

# **Western Kentucky University**

Accountants' Report and Financial Statements

June 30, 2002



**Western Kentucky University**  
**June 30, 2002**

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## **Independent Accountants' Report on Financial Statements and Supplementary Information**

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

We have audited the accompanying basic financial statements of Western Kentucky University (University), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Kentucky University as of June 30, 2002, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, in 2002 the University adopted the provisions of the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Universities*, as of July 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2002, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

/s/ **BKD, LLP**

November 21, 2002

# Western Kentucky University

## Management's Discussion and Analysis

### June 30, 2002

#### **Overview**

Management's Discussion and Analysis (MD&A) of Western Kentucky University's 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 year ended June 30, 2002. 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 **BKD, LLP**, provides an opinion on the basic financial statements taken as a whole. BKD has expressed an unqualified opinion on the financial statements stating that such statements present fairly, in all material respects, the financial position of Western Kentucky University as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended. Furthermore, BKD has issued a report required by *Government Auditing Standards* that addresses their consideration of the University's internal control over financial reporting and tests of the University's compliance with certain provisions of laws, regulations, contracts and grants.

A schedule of expenditures of federal awards required by U.S. Office of Management and Budget and Budget Circular A-133 is presented for purposes of additional analysis and is not a required part of the basic financial statements. BKD has issued reports on that schedule, on its consideration of the University's internal control over compliance and on the University's compliance with specified requirements applicable to major federal awards programs.

BKD 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 has determined to be supplementary information required to accompany but not be part of the basic financial statements. BKD, however, did not audit such information and did not express an opinion on it.

#### **A Year of Change**

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Statement No. 34 requires a comprehensive look at the entity as a whole instead of by fund. In November 1999, GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies these new standards to public colleges and universities. Statement No. 35 supersedes the *AICPA Audit Guide for Colleges and Universities* thereby eliminating the separate reporting model for public colleges and universities prescribed by that Guide that was used in presenting the University's financial statements in previous years. Previous financial reports

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## **Management's Discussion and Analysis**

### **June 30, 2002**

prepared by Western Kentucky University were presented in accordance with the principles of "fund accounting." This is the process by which resources for various purposes are classified for accounting and reporting purposes into funds based on the activities and objectives specified. More specifically, the balance sheet, the statement of changes in fund balances, and the statement of current funds, revenues, expenditures, and other changes reflected the grouping of financial activity into Current Funds, Loan Funds, Plant Funds, and Agency Funds.

Beginning in fiscal 2002, the financial statements included in this report are presented on an entity-wide perspective allowing the reader to review data in a manner more similar to corporate financial statements. For example, fund balances are now categorized as net assets and assets and liabilities are classified as current or long term.

The financial statements now consist of a Statement of Net Assets, Statement of Revenue, Expenses and Changes in Net Assets and Statement of Cash Flows together with the Notes to the Financial Statements. The financial statements for fiscal 2002 focus on the financial position, changes in financial position, and cash flows of the University as a whole, with resources classified, for accounting and reporting purposes, into four net asset categories: invested in capital assets, net of related debt; restricted-nonexpendable; restricted-expendable; and unrestricted.

Another significant change relates to the reporting of revenues and expenses. Revenues and expenses are now categorized as either operating or nonoperating. Significant sources of support, including state appropriations (operating and capital), gifts, and investment income, are classified as nonoperating revenue, per GASB Statement No. 35. Thus, most public colleges and universities will show "operating losses" due to the dependence on nonoperating revenues to maintain the financial viability of public postsecondary education.

Western Kentucky University is reporting as a single-purpose Business Type Activity (BTA) as defined by GASB No. 35. BTAs are activities that are financed in whole or part by fees charged to external parties for goods and services, *e.g.*, tuition and fees charged students for educational goods and services.

Other changes to note include the following:

- Depreciation of capital assets is reported in the financial statements as an operating expense.
- Summer semester revenues and expenses are prorated between fiscal years instead of being recognized in the fiscal year in which the predominate part of the semester occurs.
- Tuition revenue is reported net of discounts and allowances including scholarship allowances, gift scholarships and institutional aid.
- Unexpended state capital appropriations are recorded as deferred revenue.

