued compensated absences	69,310	133,064
Unearned revenue	<u>(626,905)</u>	<u>1,784,912</u>
Net cash used in operating activities	<u>\$ (110,284,872)</u>	<u>\$ (105,531,932)</u>
Supplemental cash flows information		
Capital leases incurred for capital assets	\$ 4,842,603	\$ 10,982,321
Long-term financing of capital projects	-	1,734,146
Trust assets used for acquisition of capital assets	-	38,775
Construction in process included in accounts payable	2,344,638	2,489,759
Bond payment made out of trust assets	<u>-</u>	<u>329,160</u>
	<u>\$ 7,187,241</u>	<u>\$ 15,574,161</u>
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents	\$ 72,911,048	\$ 79,441,657
Restricted cash and cash equivalents	<u>25,230,548</u>	<u>9,093,766</u>
Total cash and cash equivalents	<u>\$ 98,141,596</u>	<u>\$ 88,535,423</u>

See accompanying notes to financial statements.

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

Nature of Operations: Western Kentucky University (the "University") is a state supported institution of higher education located in Bowling Green, Kentucky, and accredited by the Southern Association of Colleges and Schools. The University awards graduate and undergraduate degrees and serves a student population of approximately 20,500 in 2014. The University is operated under the jurisdiction of a board of regents and is a component unit of the Commonwealth of Kentucky. Major federally funded student financial aid programs in which the University participates include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study, Federal Family Education Loan, Federal Direct Loan and Federal Perkins Loan Programs. The University extends unsecured credit to students.

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

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

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

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

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.

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 year ended December 31, 2013 and 2012. 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, 2014 and 2013.

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

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

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

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

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

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

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

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

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

Bond Issuance Costs: The University implemented the provisions of GASB Statement No. 65 during the year ended June 30, 2013 which resulted in \$1,988,517 of bond issuance costs being expensed as of June 30, 2012. These costs are now expensed in the year of the bond issuance.

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

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

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014 and 2013

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>2014</u>	<u>2013</u>
Total interest expense incurred on borrowings for project	\$ 2,259,232	\$ 1,008,837
Interest income from investment of proceeds of borrowings for project	<u>(156,511)</u>	<u>-</u>
Net interest cost capitalized	<u>2,102,721</u>	<u>1,008,837</u>
Interest capitalized	2,102,721	1,008,837
Interest charged to expense	<u>5,257,164</u>	<u>5,414,771</u>
Total interest incurred	<u>\$ 7,359,885</u>	<u>\$ 6,423,608</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 position date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes which are computed using rates in effect at that date.

Unearned Revenue: Tuition and fee revenues collected during the fiscal year, which relate to the period after June 30, 2014, have been recognized as unearned revenues. Unearned revenues arise when resources are received by the University before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the University has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and revenue is recognized. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been earned and unexpended state capital appropriations.

(Continued)

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

Classification of Revenues: The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances; (2) sales and services of auxiliary enterprises; and (3) interest on student loans.

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

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

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

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

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

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

(Continued)

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

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

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. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees* - In April 2013, the objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This liability should be reported until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity non-exchange financial guarantees involving blended component units by specifying the information required to be disclosed by governments that extend non-exchange financial guarantee as well as new information to be disclosed by governments that receive non-exchange financial guarantees. Adoption of this Statement did not have a material impact on the University's financial statements.

Recent Accounting Pronouncements: As of June 30, 2014, the GASB has issued the following statements not yet implemented by the University.

- 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 inter-period equity, and creating additional transparency. This Statement is not directly applicable to the University, but applies to the defined benefit pension plans that the University participates in, which are described in Note 9.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, Issued June 2012. The provisions for this statement are effective for fiscal years 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 is working with the Kentucky Teachers Retirement System and the Kentucky Employees Retirement System to determine the impact of this pronouncement on the University's financial statement. Although the specific amounts are not yet known, this is expected to result in a material liability being recorded on the University's financial statements.

(Continued)

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

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operation* - In January 2013, this Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. This Statement also requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of this Statement are effective for the University's fiscal year ended June 30, 2015. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – In November 2013, the objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The provisions of this Statement are effective for the University's fiscal year ended June 30, 2015. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

NOTE 2 - ASSETS HELD IN TRUST

Assets held in trust as of June 30, 2014 and 2013 consisted of:

	<u>2014</u>	<u>2013</u>
Cash equivalents	\$ 4,448,727	\$ 6,743,777
Common equity, common fixed income and mutual funds	<u>19,855,203</u>	<u>20,244,875</u>
Fair value of assets held in trust	<u>\$ 24,303,930</u>	<u>\$ 26,988,652</u>

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash

The carrying amount of cash and cash equivalents was \$98,141,596 and \$88,535,423 at June 30, 2014 and 2013, while the bank balances were \$90,773,328 and \$88,175,505 at June 30, 2014 and 2013. 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, 2014 and June 30, 2013 was \$248,034 and \$113,208, 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, 2014:

<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	\$ 271,523	\$ 271,523	\$ -	\$ -	\$ -
Cambridge Holdings EURO	<u>6,936</u>	<u>6,936</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 278,459</u>	<u>\$ 278,459</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, 2013:

<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	\$ 210,878	\$ 210,878	\$ -	\$ -	\$ -
Cambridge Holdings EURO	<u>263</u>	<u>263</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 211,141</u>	<u>\$ 211,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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.

The University did not have any investment in debt securities as of June 30, 2014 or 2013. Therefore, the University is not considered to have credit risk.

Foreign Currency Risk: As of June 30, 2014 and 2013, the University was holding \$6,936 and \$263, respectively, 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, 2014 or 2013.

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, 2014 and 2013.

Of the University's cash and investment balance as of June 30, 2014 and 2013, \$500,000 is secured by FDIC insurance, and \$61,177,875 and \$57,400,941, respectively is secured by U.S. Treasury Notes held in the University's name, collateralized by the pledging institution. Additionally, as of June 30, 2014 and 2013, \$29,095,453 and \$30,274,564 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, 2014 and 2013 consisted of:

	<u>2014</u>	<u>2013</u>
Interest income, including interest earned on cash equivalents	\$ 564,426	\$ 559,306
Net increase in fair value of investments	<u>13,686</u>	<u>718,304</u>
	<u>\$ 578,112</u>	<u>\$ 1,277,610</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Tuition, fees, sales and services	\$ 7,235,988	\$ 6,856,051
Credit memos	756,454	724,798
Miscellaneous, other	<u>1,103,535</u>	<u>2,071,243</u>
	9,095,977	9,652,092
Less allowance for doubtful accounts	<u>(995,091)</u>	<u>(1,217,731)</u>
Accounts receivable, net	<u>\$ 8,100,886</u>	<u>\$ 8,434,361</u>

NOTE 5 - CAPITAL ASSETS

Changes in capital assets for the years ended June 30, 2014 and 2013 are summarized as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2014</u>
Non-depreciable capital assets:					
Land	\$ 8,948,955	\$ 1,795,511	\$ (70,959)	\$ -	\$ 10,673,507
Construction in progress	<u>45,755,780</u>	<u>34,215,671</u>	<u>-</u>	<u>(8,326,381)</u>	<u>71,645,070</u>
	<u>54,704,735</u>	<u>36,011,182</u>	<u>(70,959)</u>	<u>(8,326,381)</u>	<u>82,318,577</u>
Depreciable capital assets:					
Buildings and improvements	475,476,990	5,317,164	-	-	480,794,154
Infrastructure	55,306,690	-	-	6,133,542	61,440,232
Furniture, fixtures and equipment	65,596,121	3,829,373	(984,412)	2,192,839	70,633,921
Library materials	<u>48,889,239</u>	<u>2,704,106</u>	<u>(388,535)</u>	<u>-</u>	<u>51,204,810</u>
	<u>645,269,040</u>	<u>11,850,643</u>	<u>(1,372,947)</u>	<u>8,326,381</u>	<u>664,073,117</u>
Less accumulated depreciation:					
Buildings and improvements	159,054,941	14,599,503	-	-	173,654,444
Infrastructure	15,811,325	2,589,352	-	-	18,400,677
Furniture, fixtures, and equipment	45,073,177	5,426,335	(929,324)	-	49,570,188
Library materials	<u>36,744,965</u>	<u>2,253,382</u>	<u>(388,535)</u>	<u>-</u>	<u>38,609,812</u>
	<u>256,684,408</u>	<u>24,868,572</u>	<u>(1,317,859)</u>	<u>-</u>	<u>280,235,121</u>
Net capital assets	<u>\$ 443,289,367</u>	<u>\$ 22,993,253</u>	<u>\$ (126,047)</u>	<u>\$ -</u>	<u>\$ 466,156,573</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 5 - CAPITAL ASSETS (Continued)

	Balance July 1, 2012	Additions	Disposals	Transfers	Balance June 30, 2013
Non-depreciable capital assets:					
Land	\$ 9,033,176	\$ 582,122	\$ (666,343)	\$ -	\$ 8,948,955
Construction in progress	<u>34,003,360</u>	<u>40,548,050</u>	<u>-</u>	<u>(28,795,630)</u>	<u>45,755,780</u>
	<u>43,036,536</u>	<u>41,130,172</u>	<u>(666,343)</u>	<u>(28,795,630)</u>	<u>54,704,735</u>
Depreciable capital assets:					
Buildings and improvements	447,454,668	10,982,321	(186,719)	17,226,720	475,476,990
Infrastructure	44,148,611	-	-	11,158,079	55,306,690
Furniture, fixtures and equipment	60,883,980	5,829,588	(1,528,278)	410,831	65,596,121
Library materials	<u>46,713,107</u>	<u>2,645,907</u>	<u>(469,775)</u>	<u>-</u>	<u>48,889,239</u>
	<u>599,200,366</u>	<u>19,457,816</u>	<u>(2,184,772)</u>	<u>28,795,630</u>	<u>645,269,040</u>
Less accumulated depreciation:					
Buildings and improvements	144,736,589	14,410,087	(91,735)	-	159,054,941
Infrastructure	13,397,536	2,413,789	-	-	15,811,325
Furniture, fixtures, and equipment	41,167,934	5,321,633	(1,416,390)	-	45,073,177
Library materials	<u>35,044,600</u>	<u>2,170,140</u>	<u>(469,775)</u>	<u>-</u>	<u>36,744,965</u>
	<u>234,346,659</u>	<u>24,315,649</u>	<u>(1,977,900)</u>	<u>-</u>	<u>256,684,408</u>
Net capital assets	<u>\$ 407,890,243</u>	<u>\$ 36,272,339</u>	<u>\$ (873,215)</u>	<u>\$ -</u>	<u>\$ 443,289,367</u>

A summary of construction in progress at June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
College of Education	\$ -	\$ 2,674,056
Renovation – DUC Phase IV	53,045,602	34,332,515
CHHS major improvements	1,729,456	-
DUC – furniture and fixtures	1,953,819	-
CRL structural and roof renovation	1,328,336	-
Restoration of original president's home	1,211,972	-
Honors/International Building	5,487,104	-
Others under \$1,000,000	<u>6,888,781</u>	<u>8,749,209</u>
	<u>\$ 71,645,070</u>	<u>\$ 45,755,780</u>

Contractual commitments in connection with all projects totaled \$24,598,008 and \$30,618,213 at June 30, 2014 and 2013.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 6 - UNEARNED REVENUE

Unearned revenue consisted of the following items as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Unexpended state capital appropriations	\$ 120,322	\$ 120,322
Summer school tuition and fees	4,726,258	4,582,488
Grants and contracts	3,357,464	3,658,783
Advance sale of football tickets	342,315	335,468
University master plan	92,115	97,615
Advanced capital improvement contribution	1,800,000	2,400,000
Miscellaneous	<u>298,234</u>	<u>168,937</u>
Total unearned revenue	<u>\$ 10,736,708</u>	<u>\$ 11,363,613</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, 2014:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Current Portion</u>
Capital lease obligations	\$ 17,531,006	\$ 2,164,398	\$ (217,207)	\$ 19,478,197	\$ 522,292
General receipts bonds payable, net of discounts	127,966,371	36,446,027	(6,800,335)	157,612,063	8,206,185
Other long-term debt	12,509,087	-	(1,599,343)	10,909,744	1,631,588
Pledges payable, net of discount premiums	<u>28,933,607</u>	<u>-</u>	<u>(1,551,047)</u>	<u>27,382,560</u>	<u>1,661,047</u>
Total bonds, pledges and capital leases	<u>\$ 186,940,071</u>	<u>\$ 38,610,425</u>	<u>\$ (10,167,932)</u>	<u>\$ 215,382,564</u>	<u>\$ 12,021,112</u>

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2013:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Current Portion</u>
Capital lease obligations	\$ 2,593,114	\$ 15,257,354	\$ (319,462)	\$ 17,531,006	\$ 247,201
General receipts bonds payable, net of discounts	134,670,005	-	(6,703,634)	127,966,371	6,788,634
Other long-term debt	10,493,351	3,005,792	(990,056)	12,509,087	1,599,343
Pledges payable, net of discount premiums	<u>30,339,931</u>	<u>-</u>	<u>(1,406,324)</u>	<u>28,933,607</u>	<u>1,551,047</u>
Total bonds, pledges and capital leases	<u>\$ 178,096,401</u>	<u>\$ 18,263,146</u>	<u>\$ (9,419,476)</u>	<u>\$ 186,940,071</u>	<u>\$ 10,186,225</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

Bonds Payable

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

The total bonds payable as of June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
General Receipts Bonds, Series 2006A, dated December 19, 2006, with interest rates from 3.625% to 3.80%. Final principal payment date is September 1, 2026.	\$ 7,269,336	\$ 7,697,282
General Receipts Bonds, Series 2007A, dated May 30, 2007, with interest rates from 4.00% to 4.20%. Final principal payment date is September 1, 2026.	30,335,235	32,227,350
General Receipts Bonds, Series 2009A, dated February 18, 2009, with interest rates from 2.50% to 5.00%. Final principal payment date is September 1, 2028.	38,762,417	40,643,945
General Receipts Bonds, Series 2011A, dated November 15, 2011, with interest rates from 2.00% to 3.00%. Final principal payment date is May 1, 2023.	5,552,884	6,104,316
General Receipts Bonds, Series 2012A, dated June 6, 2012, with interest rates from 2.00% to 5.00%. Final principal payment date is May 1, 2032.	33,775,814	35,258,860
General Receipts Bonds, Series 2012B, dated June 6, 2012, with interest rates from 2.00% to 3.00%. Final principal payment date is May 1, 2023.	5,482,052	6,034,618
General Receipts Bonds, Series 2013A, dated October 29, 2013, with interest rates from 2.00% to 4.75%. Final principal payment date is September 1, 2033.	<u>36,434,325</u>	<u>-</u>
Total bonds payable	<u>\$ 157,612,063</u>	<u>\$ 127,966,371</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

The debt service requirements for the bonds payable as of June 30, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 8,145,000	\$ 5,563,757	\$ 13,708,757
2016	8,375,000	5,332,010	13,707,010
2017	8,620,000	5,087,806	13,707,806
2018	8,880,000	4,827,675	13,707,675
2019	9,155,000	4,547,564	13,702,564
2020-2024	49,360,000	17,814,323	67,174,323
2025-2029	45,720,000	8,459,766	54,179,766
2030-2034	<u>18,325,000</u>	<u>1,964,922</u>	<u>20,289,922</u>
	156,580,000	53,597,823	210,177,823
Add: unamortized premiums, net of discounts	<u>1,032,063</u>	<u>-</u>	<u>1,032,063</u>
	<u>\$ 157,612,063</u>	<u>\$ 53,597,823</u>	<u>\$ 211,209,886</u>

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, 2014 and 2013

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

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

Capital Lease Obligations

The University has acquired certain equipment under various lease-purchase contracts and other capital lease agreements. The costs of University assets held under capital leases totaled \$18,862,110 and \$14,038,658 at June 30, 2014 and 2013, net of accumulated depreciation of \$955,434 and \$485,724. 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, 2014:

Year ending June 30	<u>Total to be Paid</u>	<u>Present Value of Future Minimum Lease Payments</u>	<u>Interest Portion</u>
2015	\$ 1,298,649	\$ 522,292	\$ 776,357
2016	1,328,262	569,749	758,513
2017	1,339,362	602,664	736,698
2018	1,349,462	636,066	713,396
2019	1,368,362	679,984	688,378
2020-2024	5,911,010	2,814,097	3,096,913
2025-2029	5,560,907	3,035,492	2,525,415
2030-2034	5,125,605	3,139,749	1,985,856
2035-2039	5,572,592	4,319,749	1,252,843
2040-2042	<u>3,392,230</u>	<u>3,158,355</u>	<u>233,875</u>
	<u>\$ 32,246,441</u>	<u>\$ 19,478,197</u>	<u>\$ 12,768,244</u>

Other Long-Term Debt

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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 \$62,349 are due annually, beginning on March 28, 2011. The final principal payment is due on March 28, 2015.