The requirement to provide prior year data for comparative purposes in MD&A based on the new reporting standard is not effective for fiscal 2002. Fiscal 2003's MD&A will include comparative data and allow for baseline trend data to assess the continuing financial viability of Western Kentucky University.

# Western Kentucky University

## Management's Discussion and Analysis

### June 30, 2002

#### **Reporting Entity**

The Commonwealth of Kentucky has adopted the new GASB standards effective for 2002. As a component unit of the Commonwealth of Kentucky, Western Kentucky University is required to adopt the new standards at the same time as the Commonwealth. Thus, the University's fiscal 2002 financial statements have been prepared in accordance with GASB Statement No. 35. The financial statements of Western Kentucky University include the University and its blended component unit, the Western Kentucky University Research Foundation.

The financial statements do not include certain other entities that provide support to the University and its activities because those entities do not meet the criteria established by GASB for inclusion in the University's reporting entity. One such entity is the WKU Foundation, which principally seeks contributions from resource providers and holds the resulting resources to support and further achievement of the objectives of the University.

#### **Fiscal 2002 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 financial statements. 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.

With the absence of comparative financial data this year, the following data are provided to help assess the financial viability of Western Kentucky University:

<b><u>Enrollment Base (Headcount)</u></b>	<b><u>Fall 2001</u></b>	<b><u>Fall 2000</u></b>
Applications	7,078	6,720
Admissions	6,132	5,712
First-time Freshmen	2,710	2,565
Total Undergraduate Enrollment	14,135	13,270
Total Graduate Enrollment	2,444	2,246
Total Enrollment	16,579	15,516

<b><u>WKU Foundation Capital Campaign</u></b>	<b><u>June 30, 2002</u></b>	<b><u>June 30, 2001</u></b>
Total Gifts and Pledges	\$79.7 million	\$62.8 million
Total Endowed Faculty Positions*	20	17
Total Cash Receipts	\$12.3 million	\$9.8 million

\*Earnings from endowments that are transferred to the University to support filled faculty positions are recognized as part of the University's nonoperating revenue.

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**Management's Discussion and Analysis**  
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<u>State Appropriations</u>	<b>June 30, 2002</b>	<b>June 30, 2001</b>
General nonoperating revenue	\$ 63,873,700	\$ 61,499,500
Retirement of Debt Obligations	<u>2,263,900</u>	<u>2,828,900</u>
Total	<u>\$ 66,137,600</u>	<u>\$ 64,328,400</u>

**Statement of Net Assets**

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

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

A summary of the University's assets, liabilities and net assets, as of June 30, 2002, is as follows:

**Statement of Net Assets (in Thousands)**

<b>Assets</b>	
Current assets	\$ 34,337
Capital assets, net	100,407
Other noncurrent assets	<u>81,791</u>
Total assets	<u>216,535</u>
 <b>Liabilities</b>	
Current liabilities	50,740
Noncurrent liabilities	<u>52,976</u>
Total liabilities	<u>103,716</u>



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**Management's Discussion and Analysis**  
**June 30, 2002**

**Net Assets**

Invested in capital assets, net of related debt	\$ 45,826
Restricted	
Nonexpendable	6,541
Expendable	44,074
Unrestricted	<u>16,378</u>
 Total net assets	 <u>\$ 112,819</u>

It is noted that liabilities included pledges payable to the City of Bowling Green (City) in the amount of \$31,620,543 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$20,705,000 with final payments on the bonds scheduled for 2012.

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

The Statement of Revenue, Expenses and Changes in Net Assets summarizes all financial transactions that increase or decrease net assets. The purpose of the statement is to present the revenues from providing goods and services, expenses incurred to acquire and deliver the goods and services, and other revenues, expenses and gains and losses recognized by the University. Financial activities are reported as either operating or nonoperating.

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

Accordingly, Western Kentucky University reports a net operating loss of \$85,506,464 prior to the addition of nonoperating revenue.