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

Debt service requirements on the other long-term debt at June 30, 2014, were as follows:

Year ending June 30	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,834,735	\$ 1,631,588	\$ 203,147
2016	1,772,387	1,602,192	170,195
2017	1,771,387	1,633,870	137,517
2018	1,641,376	1,535,217	106,159
2019	1,179,146	1,103,971	75,175
2020-2024	3,497,024	3,373,444	123,580
2025-2028	<u>31,150</u>	<u>29,462</u>	<u>1,688</u>
	<u>\$ 11,727,205</u>	<u>\$ 10,909,744</u>	<u>\$ 817,461</u>

Pledges Payable

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 7 -LONG-TERM OBLIGATIONS (Continued)

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

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

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

Year ending June 30	<u>Total to be Paid</u>	<u>Principal Series 2010</u>	<u>Interest Series 2010</u>
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	2,816,155	2,045,000	771,155
2019	2,894,805	2,185,000	709,805
2020-2024	14,688,470	12,300,000	2,388,470
2025-2027	<u>5,695,231</u>	<u>5,380,000</u>	<u>315,231</u>
	34,042,226	27,250,000	6,792,226
 Add unaccrued premium	 <u>132,560</u>	 <u>132,560</u>	 <u>-</u>
	 <u>\$ 34,174,786</u>	 <u>\$ 27,382,560</u>	 <u>\$ 6,792,226</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 8 - OPERATING LEASES

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

Future minimum lease payments at June 30, 2014, were:

2015	\$ 1,379,980
2016	1,325,504
2017	1,128,155
2018	1,012,415
2019	1,009,079
Thereafter through 2032	<u>25,236,111</u>
	<u>\$ 31,091,244</u>

Lease expense was \$1,538,589 and \$969,183 for the years ended June 30, 2014 and 2013.

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 7.16% of their salary through payroll deductions, and the Commonwealth of Kentucky, which also indirectly contributes 14.84% 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, 2014, 2013 and 2012 were \$8,383,146, \$8,273,994 and \$7,926,341 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 26.79% 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 32.21% 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, 2014, 2013 and 2012, were \$6,926,196, \$6,103,577 and \$4,724,343, 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, 2014, 2013 and 2012 were \$3,862,191, \$3,623,950 and \$3,526,231, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2014, 2013 and 2012 were \$2,722,497, \$2,556,491 and \$2,479,670, 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, 2014 and 2013

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 as of June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 1,247,421	\$ 980,507
Claims and changes in estimates	14,771,627	16,129,696
Claims payments	<u>(15,066,847)</u>	<u>(15,862,782)</u>
Balance, end of year	<u>\$ 952,201</u>	<u>\$ 1,247,421</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 as of June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 166,455	\$ 100,472
Claims and changes in estimates	271,518	234,683
Claims payments	<u>(180,070)</u>	<u>(168,700)</u>
Balance, end of year	<u>\$ 257,903</u>	<u>\$ 166,455</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, 2014 and 2013

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

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

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

Following is a summary of the funding for the RUETF as of June 30, 2014:

	<u>CPE Funding Received</u>	<u>---External Matched Pledges--- Received</u>	<u>Pledged</u>
Balance, July 1, 2013	\$ 14,185,709	\$ 14,837,250	\$ 693,240
New Pledges	-	-	606,416
Current year collections	<u>-</u>	<u>897,737</u>	<u>(897,737)</u>
Balance, June 30, 2014	<u>\$ 14,185,709</u>	<u>\$ 15,734,987</u>	<u>\$ 401,919</u>

Following is a summary of the funding for the RUETF as of June 30, 2013:

	<u>CPE Funding Received</u>	<u>---External Matched Pledges--- Received</u>	<u>Pledged</u>
Balance, July 1, 2012	\$ 14,185,709	\$ 14,480,768	\$ 934,199
New Pledges	-	-	115,523
Current year collections	<u>-</u>	<u>356,482</u>	<u>(356,482)</u>
Balance, June 30, 2013	<u>\$ 14,185,709</u>	<u>\$ 14,837,250</u>	<u>\$ 693,240</u>

The University's externally 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, 2014 and 2013

NOTE 13 - NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

The University's operating expenses by functional classification on June 30, 2014, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	\$ 95,782,499	\$ 12,987,934	\$ 16,972	\$ 1,012,562	\$ -	\$ -	\$ 109,799,967
Research	4,071,461	2,616,953	13,615	55,073	-	-	6,757,102
Public service	9,978,109	4,815,882	31,671	1,482,578	-	-	16,308,240
Libraries	5,113,525	739,157	247	25,081	-	-	5,878,010
Academic support	14,059,874	3,831,387	8,857	386,163	-	-	18,286,281
Student services	20,537,420	13,538,573	7,378	216,499	-	-	34,299,870
Institutional support	23,879,436	6,579,198	7,784	256,455	-	-	30,722,873
Operation and maintenance of plant	14,780,781	7,930,807	6,951,650	(501,823)	-	-	29,161,415
Student financial aid	149,551	708,753	-	-	24,881,529	-	25,739,833
Depreciation	-	-	-	-	-	24,868,572	24,868,572
Auxiliary enterprise	<u>8,309,721</u>	<u>9,037,009</u>	<u>2,572,671</u>	<u>134,003</u>	<u>-</u>	<u>-</u>	<u>20,053,404</u>
Total operating expenses	<u>\$ 196,662,377</u>	<u>\$ 62,785,653</u>	<u>\$ 9,610,845</u>	<u>\$ 3,066,591</u>	<u>\$ 24,881,529</u>	<u>\$ 24,868,572</u>	<u>\$ 321,875,567</u>

The University's operating expenses by functional classification on June 30, 2013, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	\$ 93,005,176	\$ 11,992,233	\$ 42,003	\$ 721,587	\$ -	\$ -	\$ 105,760,999
Research	4,466,857	4,161,203	15,192	115,751	-	-	8,759,003
Public service	10,022,906	4,855,545	35,901	636,259	-	-	15,550,611
Libraries	4,961,479	651,604	-	22,871	-	-	5,635,954
Academic support	14,240,369	4,259,043	2,312	676,797	-	-	19,178,521
Student services	19,779,510	12,545,017	4,875	195,355	-	-	32,524,757
Institutional support	23,361,641	8,764,754	15,875	242,783	-	-	32,385,053
Operation and maintenance of plant	14,189,251	6,888,824	6,717,326	554,440	-	-	28,349,841
Student financial aid	116,949	977,706	-	1,152	24,666,630	-	25,762,437
Depreciation	-	-	-	-	-	24,315,649	24,315,649
Auxiliary enterprise	<u>7,893,704</u>	<u>9,710,202</u>	<u>2,553,763</u>	<u>339,739</u>	<u>-</u>	<u>-</u>	<u>20,497,408</u>
Total operating expenses	<u>\$ 192,037,842</u>	<u>\$ 64,806,131</u>	<u>\$ 9,387,247</u>	<u>\$ 3,506,734</u>	<u>\$ 24,666,630</u>	<u>\$ 24,315,649</u>	<u>\$ 318,720,233</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 3.00% of the endowment fund’s trailing twelve-month calendar quarter moving market average. The annual distribution goal for an individual endowment in its initial year is 4.50% of the beginning market value of the endowment asset. The annual distribution goal for the second and third years of an individual endowment is based on the average market value of the endowment asset for the preceding four calendar quarters and eight calendar quarters, respectively.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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, 2014 and 2013 were insignificant.

Concentration of Credit Risk: Effective October 3, 2008, the federal deposit insurance coverage provided by the FDIC temporarily increased from \$100,000 to \$250,000 per depositor. Effective December 19, 2008, the FDIC enacted the Transaction Account Guarantee Program. Under the Transaction Account Guarantee Program, any non-interest bearing account at a participating bank is fully guaranteed by the FDIC for the account's entire balance. The federal deposit insurance coverage is scheduled to revert to \$100,000 effective January 1, 2014.

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

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

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

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

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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Certificates of deposit	\$ 3,251,972	\$ 2,940,402
Mutual funds	63,437,058	27,589,752
U.S. Government and government agency obligations	-	6,228,499
Corporate bonds and notes	15	7,376,929
Equities and exchange traded funds	608,971	16,905,856
Real estate and other	<u>9,062,235</u>	<u>6,947,414</u>
Total investments	<u>76,360,251</u>	<u>67,988,852</u>
Investments held for the University included above	(18,512,473)	(16,864,166)
Investments held for Hilltopper Athletic Foundation Included above	(789,248)	-
Investments held for WKU Research Foundation included above	<u>(738,899)</u>	<u>(682,291)</u>
	<u>\$ 56,319,631</u>	<u>\$ 50,442,395</u>

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors. At December 31, 2013, 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, 2014 and 2013

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

Contributions Receivable

Contributions receivable at December 31, 2013 and 2012 consisted of the following unconditional promises to give:

	<u>2013</u>	<u>2012</u>
Due in less than one year	\$ 1,691,730	\$ 4,618,430
Due in one to five years	5,308,398	5,223,716
Due in more than five years	<u>1,695,940</u>	<u>1,551,065</u>
	<u>8,696,068</u>	<u>11,393,211</u>
Less:		
Allowance for doubtful accounts	(1,035,709)	(1,408,600)
Unamortized discount	<u>(1,094,512)</u>	<u>(925,439)</u>
	<u>(2,130,221)</u>	<u>(2,334,039)</u>
	<u>\$ 6,565,847</u>	<u>\$ 9,059,172</u>

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

Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013 and 2012 are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Scholarships	\$ 281,203	\$ 243,749
Public services	892,369	920,904
Athletics	2,476,023	1,116,022
University program support	<u>20,930,108</u>	<u>16,390,382</u>
	<u>\$ 24,579,703</u>	<u>\$ 18,671,057</u>

Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2013 and 2012 are restricted to:

	<u>2013</u>	<u>2012</u>
Scholarships	\$ 4,440,279	\$ 4,388,981
Professorships	12,062,600	11,631,955
University program support	<u>21,473,786</u>	<u>20,579,275</u>
	<u>\$ 37,976,665</u>	<u>\$ 36,600,211</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, 2013 and 2012, 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, 2013 and 2012 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2013	<u>\$ 76,360,251</u>	<u>\$ 67,298,001</u>	<u>\$ 6,368,445</u>	<u>\$ 2,693,805</u>
December 31, 2012	<u>\$ 67,988,852</u>	<u>\$ 47,436,010</u>	<u>\$ 18,131,911</u>	<u>\$ 2,420,931</u>

At December 31, 2013 and 2012, 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, 2014 and 2013

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

At December 31, 2013 and 2012, 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).

	<u>2013</u>	<u>2012</u>
Beginning of the year	\$ 2,420,931	\$ 2,351,404
Net additional investments	14,287	80,681
Net unrealized & realized appreciation (depreciation)	<u>258,587</u>	<u>(11,154)</u>
End of the year	<u>\$ 2,693,805</u>	<u>\$(2,420,931)</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, 2013, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>December 31, 2013</u>				
Board designated endowment funds	\$ 5,649,189	\$ -	\$ -	\$ 5,649,189
Donor restricted endowment funds	<u>-</u>	<u>7,339,521</u>	<u>37,976,665</u>	<u>45,316,186</u>
	<u>\$ 5,649,189</u>	<u>\$ 7,339,521</u>	<u>\$ 37,976,665</u>	<u>\$ 50,965,375</u>
<u>December 31, 2012</u>				
Board designated endowment funds	\$ 5,521,744	\$ -	\$ -	\$ 5,521,744
Donor restricted endowment funds	<u>-</u>	<u>3,184,537</u>	<u>36,600,211</u>	<u>39,784,748</u>
	<u>\$ 5,521,744</u>	<u>\$ 3,184,537</u>	<u>\$ 36,600,211</u>	<u>\$ 45,306,492</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

Changes in endowment net assets during the year ended December 31, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of the year	\$ 5,521,744	\$ 3,184,537	\$ 36,600,211	\$ 45,306,492
Contributions	362,861	750,000	1,376,454	2,489,315
Investment return	420,227	1,503,624	-	1,923,851
Net appreciation (unrealized and realized)	713,778	4,082,316	-	4,796,094
Appropriation of endowment assets for expenditure	<u>(1,369,421)</u>	<u>(2,180,956)</u>	<u>-</u>	<u>(3,550,377)</u>
End of the year	<u>\$ 5,649,189</u>	<u>\$ 7,339,521</u>	<u>\$ 37,976,665</u>	<u>\$ 50,965,375</u>

Changes in endowment net assets during the year ended December 31, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of the year	\$ 7,405,805	\$ -	\$ 35,901,396	\$ 43,307,201
Contributions	159,724	-	698,815	858,539
Investment return	190,215	1,715,032	-	1,905,247
Net appreciation (unrealized and realized)	199,876	2,815,807	-	3,015,683
Appropriation of endowment assets for expenditure	<u>(2,433,876)</u>	<u>(1,346,302)</u>	<u>-</u>	<u>(3,780,178)</u>
End of the year	<u>\$ 5,521,744</u>	<u>\$ 3,184,537</u>	<u>\$ 36,600,211</u>	<u>\$ 45,306,492</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 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES

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

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

Cash and Cash Equivalents: Student Life considers all liquid investments with original maturities of three months or less, not included in assets limited as to use, to be cash equivalents. At June 30, 2013, cash equivalents consisted primarily of money market funds. At June 30, 2014 and 2013 the Foundation's cash accounts exceeded federally insured limits by approximately \$9,600,000 and \$16,300,000, respectively.

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

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

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

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

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

Capital asset activity for the year ended June 30, 2014 was:

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Cost				
Land	\$ 4,087,140	\$ -	\$ (28,147)	\$ 4,058,993
Land improvements	1,331,637	-	-	1,331,637
Buildings and improvements	100,404,036	783,603	(159,906)	101,027,733
Furniture, fixtures and equipment	7,784,961	82,828	-	7,867,789
Construction-in-progress	1,306,794	16,449,075	(736,726)	17,019,143
	<u>114,914,568</u>	<u>17,315,506</u>	<u>(924,779)</u>	<u>131,305,295</u>
Less accumulated depreciation				
Land improvements	201,031	33,291	-	234,322
Building and improvements	25,716,686	2,860,117	(665)	28,576,138
Furniture, fixtures and equipment	6,420,277	660,364	-	7,080,641
	<u>32,337,994</u>	<u>3,553,772</u>	<u>(665)</u>	<u>35,891,101</u>
Net capital assets	<u>\$ 82,576,574</u>	<u>\$ 13,761,734</u>	<u>\$ (924,114)</u>	<u>\$ 95,414,194</u>

Capital asset activity for the year ended June 30, 2013 was:

	Balance July 1, 2012	Additions	Disposals	Balance June 30, 2013
Cost				
Land	\$ 4,030,850	\$ 56,290	\$ -	\$ 4,087,140
Land improvements	1,302,814	28,823	-	1,331,637
Buildings and improvements	93,245,862	7,158,174	-	100,404,036
Furniture, fixtures and equipment	7,302,939	482,022	-	7,784,961
Construction-in-progress	5,600,637	3,156,843	(7,450,686)	1,306,794
	<u>111,483,102</u>	<u>10,882,152</u>	<u>(7,450,686)</u>	<u>114,914,568</u>
Less accumulated depreciation				
Land improvements	167,920	33,111	-	201,031
Building and improvements	22,928,644	2,788,042	-	25,716,686
Furniture, fixtures and equipment	5,638,245	782,032	-	6,420,277
	<u>28,734,809</u>	<u>3,603,185</u>	<u>-</u>	<u>32,337,994</u>
Net capital assets	<u>\$ 82,748,293</u>	<u>\$ 7,278,967</u>	<u>\$ (7,450,686)</u>	<u>\$ 82,576,574</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

Long-Term Debt and Letter of Credit

The following is a summary of long-term obligation transactions for Student Life for the year ended June 30, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 74,130,000	\$ -	\$ (2,625,000)	\$ 71,505,000	\$ 2,755,000
Less: unamortized discount	(156,814)	-	9,269	(147,545)	(9,270)
Other long-term debt	<u>-</u>	<u>8,398,585</u>	<u>-</u>	<u>8,398,585</u>	<u>8,398,585</u>
	<u>\$ 73,973,186</u>	<u>\$ 8,398,585</u>	<u>\$ (2,615,731)</u>	<u>\$ 79,756,040</u>	<u>\$ 11,144,315</u>

The following is a summary of long-term obligation transactions for Student Life for the year ended June 30, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 76,630,000	\$ -	\$ (2,500,000)	\$ 74,130,000	\$ 2,625,000
Less: unamortized discount	(166,084)	-	9,270	(156,814)	(9,270)
	<u>\$ 76,463,916</u>	<u>\$ -</u>	<u>\$ (2,490,730)</u>	<u>\$ 73,973,186</u>	<u>\$ 2,615,730</u>

Bonds payable as of June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</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 is May 1, 2030.	\$ 49,610,000	\$ 51,340,000
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 \$895,000 to \$1,885,000 through 2030; collateralized by all real estate.	21,895,000	22,790,000

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>
Construction loan with JP Morgan Chase obtained in December, 2013. Maximum loan value of \$12.5 million. Loan maturity date is December 5, 2014. Interest rate is adjusted one-month LIBO rate, plus 1.25%, plus unused loan fees of 0.375. Interest rate as of June 30, 2014 was 1.4375%. Loan is secured by collateral assignment of architect's and contractor's construction contracts	<u>8,398,585</u>	<u>-</u>
	79,903,585	74,130,000
Less unamortized discount	<u>(147,545)</u>	<u>(156,814)</u>
	<u>\$ 79,756,040</u>	<u>\$ 73,973,186</u>

The debt service requirements for the bonds payable as of June 30, 2014, are as follows:

	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30			
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	3,349,500	3,190,000	159,500
2019	3,517,500	3,350,000	167,500
2020-2024	20,417,250	19,445,000	972,250
2025-2029	26,066,250	24,825,000	1,241,250
2030-2032	<u>12,605,250</u>	<u>12,005,000</u>	<u>600,250</u>
	75,080,250	71,505,000	3,575,250
Less: unamortized discount	<u>(147,545)</u>	<u>(147,545)</u>	<u>-</u>
	<u>\$ 74,932,705</u>	<u>\$ 71,357,455</u>	<u>\$ 3,575,250</u>

Student Life has a \$72.7 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, 2014, the Foundation was in compliance with its debt covenants.