A summary of the University's revenues, expenses and changes in net assets, for the year ended June 30, 2002, is as follows:

**Western Kentucky University**  
**Management's Discussion and Analysis**  
**June 30, 2002**

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

<b>Operating Revenues</b>	
Net tuition and fees	\$ 35,022
Grants and contracts	21,655
Sales and services of educational departments	6,027
Auxiliary Enterprises	12,553
Other	<u>4,017</u>
	<u>79,274</u>
<b>Operating Expenses</b>	<u>164,780</u>
<b>Operating Loss</b>	<u>(85,506)</u>
<b>Nonoperating Revenues (Expenses)</b>	
State appropriations	66,138
Grants and contracts	22,866
Investment income	543
Interest on capital asset-related debt	(1,185)
Other	<u>(65)</u>
Net nonoperating revenues (expenses)	<u>88,297</u>
<b>Income before Other Revenues, Expenses, Gains or Losses</b>	2,791
State capital appropriations	13,689
Additions to permanent endowment (state endowment match)	<u>25</u>
<b>Increase in Net Assets</b>	16,505
<b>Net Assets, Beginning of Year, as restated</b>	<u>96,314</u>
<b>Net Assets, End of Year</b>	\$ <u><u>112,819</u></u>

***Operating Revenues***

Operating revenues include all transactions that result in the sales of goods and services. For Western Kentucky 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 Western Kentucky University 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.

# Western Kentucky University

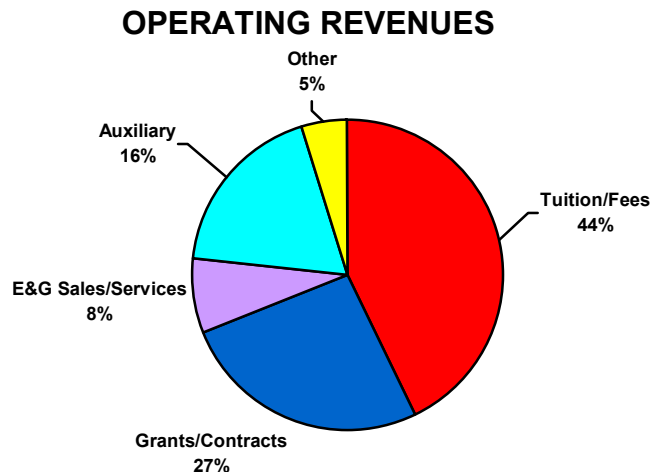
## Management's Discussion and Analysis

### June 30, 2002

As previously noted, Western Kentucky University's total headcount enrollment increased by 6.8% between fall 2000 and fall 2001. As of fall 2001, approximately 83% of students enrolled at Western Kentucky University were Kentucky residents. An additional 8% of the student population came from Tennessee with many coming to the University through a state reciprocity agreement, *i.e.*, enroll at in-state rates, or the Tuition Incentive Program. Board approved tuition and fee rate increases ranged from 7% to 12% for fiscal year 2002. Thus, the combination of increased rates and enrollment growth resulted in tuition and fees, prior to the adjustment for discounts and allowances, growing from \$40.8 million to \$47.9 million.

Tuition and fees revenue is recorded in the financial statements net of scholarship allowances, gift scholarships and institutional aid. Previously, gift scholarships and institutional aid (including federal and state funding) were reported as expenses of the University. 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. Funds previously recorded as Pell Grants, College Access Program, and KEES Program have been included in the scholarship allowance after these sources have been used to satisfy a student's fee and charges. Any excess aid disbursed to the student is recognized as a student financial aid expense. The net tuition and fees, as of June 30, 2002, were 73.1% of the gross tuition and fees with approximately \$12.9 million being recorded as scholarship allowance.

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



**Western Kentucky University**  
**Management's Discussion and Analysis**  
**June 30, 2002**

**Grants and Contracts – Operating and Nonoperating Revenues**

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

Through the efforts of the Western Kentucky University Research Foundation and Western Kentucky University, grants and contracts awards (excluding financial aid) continue to increase. Such awards totaled \$11,531,856 for 1996-97 and increased to \$24,472,068 for 2001-02.

The grant and contract awards received in a given year are frequently multiyear awards for which only the current year activity related to the award will be recorded (*i.e.*, any cash received in excess of expenses incurred will be recorded as deferred revenues). Additionally, awards related to future periods are not recorded in the University's financial statements. The following chart provides a two-year comparison of total grants and contracts awarded (not received/recorded) during the 2002 and 2001 fiscal years.