Related Party Transactions

During Student Life's fiscal years ended June 30, 2014 and 2013, Student Life received rental revenues from University students of \$19,043,413 and \$18,945,197, respectively. Accounts receivable from the University totaled \$679,907 and \$966,174, respectively at June 30, 2014 and 2013. Net investment in a direct financing lease receivable from the University was \$2,012,668 and \$2,070,985 at June 30, 2014 and 2013. Likewise, accounts payable to the University totaled \$1,401,776 and \$694,997 at June 30, 2014 and 2013, respectively.

(Continued)

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

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 \$69,200 for the years ended June 30, 2014 and 2013.

Student Life receives fees from the University relating to chilled water services. The fees were \$690,030 and \$544,613 for the years ended June 30, 2014 and 2013.

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 (\$33,238,700 as of June 30, 2014), 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, 2014 and 2013, 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 \$3,745,000, as of June 30, 2014, which is reduced periodically over the term of the swap.
3. Simultaneously, with the issuance of its 2008 bonds payable, the Foundation also entered into an interest rate swap agreement with a bank. The Foundation receives interest from the counterparty based on 68 percent of the 30-day U.S. LIBOR rate and pays interest to the counterparty at 3.63 percent on notional amounts of \$17,678,846 as of June 30, 2014, 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 (\$49,610,000 at June 30, 2014). 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

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 \$6,470,245 and \$6,466,208 were on deposit as of June 30, 2014 and 2013, 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, 2014</u>
(1) – Floor	May 25, 2000	June 1, 2015	LIBOR	\$ (2,277,595)
(2) – Swap	February 1, 2006	February 1, 2016	LIBOR	(210,156)
(3) – Swap	January 25, 2008	June 3, 2024	LIBOR	(2,547,706)
(4) – Swap	June 1, 2015	June 1, 2025	LIBOR	<u>(5,174,143)</u>
Liabilities				<u>\$ (10,209,600)</u>
(4) – Cap	June 1, 2012	June 1, 2015	LIBOR	\$ -
(5) – Forward Sale Agreement	August 8, 2000	May 1, 2022	Return on Sale Underlying Investments	<u>1,799,258</u>
Assets				<u>\$ 1,799,258</u>

The estimated fair value of these derivative arrangements at June 30, 2013 was:

<u>Type</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Underlying Index</u>	<u>Fair Value June 30, 2013</u>
(1) – Floor	May 25, 2000	June 1, 2015	LIBOR	\$ (4,492,730)
(2) – Swap	February 1, 2006	February 1, 2016	LIBOR	(327,868)
(3) – Swap	January 25, 2008	June 3, 2024	LIBOR	(2,713,184)
(4) – Swap	June 1, 2015	June 1, 2025	LIBOR	<u>(3,893,449)</u>
Liabilities				<u>\$ (11,427,231)</u>
(4) – Cap	June 1, 2012	June 1, 2015	LIBOR	\$ 466
(5) – Forward Sale Agreement	August 8, 2000	May 1, 2022	Return on Sale Underlying Investments	<u>1,970,250</u>
Assets				<u>\$ 1,970,716</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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 as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Net cash payments made under the collar agreement	\$ (2,311,808)	\$ (2,373,808)
Net cash payments made under the interest rate swap agreements	(760,843)	(782,299)
Change in fair value of the derivative agreements	<u>1,046,173</u>	<u>4,868,461</u>
	<u>\$ (2,026,478)</u>	<u>\$ 1,712,354</u>

The table below presents certain information regarding the Foundation's derivative instruments as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Fair value of forward and cap agreements	\$ 1,799,258	\$ 1,970,716
Statement of financial position location of fair value amount	Asset	Asset
Fair value of interest rate swap and collar agreements	\$ 10,209,600	\$ 11,427,231
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, 2014 and 2013, as follows:

	<u>2014</u>	<u>2013</u>
Student housing program	\$ 13,649,338	\$ 12,738,552
Management and general	<u>1,196,507</u>	<u>1,129,314</u>
	<u>\$ 14,845,845</u>	<u>\$ 13,867,866</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>2014</u>	<u>2013</u>
Balance, July 1	\$ 786,249	\$ 741,220
Liabilities settled	(24,291)	(925)
Change in estimate	(70,278)	-
Accretion expense	<u>97,735</u>	<u>45,954</u>
Balance, June 30	<u>\$ 789,415</u>	<u>\$ 786,249</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.

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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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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, 2014:

	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	\$ (2,277,595)	\$ -	\$ (2,277,595)	\$ -
Cap – 2000 bond series	-	-	-	-
Swap – 2000 bond series	(5,174,143)	-	(5,174,143)	-
Swap – 2006 bond series	(210,156)	-	-	(210,156)
Swap – 2008 bond series	(2,547,706)	-	-	(2,547,706)
Forward sale agreement – 2000 bond series	<u>1,799,258</u>	<u>-</u>	<u>-</u>	<u>1,799,258</u>
	<u>\$ (8,410,342)</u>	<u>\$ -</u>	<u>\$ (7,451,738)</u>	<u>\$ (958,604)</u>
Cash equivalents – money market accounts	\$ 4,796,237	\$ 4,796,237	\$ -	\$ -
Assets limited as to use – money market accounts	3,070,951	3,070,951	-	-
Assets limited as to use – commercial paper	6,470,245	-	6,470,245	-
Assets held for others – student deposits – bonds	287,636	-	287,636	-
Assets held for others – student deposits – money market accounts	310,344	310,344	-	-

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2013:

	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	\$ (4,492,730)	\$ -	\$ (4,492,730)	\$ -
Cap – 2000 bond series	466	-	466	-
Swap – 2000 bond series	(3,893,449)	-	(3,893,449)	-
Swap – 2006 bond series	(327,868)	-	-	(327,868)
Swap – 2008 bond series	(2,713,184)	-	-	(2,713,184)
Forward sale agreement – 2000 bond series	<u>1,970,250</u>	<u>-</u>	<u>-</u>	<u>1,970,250</u>
	<u>\$ (9,456,515)</u>	<u>\$ -</u>	<u>\$ (8,385,713)</u>	<u>\$ (1,070,802)</u>
Cash equivalents – money market accounts	\$ 6,774,964	\$ 6,774,964	\$ -	\$ -
Assets limited as to use – money market accounts	3,045,747	3,045,747	-	-
Assets limited as to use – commercial paper	6,466,208	-	6,466,208	-
Assets held for others – student deposits – bonds	275,415	-	275,415	-
Assets held for others – student deposits – money market accounts	276,160	276,160	-	-

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, 2014 and 2013

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, 2014.

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets		
Cash and cash equivalents	\$ 5,789,188	\$ 5,789,188
Net investment in direct financing lease	2,012,668	2,012,668
Financial liabilities		
Long-term debt	79,756,040	79,756,040

The following table presents estimated fair values of the Foundation’s financial instruments in accordance with FAS 107 not previously disclosed at June 30, 2013.

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets		
Cash and cash equivalents	\$ 7,628,179	\$ 7,628,179
Net investment in direct financing lease	2,070,985	2,070,985
Financial liabilities		
Long-term debt	73,973,186	73,973,186

Commitments

As of June 30, 2014, 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	\$ 2,500,000
Chestnut Street Apartments	135,000
Minton Hall	145,000
Northeast Hall	<u>100,000</u>
	<u>\$ 2,880,000</u>

(Continued)

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

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

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

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

Cash Equivalents: The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, cash equivalents consisted primarily of checking accounts and money market accounts held at brokerage houses.

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

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

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

Investments at December 31, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Mutual funds	\$ 21,480,464	\$ 16,516,322
Equity securities	12,228,763	8,953,671
Government agency securities	833,983	1,303,694
Exchange traded funds	9,577,535	7,051,012
Corporate bonds	1,591,259	3,626,566
Certificates of deposit	1,445,858	2,222,697
Real estate	<u>1,190,964</u>	<u>1,558,389</u>
	<u>\$ 48,348,826</u>	<u>\$ 41,232,351</u>

Related Party Transactions: During the fiscal years ended December 31, 2013 and 2012, College Heights made scholarship payments of \$5,491,207 and \$5,485,209, respectively, on behalf of students attending the University. Accounts receivable from College Heights and accounts payable to College Heights as of the University's fiscal years ended June 30, 2014 and 2013 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 College Heights to sell an asset or be paid by College Heights 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 College Heights's own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

At December 31, 2013 and 2012, 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014 and 2013

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

Fair values of assets measured on a recurring basis at December 31, 2013 consist principally of investments as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	<u>\$ 48,348,826</u>	<u>\$ 44,732,620</u>	<u>\$ 2,425,242</u>	<u>\$ 1,190,964</u>

Fair values of assets measured on a recurring basis at December 31, 2012 consist principally of investments as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	<u>\$ 41,232,351</u>	<u>\$ 34,743,702</u>	<u>\$ 5,247,685</u>	<u>\$ 1,240,964</u>

At December 31, 2013 and 2012, 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, 2013 and 2012, investments included above under Level 3 represent Foundation investments in real estate. The 2013 and 2012 activity, with respect to the investments included above under level 3, is as follows:

	<u>2013</u>	<u>2012</u>
Beginning of the year	\$ 1,240,964	\$ 1,108,464
Additional investments	-	132,500
Investments sold	<u>(50,000)</u>	<u>-</u>
End of the year	<u>\$ 1,190,964</u>	<u>\$ 1,240,964</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 College Heights's benefit and partially for the benefit of the respective donor or their designated beneficiaries. Upon acceptance of a split-interest agreement, College Heights 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).

A charitable gift annuity is an arrangement between a donor and College Heights in which the donor contributes assets to College Heights in exchange for a promise by College Heights 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, 2013 and 2012 reflect liabilities totaling \$2,635,199 and \$2,616,842, respectively, relative to the estimated present value of the future annuity obligations calculated using discount rates ranging from 1.09% to 11.5%. At December 31, 2013 and 2012, investments relative to charitable gift annuities totaled \$4,386,589 and \$3,617,281, respectively.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

Charitable remainder trusts are arrangements in which a donor establishes and funds a trust with specified distributions to be made to the donor or designated beneficiaries over the trust's term. Upon the termination of the trust, College Heights 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, 2013 and 2012 reflects liabilities totaling \$828,312 and \$786,813, relative to the estimated present value of the future obligations calculated using discount rates ranging from 5.3% to 8.0%. At December 31, 2013 and 2012, investments relative to charitable remainder trusts totaled \$1,604,972 and \$1,454,635, 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, College Heights and represent funds received for investment by College Heights through the Commonwealth of Kentucky's Regional University Excellence Trust Fund and funds held by College Heights on behalf of the WKU Foundation for an employee deferred compensation benefit plan. Assets held for others at December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Western Kentucky University – investments	\$ 1,881,624	\$ 1,598,304
WKU Foundation trust	446,307	327,475
Assets held – future trust	<u>193,030</u>	<u>210,134</u>
	<u>\$ 2,520,961</u>	<u>\$ 2,135,913</u>

Accordingly, the statement of financial position reflects liabilities for assets held for others in the amounts of \$2,520,961 and \$2,135,913 as of December 31, 2013 and 2012, respectively.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014 and 2013

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

Notes Payable: Notes Payable at December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
U.S. Bank amended promissory note, dated December 31, 2007; principal due in quarterly installments of \$17,383; variable interest at prime rate minus 1% payable monthly (2.95% at December 31, 2013); outstanding principal and accrued interest due December 31, 2016; unsecured.	\$ 163,439	\$ 232,971
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>110,500</u>	<u>128,500</u>
	<u>\$ 273,939</u>	<u>\$ 361,471</u>

At December 31, 2012, aggregate principal payments required on notes payable for each of the succeeding five years are:

2014	\$ 87,532
2015	162,032
2016	<u>24,375</u>
	<u>\$ 273,939</u>

Restricted Net Assets

At December 31, 2013 and 2012, temporarily restricted net assets consist of the following:

	<u>2013</u>	<u>2012</u>
Scholarship funds	\$ 1,613,848	\$ 2,161,221
Other program support	<u>13,700</u>	<u>13,700</u>
	<u>\$ 1,627,548</u>	<u>\$ 2,174,921</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

At December 31, 2013 and 2012, permanently restricted net assets consist of the following:

	<u>2013</u>	<u>2012</u>
Scholarship funds	\$ 40,272,211	\$ 37,145,103
Other program support	<u>1,618,435</u>	<u>999,236</u>
	<u>\$ 41,890,646</u>	<u>\$ 38,144,339</u>

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, 2013, 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	\$ 4,520,634	\$ -	\$ -	\$ 4,520,634
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>41,890,646</u>	<u>41,890,646</u>
	<u>\$ 4,520,634</u>	<u>\$ -</u>	<u>\$ 41,890,646</u>	<u>\$ 46,411,280</u>

At December 31, 2012, 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	\$ 3,088,829	\$ -	\$ -	\$ 3,088,829
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>38,144,339</u>	<u>38,144,339</u>
	<u>\$ 3,088,829</u>	<u>\$ -</u>	<u>\$ 38,144,339</u>	<u>\$ 41,233,168</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

Changes in endowment net assets during the year ended December 31, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of the year	\$ 3,088,829	\$ -	\$ 38,144,339	\$ 41,233,168
Contributions	35,891	-	3,746,307	3,782,198
Investment return				
Investment income	479,089	-	-	479,089
Net appreciation (realized And unrealized)	3,273,911	-	-	3,273,911
Appropriation of endowment assets for expenditure	<u>(2,357,086)</u>	<u>-</u>	<u>-</u>	<u>(2,357,086)</u>
End of the year	<u>\$ 4,520,634</u>	<u>\$ -</u>	<u>\$ 41,890,646</u>	<u>\$ 46,411,280</u>

Changes in endowment net assets during the year ended December 31, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of the year	\$ 2,417,271	\$ -	\$ 35,384,268	\$ 37,801,539
Contributions	126,317	-	2,760,071	2,886,388
Investment return				
Investment income	155,952	-	-	155,952
Net appreciation (realized And unrealized)	403,769	-	-	403,769
Appropriation of endowment assets for expenditure	<u>(14,480)</u>	<u>-</u>	<u>-</u>	<u>(14,480)</u>
End of the year	<u>\$ 3,088,829</u>	<u>\$ -</u>	<u>\$ 38,144,339</u>	<u>\$ 41,233,168</u>

SUPPLEMENTAL INFORMATION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of Western Kentucky University ("the University") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated September 30, 2014. Our report includes a reference to other auditors who audited the financial statements of Western Kentucky University Research Foundation, Inc. (a blended component unit), Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc. and College Heights Foundation, Inc. (discretely presented component units), as described in our report on the University's financial statements. The financial statements of the blended and discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
September 30, 2014

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

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

Report on Compliance for Each Major Federal Program

We have audited Western Kentucky University's ("the University") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2014. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

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

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

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

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

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

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the University as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated September 30, 2014 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
September 30, 2014

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014

<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	\$ 403,787
Federal Work Study		84.033	596,900
America Reads		84.033	143,063
Federal Perkins Loan Program		84.038	3,924,510
PELL Grants 2012-2013		84.063	20,587
PELL Grants 2013-2014		84.063	27,109,321
Federal Direct Student Loans FY 12/13		84.268	101,856,370
Teach Grant FY13-14		84.379	<u>28,320</u>
Total Student Financial Aid Cluster			<u>134,082,858</u>
Research and Development Cluster			
Direct Programs			
U. S. Department of Agriculture			
Poultry Waste Management		10.001	785,458
Enhance Safety of Local Produce		10.310	<u>19,683</u>
			<u>805,141</u>
U. S. Department of Defense			
Detection of Toxic Materials		12.300	<u>85,448</u>
U. S. Department of Interior			
Natural Resource Assessment		15.945	<u>11,138</u>
National Aeronautics and Space Administration			
Efficacy Countermeasures of C.D.		43.UNK	9,696
Cold Diffuse Clouds		43.UNK	13,171
Spectroscopy of Solar Flares		43.UNK	<u>122,691</u>
			<u>145,558</u>
National Science Foundation			
RUI: Electronically Controlled Form		47.049	44,514
Transition of Knot Space		47.049	31,072
Mapping the Cold Atomic Medium		47.049	40,963
RUI: Selective Oxidative Catalysis		47.049	51,067
RUI: Selective Oxidative Catalysis		47.049	363,450
REU: Summer Research – Green River		47.050	4,672
Drosophila Embryonic Images		47.070	3,005
Phylogeny of Bat Flies – Insights		47.074	22,777
BREAD – Increase Crop Yield		47.074	91,107
RUI: Planta Synthesis		47.074	13,563
W and WW Technician Training		47.076	147,013
CCLL: Multi Transformation		47.076	7,473
R&R of Biotech Students		47.076	245
ARRA: WKU SMART		47.082	236,164
ARRA: Removable Surface Phases		47.082	<u>5,009</u>
			<u>1,062,094</u>
Environmental Protection Agency			
Insulated Glazing Sys-Liquid Fill		66.516	<u>8,345</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, 2014