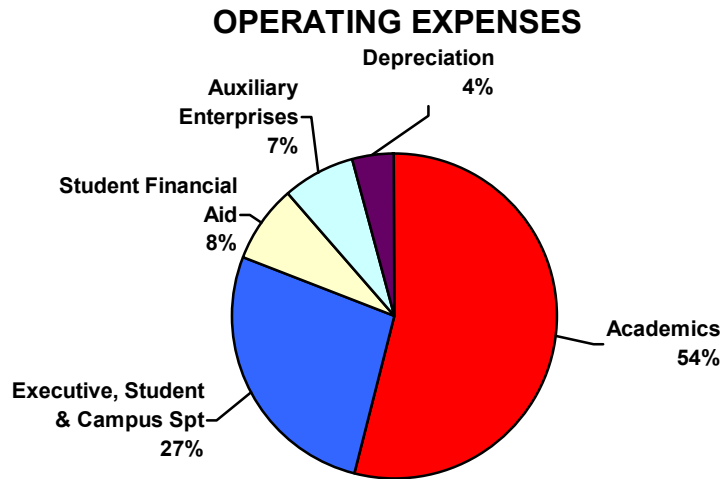
**Grants and Contracts Awards (Excluding Financial Aid)**

	<b>Year Ended</b>	
	<b>June 30, 2002</b>	<b>June 30, 2001</b>
Federal	\$ 18,337,403	\$17,785,646
State	4,339,894	3,120,691
Other	<u>1,795,171</u>	<u>1,569,420</u>
Total	<u>\$ 24,472,468</u>	<u>\$22,475,757</u>

**Operating Expenses**

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

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**Management's Discussion and Analysis**  
**June 30, 2002**



***Nonoperating Revenues (Expenses)***

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

The University's investments consist primarily of collateralized mortgage obligations and its equity in Commonwealth of Kentucky pooled investment funds. Investment income, for the year ended June 30, 2002, is comprised of the following:

Investment income	\$ 1,255,472
Net change for the year in the fair value of investments	<u>(712,471)</u>
	<u>\$ 543,001</u>

State appropriations, excluding debt retirement, was \$63,873,700 for 2001-02 in comparison to \$61,499,500 for 2000-01. Western Kentucky University's state appropriation, based on the enacted 2000-02 Biennial Budget, was reduced by \$1,692,300 or 2.6% in comparison to the systemwide average of 3.0% in recognition of the University's enrollment growth. The state reduction included a reduction of \$128,200 for maintenance and operations due to the delay in opening Media and Technology Hall.

# **Western Kentucky University**

## **Management's Discussion and Analysis**

### **June 30, 2002**

#### ***Change in Net Assets***

The beginning of the year net assets have been restated to reflect the GASB changes as previously discussed. For the year ended June 30, 2002, the change in the University's net assets was an increase of \$16,504,507, which resulted in a year-end net asset amount of \$112,818,699.

#### ***Statement of Cash Flows***

The Statement of Cash Flows presents data related to the Western Kentucky 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 Statement of Cash Flows is broken into the following sections:

- Operating cash flows and the net cash used for the operating activities of the University
- Cash flows for noncapital financing activities
- Cash flows from investing activities
- Cash flows from capital and related financing activities
- Reconciliation of the net cash flows from operating activities to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets

The major sources of cash received for operating activities are tuition and fees of \$33,506,627, auxiliary enterprises of \$12,552,637 and grants and contracts of \$19,331,690. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$97,853,754 and to suppliers and contractors of \$46,991,537. A majority of the noncapital financing activities is a result of state appropriations and grants and contracts. Capital and related financing activities include capital appropriations from the Commonwealth of Kentucky for \$23,000,000 and \$31,620,543 from the City for the Diddle Arena renovation project. Principal and interest paid on capital debt and leases are recognized as a reduction to the total capital and related financing activities. A state appropriation of \$2,263,900 was allocated for debt payments of the University. Investing activities recognize the cash flows from proceeds from sales and maturities of investments, purchases of investments and interest receipts.