<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			
U. S. Department of Agriculture			
University of Kentucky Research Foundation			
Promoting Entrep in Communities	UKRF 3048108761-12-464	10.310	\$ 11,057
Mail Survey USDA	PO# 7500020415	10.310	<u>39,407</u>
			<u>50,464</u>
U.S. Department of Commerce			
Global Science & Technology Inc.			
NOAA Sci Tech Mesonet	SA 12-WKU01-003-001	11.CON	<u>65,606</u>
U. S. Department of Defense			
Xavier University			
Drug Discovery Partnership Yr 2	OSP-13-211218-01B	12,420	12,362
Drug Discovery Partnership Yr 3	OSP-12-211218-002B	12,420	11,467
EWA, GSI			
CRADLE FY13	EWAGSI-12-SC-0001	12.431	38,197
CRADLE FY14	EWA GSI-12-SC-0001 MOD. 001	12.431	17,584
Northrop Grumman Commercial Information Services			
Design of Ortec HPGe	PO# 7500117454	12.CON	<u>13,846</u>
			<u>93,456</u>
U. S. Department of Interior			
University of Kentucky Research Foundation			
Real Time Monitoring Process	UKRF 3048108119-14-149	15.805	<u>2,682</u>
U. S. Department of Transportation			
Henderson County Emergency Management			
Haz Mat Analysis Henderson Co.	Letter dated 4/26/13	20.703	672
Daviess County Kentucky Emergency Management Agency			
Haz Mat Analysis Daviess Co.	Letter dated 4/29/13	20.703	5,696
Rowan County Emergency Mangement			
Haz Mat Analysis Rowan Co.	Letter dated 05/05/14	20.703	<u>5,301</u>
			<u>11,669</u>
National Aeronautics and Space Administration			
University of Kentucky Research Foundation			
Cold Diffuse Clouds Evolution	3048107336-12-583	43.UNK	<u>6,386</u>
National Science Foundation			
University of Kentucky Research Foundation			
LSAMP : KY-WV FY15	UKRF 3048111054-14-128	47.076	7,687
Black Carbon Deposition	UKRF 3048108525-14-085	47.081	20,046
KY/EPSCoR			
NSF/EPSCoR-Carbon Based Siloxand	UKRF 3048108525-13-166	47.081	15,224
KY NSF EPS CoR			
Grapene Based Hybrid Materials	UKRF 3048108525-14-046	47.081	49,954
Pulsed Laser Spectroscopy	UKRF 3048108525-14-048	47.081	25,000
Adv Porous Nano Materials – Genomics	UKRF 3048108525-14-049	47.081	20,682
Energy Eff/Eco-Friendly Appliances	UKRF 3048108525-14-096	47.081	21,293
Engineering and Application of DNA	UKRF 3048108525-14-047	47.081	22,999
S,C&E of Antibacterial Activity	SUB# 3048108525-14-100	47.081	7,016
Understanding the MLI of hFGF-1	SUB# 3048108525-14-100	47.081	<u>9,554</u>
			<u>199,455</u>
U. S. Department of Energy			
Carbon Capture Scientific LLC			
Development of Novel Gas	03-007567	81.089	(32,243)
UT-Batelle LLC			
Conductive Fabric Systems	SUB# 4000119690	81.FPC	<u>(7)</u>
			<u>(32,250)</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, 2014

<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			
U. S. Department of Education			
Kentucky Cabinet for Workforce Development Perkins Teacher Prep FY 14	PON2 540 1300002935 1	84.048	\$ 27,912
Green River Regional Ed Coop Eval & Reporting Impacts - GRREC	Agreement dated 3/20/13	84.416	<u>431,145</u>
			<u>459,057</u>
U. S. Department of Health and Human Services			
University of Kentucky Research Foundation KAPHTC & Appalachia Year 3	UKRF 3048109732-13-171	93.249	3,439
University of Louisville			
INBRE: Zebrafish FY14	ULRF 09-0109D1-03	93.389	80,229
INBRE: Zebrafish FY 15	ULRF 1301493-01	93.389	7,626
INBRE: Lead Faculty FY13	OGMB090109C1-WKU Amend 4	93.389	(39)
INBRE: Lead Faculty FY14	ULRF-09-0109D1-03	93.389	32,870
KBRIN: Faculty Award FY14	ULRF-09-0109D1-03	93.859	25,293
KBRIN: FY14 Research Core	ULRF-09-0109D1-03	93.859	51,376
KBRIN Inflammation from Sleep Loss	ULRF 13-1493-01	93.859	15,678
Morehead State University			
INBRE: Circadian Timing FY14	ULRF 09-0109D1-03	93.389	26,591
INBRE: Genome Wide Search FY14	ULRF 09-0109D1-03	93.389	25,431
KBRIN: Area FY14	ULRF-09-0109D1-03	93.859	25,436
KBRIN: DNA Detection	ULRF 13-1493-01	93.859	<u>3,614</u>
			<u>297,544</u>
U. S. Department of Homeland Security			
National Institute for Hometown Security			
PCIRS	05-07-WKU	97.001	3,612
Disruptions in Water Service	HSHQDC07-3-00005	97.CON	200,882
Risk Assessment – Telehealth Systems	Subcontract 01-12-WKU	97.CON	22,732
U S Department of Homeland Security			
Best Practice – Water Systems	09-09 WKU	97.UNK	1,204
Hydraulics - WDS	3048108070-11-356	97.UNK	<u>8,631</u>
			<u>237,061</u>
Agency for International Development			
Engility/International Resources			
Tropical Andean Climate Change	CCRDACD0002	98.CON	<u>78,104</u>
Total Research and Development Cluster			<u>3,586,958</u>
TRIO Cluster			
Direct Programs			
U. S. Department of Education			
Student Support Services FY12		84.042	295,121
TRIO Talent Search FY12		84.044	245,583
TRIO Talent Search Surrounding		84.044	366,067
Upward Bound FY13		84.047	325,595
VUB FY13-17		84.047	287,658
Educational Opp Centers FY13		84.066	<u>240,639</u>
Total TRIO Cluster			<u>1,760,663</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, 2014

<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>513,049</u>
Child Care R&R Cluster			
Pass Through Programs			
U. S. Department of Health and Human Services			
University of Kentucky Research Foundation			
Child Care R&R FY14	UKRF 3049025122-14-009	93.558	<u>130,000</u>
Highway Planning and Construction Cluster			
Pass Through Programs –			
Kentucky Department of Transportation			
WKU Community Bikeway Project	PO2 628 1100003434	20.205	<u>53,937</u>
Federal Transit Cluster			
Pass Through Programs –			
Kentucky Department of Transportation			
Approp – Fleet expense and reimbursement	GRANT KY-04-0035	20.500	<u>1,101,498</u>
Fund for the Improvement of Postsecondary Education			
Direct Programs			
U. S. Department of Education			
Alliance in North America		84.116	<u>39,707</u>
Other Federal			
U. S. Department of Agriculture			
Direct Programs			
FY 13 Acquisition of Goods and Services		10.001	3,521
Acquisition of Goods and Services		10.001	6,703
Acquisition of Goods and Services FY13-14		10.001	12,483
Community Farmers Market		10.168	63,579
Public Television Station Digital Transition			
Grant Program		10.861	<u>303,806</u>
Total U. S. Department of Agriculture			<u>390,092</u>
U.S. Department of Commerce			
Direct Programs			
AKA FY13		11.611	<u>251,942</u>
Pass Through Programs			
Public Broadcasting Service			
WKYU PBS 2011 WARN phase II	SUBGRANT 51-51-WI0606	11.553	<u>(18,847)</u>
Total U.S. Department of Commerce			<u>233,095</u>
U.S. Department of Defense			
Pass Through Programs			
Institute of International Education			
Chinese Language Acquisition	NSEP-U631033-WKU-CHN-PG	12.550	(1,997)
Chinese Flagship Pilot Program	NSEP-U631063-WKU-CHN	12.550	<u>330,483</u>
Total U.S. Department of Defense			<u>328,486</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, 2014