**Western Kentucky University**  
**Management's Discussion and Analysis**  
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The Statement of Cash Flows is summarized as follows:

<b>Cash Provided by (Used in)</b>	
Operating activities	\$ (81,387)
Noncapital financing activities	89,224
Capital and related financing activities	28,677
Investing activities	<u>28</u>
Net increase in cash and cash equivalents	36,542
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>48,220</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 84,762</u>

***Capital Asset and Debt Administration***

**Capital Assets**

As of June 30, 2002, Western Kentucky University had \$100.4 million invested in capital assets, net of accumulated depreciation of \$101.8 million. Capital assets at June 30, 2002, and additions to capital assets during the 2002 fiscal year are summarized below:

	<b>Balance June 30, 2002</b>	<b>Additions FY 2001-2002</b>
Land	\$ 4,401,051	\$ 321,870
Buildings and improvements	112,099,300	49,734
Infrastructure	10,369,554	—
Furniture, fixtures and equipment	21,307,537	1,604,255
Library materials	26,966,242	1,545,333
Construction in progress	<u>27,011,211</u>	<u>18,769,176</u>
	202,154,895	22,290,368
Less: accumulated depreciation	<u>101,747,983</u>	<u>6,851,792</u>
	<u>\$100,406,912</u>	<u>\$15,438,576</u>

As of June 30, 2002, the major construction projects include: Instructional Technology and Communication Project, South Regional Education Center, and South Campus Building.

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**Management's Discussion and Analysis**  
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**Debt**

As of June 30, 2002, Western Kentucky University had \$56,295,686 in debt outstanding consisting of pledges payable to the City, bonds payable (Consolidated Educational Buildings Revenue Bonds), capital leases and other long-term debt to the WKU Student Life Foundation, Inc. The debt obligations are summarized as follows:

Pledges to the City of Bowling Green	\$ 31,620,543
Consolidated Educational Buildings Revenue Bonds	20,705,000
Capital leases	1,700,475
Other long-term debt	<u>2,269,668</u>
Total	<u>\$ 56,295,686</u>

***Economic Factors Impacting Future Periods***

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

- ◆ The General Assembly of the Commonwealth of Kentucky has not adopted a biennial budget for the 2002-04 biennium. Governor Paul Patton implemented, by Executive Order, an emergency-spending plan for fiscal 2003. The Western Kentucky University Board of Regents approved a 2002-03 operating budget based on no increase in state appropriations for general operating purposes. The 2002-03 budget includes an increase of \$703,300 to meet current obligations on bonds payable.
- ◆ Under its self-insurance plan, Western Kentucky University provides a comprehensive health insurance program for its employees. The University Benefits Committee analyzes claim history and projected health care costs for the industry and then recommends a premium structure and a third-party benefits administrator for the subsequent calendar year. The University's 2002-03 operating budget includes a University contribution increase of \$26 per month per full-time employee, effective January 2003, raising the total to \$341 per month.
- ◆ Board-approved tuition and mandatory fees rates for fiscal 2003 were effective summer 2002. In fall 2001, approximately 70% of the total enrollment was resident undergraduate. The semester tuition and mandatory fees rate for this population was increased from \$1,422 to \$1,560 or 9.7%. This rate increase, coupled with a growing enrollment, is budgeted to generate a significant amount of tuition and fees revenue for the University in fiscal 2003.



**Western Kentucky University**  
**Statement of Net Assets**  
**June 30, 2002**

**Assets**

**Current Assets**

Cash and cash equivalents	\$ 20,578,169
Accounts receivable, net of allowance of \$150,696	3,355,684
Interest receivable	353,232
Federal and state grants receivable	7,910,594
Inventories	1,332,361
Loans to students	652,954
Prepaid expenses	<u>153,601</u>
Total current assets	<u>34,336,595</u>

**Noncurrent Assets**

Restricted cash and cash equivalents	64,183,799
Long-term investments	3,813,045
Loans to students, net of allowance of \$549,088	5,082,004
Other assets	230,302
Assets held in trust	8,481,876
Capital assets	202,154,895
Accumulated depreciation on capital assets	<u>(101,747,983)</u>
Total noncurrent assets	<u>182,197,938</u>

Total assets \$ 216,534,533

## Liabilities

### Current Liabilities

Accounts payable	\$ 4,263,156
Self insured health liability	915,878
Accrued payroll and withholdings	652,908
Accrued compensated absences	2,109,255
Accrued interest	115,369
Deferred revenue	38,246,939
Current maturities of long-term liabilities	3,319,876
Deposits held in custody for others	<u>1,116,643</u>