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Other Federal (Continued)			
U. S. Housing and Urban Development			
Pass Through Programs			
City of Bowling Green			
Hispanic ESL & GED	3/15/12 letter	14.218	\$ 68
Hispanic ESL & GED FY14	MOA Dated 11/6/13	14.218	12,802
Housing Authority of Bowling Green			
SBDC @ HABG FY14	MOA Dated 11/6/13	14.218	<u>37,838</u>
Total U.S. Department of Housing and Urban Development			<u>50,708</u>
U. S. Department of Interior			
Direct Programs			
Archival Cataloging III		15.916	87,671
MACA's Bats		15.921	15,511
Student Support – CPIMN		15.945	28,668
MACA Youth Citizen Science Init.		15.945	56,945
Student Intern Support-Cumberland		15.945	8,649
Environmental M & M to Restore Air		15.945	1,820
Accelerate P & C of SER Collections		15.945	<u>81,183</u>
Total U. S. Department of Interior			<u>280,447</u>
U. S. Department of Justice			
Pass Through Programs			
Kentucky Justice & Public Safety Cabinet			
Kentucky State Victim Assistance Academy	DG-2011-KASAP-00010	16.582	<u>38,553</u>
National Aeronautics and Space Administration			
Pass Through Programs			
University of Kentucky Research Foundation			
WKU NASA Student Launch Initiative	UKRF 3049024102-13-143	43.UNK	(207)
National Space Program	SUB# 304810 7336-14-105	43.001	4,970
Northern Kentucky Universityhgggg			
Increasing STEM Educators	4000972-S6	43.008	<u>2,003</u>
Total Aeronautics and Space Administration			<u>6,766</u>
National Endowment for the Humanities			
Direct Programs			
Why Are Bad People Bad		45.163	23,130
America's Music-Film Industry		45.164	<u>1,633</u>
Total National Endowment for the Humanities			<u>24,763</u>
National Science Foundation			
Direct Programs			
Pathways: Using Citizen Science		47.076	<u>31,094</u>
Small Business Administration			
Pass Through Programs			
University of Kentucky Research Foundation			
Small Business Center FY13	3048110108-13-162	59.037	21,483
Small Business Center FY14	UKRF 3048111056-14-094	59.037	<u>46,204</u>
Total Small Business Administration			<u>67,687</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, 2014

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Other Federal (Continued)			
Environmental Protection Agency			
Pass Through Programs			
Kentucky Energy & Environment Cabinet			
Habitat for Humanity Demonstration	PON2 129 1100001150 1	66.460	\$ 205,368
Kentucky Waterways Alliance			
Bacon Creek	MOA Dated 4/8/11	66.460	<u>744</u>
Total Environmental Protection Agency			<u>206,112</u>
U.S. Department of Energy			
Pass Through Programs			
University of Minnesota			
ARRA: Electric Power Engineering	A00211576	81.122	9,121
University of Illinois			
ARRA: CBW's in Carbon Education	SUB# 2010-00326-03	81.133	<u>22,336</u>
Total U. S. Department of Energy			<u>31,457</u>
U. S. Department of Education			
Pass Through Programs			
Kentucky Cabinet for Workforce Development			
Perkins: Paralegal Studies FY13	PON2 531 1300000292 1	84.048	3,956
Perkins Univ. PD FY14	PON2 540 1300002855 1	84.048	9,000
Perkins: Early Childhood Education FY14	PON2 540 1300003086 1	84.048	8,108
Perkins: FY 2014 Nursing	PON2 540 1300003086 1	84.048	8,050
Perkins Agriculture FY14	PON2 540 1300003086 1	84.048	6,610
Perkins Dental Hygiene FY14	PON2 540 1300003086 1	84.048	18,691
Perkins Paralegal Studies FY14	PON2 540 1300003086 1	84.048	49,232
Perkins: Embroidery Digitizing	PON2 540 1300002855 2	84.048	3,150
Perkins: Carrforward Leadership Academy	PON2 540 1400001775 1	84.048	8,375
Kentucky Council on Postsecondary Education			
Gear Up Summer Academy FY 14/15	PO2 415 14000006071 1	84.334	1,620
IEQ Year 10 Readers Matter	PO2 415 1200003859 1	84.367	11,024
National Writing Project Corporation			
WKU Writing FY13 SEED	92-KY06-SEED2012	84.367	3,502
WKU Writing Project FY 15/16	Amend#2 92-KY-06-SEED 2012	84.367	501
Kentucky Department of Education			
Center for Learning Excellence FY 13	PON2 540 120000 2906 1	84.377	23,857
Center for Learning Excellence FY14	PON2 540 1300002516 1	84.377	<u>22,544</u>
Total U.S. Department of Education			<u>178,220</u>
U.S. Department of Health and Human Services			
Direct Programs			
Advanced Ed Nursing FY13		93.358	342,684
Head Start Training FY13		93.600	10,434
Head Start FY13		93.600	443,402
Head Start Training FY14		93.600	11,579
Head Start FY14		93.600	<u>847,503</u>
			<u>1,655,602</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, 2014

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Pass Through Programs			
University of Louisville			
AHEC Point of Service FY13	ULRF 12-1074-1	93.107	\$ 8,044
AHEC Point of Service FY13	Subcontract dated 11/19/13	93.107	58,112
Project Match Eval. FY13	ULRF 09-0492 D	93.652	5,909
University of Kentucky Research Foundation			
Nurses Using Research FY13	3049024961-13-119	93.262	10,928
Nurses Using Research FY14	UKRF 3049025295-14-069	93.262	14,541
Murray Head Start			
Early Head start FY13	04CH2692-001	93.600	44,962
EHS Training PA FY13	04CH2692-001	93.600	1,722
Early Head Start FY14	04CH2692/46	93.600	164,475
EHS Training PA FY14	04CH2692/46	93.600	4,454
Eastern Kentucky University			
TRC/MSW FY14	EKU Sub# 452650-14-161	93.658	211,628
PCWCP FY14	EKU Sub# 452655-14-162	93.658	7,626
			<u>532,401</u>
Total U.S. Department of Health and Human Services			<u>2,188,003</u>
U. S. Department of Homeland Security			
Direct Programs			
WKU Stem Program		97.104	<u>44,709</u>
Total Other Federal			<u>4,100,192</u>
Total Federal Expenditures			<u>\$ 145,368,862</u>
Subtotals Of CFDA's With Multiple Awards			
School Improvement Grants		84.377	\$ 46,401
Improving Teacher Quality State Grants		84.367	15,027
Career and Technical Education – Basic Grants to States		84.048	143,084
Foster Care		93.658	219,254
Head Start		93.600	1,528,531
Cooperative Research and Training – Resources of the National Park System		15.945	188,403
Agricultural Research Basic and Applied Research		10.001	808,165
Area Health Education Centers Point of Service Maintenance and Enhancement Awards		93.107	66,156
Occupational Safety and Health Program		93.262	25,469

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, 2014

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, 2014, the University had loans outstanding in the amount of \$3,924,510 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>
Tropical Andean Climate Change	Foundation Para el Desarrollo Agrar	\$ 4,640
Tropical Andean Climate Change	Western Washington University	6,900
IEQ Year 10 Readers Matter	Morehead State University	4,875
Efficacy Countermeasures of C.D.	University of Kentucky	9,696
Disruptions in Water Service	University of Alabama	35,000
Disruptions in Water Service	University of Missouri	140,000
W and WW Technician Training	KWWOA	4,696
Pathways: Using Citizen Science	Cornell University	9,232
Hydraulics – WDS	University of Alabama	7,000
Alliance in North America	Western Illinois University	37,547
Head Start Training FY13	Audubon Area Community Services, Inc.	2,063
Head Start Training FY13	Murray Head Start	2,326
Head Start FY 13	Audubon Area Community Services, Inc.	73,190
Head Start FY 13	Murray Head Start	118,955
Head Start Training FY14	Audubon Area Community Services, Inc.	444
Head Start Training FY14	Murray Head Start	2,079
Head Start FY 14	Audubon Area Community Services, Inc.	156,433
Head Start FY 14	Murray Head Start	248,014
AKA FY13	Northern Kentucky University	151,629
Detection of Toxic Materials	University of Idaho	<u>69,361</u>
Total Federal Awards Paid to Subrecipients		<u>\$ 1,084,080</u>

NOTE 4 – FEDERAL INSURANCE

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

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2014

PART I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
	Total Federal Student Aid Cluster (consisting of):
84.007	SEOG
84.033	Federal Work Study
84.033	America Reads
84.038	Federal Perkins Loan Program
84.063	Pell Grants 2011-2012
84.063	Pell Grants 2012-2013
84.268	Federal Direct Student Loans
84.379	TEACH Grants
	Total Trio Cluster (consisting of):
84.042	Student Support Services FY12
84.044	TRIO Talent Search FY12
84.044	TRIO Talent Search Surrounding
84.047	Upward Bound FY13
84.047	VUB FY13-17
84.066	Educational Opp Centers FY13
20.500	Federal Transit Cluster - Approp – Fleet expense and reimbursement
84.336	GSKY Teach
93.358	Advanced Ed Nursing FY13

Dollar threshold used to distinguish between Type A and Type B programs \$ 338,580

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

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