Total current liabilities 50,740,024

### Long-term Liabilities

52,975,810

Total liabilities 103,715,834

## Net Assets

Invested in capital assets, net of related debt	45,825,621
Restricted for	
Nonexpendable – permanent endowments	6,541,137
Expendable	
Loans	6,216,436
Capital projects	33,533,689
Debt service	4,323,479
Unrestricted	<u>16,378,337</u>

Total net assets \$ 112,818,699

**Western Kentucky University**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year Ended June 30, 2002**

**Operating Revenues**

Tuition and fees, net of discounts and allowances of \$12,858,100	\$ 35,022,324
Federal grants and contracts	14,056,893
State grants and contracts	7,317,493
Local and private grants and contracts	280,432
Sales and services of educational departments	6,026,696
Other operating revenues	4,017,096
Auxiliary enterprise revenues, net of discounts and allowances of \$359,708	<u>12,552,637</u>
Total operating revenues	<u>79,273,571</u>

**Operating Expenses**

Instruction	58,895,543
Research	6,461,372
Public service	13,726,694
Libraries	3,412,152
Academic support	6,548,652
Student services	13,744,579
Institutional support	15,332,889
Operating and maintenance of plant	14,920,262
Student financial aid	12,783,648
Depreciation	6,851,792
Auxiliary enterprises	<u>12,102,452</u>
Total operating expenses	<u>164,780,035</u>

**Operating Loss**

(85,506,464)

**Nonoperating Revenues (Expenses)**

State appropriations	66,137,600
Federal grants and contracts	15,954,955
State grants and contracts	5,180,752
Local and private grants and contracts	1,730,003
Investment income	543,001
Interest on capital asset-related debt	(1,185,478)
Loss on disposal of capital assets	(37,956)
Other nonoperating expenses	<u>(26,080)</u>
Net nonoperating revenues (expenses)	<u>88,296,797</u>

<b>Income before Other Revenues, Expenses, Gains or Losses</b>	\$ 2,790,333
State capital appropriations	13,688,965
Additions to permanent endowment (state endowment match)	<u>25,209</u>
<b>Increase in Net Assets</b>	<u>16,504,507</u>
<b>Net Assets, Beginning of Year – As Previously Reported</b>	231,207,081
Cumulative effect of change in accounting principle	(142,472,567)
Adjustments applicable to prior years	<u>7,569,678</u>
<b>Net Assets, Beginning of Year – As Restated</b>	<u>96,314,192</u>
<b>Net Assets, End of Year</b>	<u>\$ 112,818,699</u>

**Western Kentucky University**  
**Statement of Cash Flows**  
**Year Ended June 30, 2002**

<b>Operating Activities</b>	
Tuition and fees	\$ 33,506,627
Grants and contracts	19,331,690
Payments to employees	(97,853,754)
Payments to suppliers	(46,991,537)
Loans issued to students	789,975
Loan collections from students	(652,954)
Sales and services of educational departments	6,026,696
Other operating revenues	4,017,099
Auxiliary enterprise revenues	12,552,637
Auxiliary enterprise payments	
Payments to employees	(4,505,362)
Payments to suppliers	<u>(7,607,772)</u>
Net cash used in operating activities	<u>(81,386,655)</u>
<b>Noncapital Financing Activities</b>	
State appropriations	66,137,600
Grants and contracts	22,865,710
Other	<u>220,622</u>
Net cash provided by noncapital financing activities	<u>89,223,932</u>
<b>Capital and Related Financing Activities</b>	
Proceeds from city general obligation bond issuance	31,620,543
Payment of bond issuance costs - city general obligation	(230,302)
State capital appropriations	23,000,000
Proceeds from disposal of capital assets	3,000
Purchases of capital assets	(21,270,435)
Principal paid on capital debt and leases	(3,375,546)
Interest paid on capital debt and leases	<u>(1,070,109)</u>
Net cash provided by capital and related financing activities	<u>28,677,151</u>
<b>Investing Activities</b>	
Proceeds from sales and maturities of investments	3,360,050
Purchase of investments	(4,667,860)
Investment earnings received	<u>1,335,805</u>
Net cash provided by investing activities	<u>27,995</u>
<b>Increase in Cash and Cash Equivalents</b>	36,542,423
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>48,219,545</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 84,761,968</u>

**Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets**

Cash and cash equivalents	\$ 20,578,169
Restricted cash and cash equivalents	<u>64,183,799</u>
Total cash and cash equivalents	<u>\$ 84,761,968</u>

**Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities**

Operating loss	\$ (85,506,464)
Depreciation expense	6,851,792
Changes in operating assets and liabilities	
Accounts receivable, net	(1,515,697)
Grants and contracts receivable	(4,372,556)
Inventories	(10,682)
Student loans, net	137,021
Deferred revenue	2,049,428
Prepaid expenses	(114,975)
Accounts payable	1,191,223
Health insurance liability	124,789
Accrued payroll and payroll withholdings	(244,392)
Accrued compensating absences	<u>23,858</u>

**Net Cash Used in Operating Activities** \$ (81,386,655)

**Supplemental Cash Flows Information**

Capital leases incurred for capital assets	\$ 926,103
Construction in process included in accounts payable	\$ 93,830
Increase in assets held in trust from state endowment match	\$ 25,209

# Western Kentucky University

## Notes to Financial Statements

### June 30, 2002

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

##### ***Nature of Operations***

Western Kentucky University (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 17,600 in 2002. The University is operated under the jurisdiction of a Board of Regents and is a component unit of the Commonwealth of Kentucky.

##### ***Reporting Entity***

The financial reporting entity includes agencies of Western Kentucky University, as the primary government, and the accounts of Western Kentucky University Research Foundation, Inc., collectively referred to as the University.

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

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

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

##### ***Basis of Accounting and Presentation***

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

# **Western Kentucky University**

## **Notes to Financial Statements**

### **June 30, 2002**

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

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements that were issued after November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The University has elected not to apply FASB pronouncements issued after the applicable date.

The University has elected not to restate its 2001 financial statements to conform to the new financial statement presentation. Significant accounting changes made during the 2002 fiscal year to comply with the new requirements include (1) adoption of depreciation on capital assets; (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year; and (3) recording unexpended state capital contributions as deferred revenues.

#### ***Use of Estimates***

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

#### ***Cash and Cash Equivalents***

The University considers all highly liquid investments that are immediately available to the University to be cash equivalents. Funds held by the Commonwealth of Kentucky are considered cash equivalents.

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



**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

***Restricted Cash and Cash Equivalents***

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

***Investments and Investment Income***

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

***Accounts Receivable***

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

***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 extends unsecured credit to students by issuing loans 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 \$5,000 is capitalized and depreciated with one-half a month's depreciation taken during the same year of purchase or donation. Library materials are capitalized in total for the year with one-half a year's depreciation taken during the same year of purchase or donation. Construction in process 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 following estimated useful lives are being used by the University:

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

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

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. The University has no capitalizable interest for the current fiscal year.

***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 (a) maintain them for public exhibition, education or research; (b) protect, keep unencumbered, care for and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than capitalized.

***Compensated Absences***

University policies permit employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized when vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay rates in effect at the statement of net assets date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

***Deferred Revenue***

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

# Western Kentucky University

## Notes to Financial Statements

### June 30, 2002

#### **Classification of Revenues**

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

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

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, 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 Statement of Revenues, Expenses and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance.

#### **Net Assets**

The University's net assets are classified as follows:

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

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

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

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

*Unrestricted net assets:* Unrestricted net assets represent resources derived from student tuition and fees and sales and services of education departments 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.

**Note 2: Assets Held in Trust**

Assets held in trust consisted of:

City of Bowling Green	\$ 1,599,460
Western Kentucky University Foundation, Inc.	6,541,137
WKU Student Life Foundation, Inc.	<u>341,279</u>
Fair value of assets held in trust	<u>\$ 8,481,876</u>

Assets held with the City of Bowling Green and the WKU Student Life Foundation, Inc. are held persistent to sinking fund requirements of pledges to the City of Bowling Green and notes payable to the WKU Student Life Foundation, Inc. as further described in Note 8. Assets held with the Western Kentucky University Foundation, Inc. are related to the Regional University Excellence Trust Fund as further described in Note 16.

**Note 3: Investments and Investment Income**

**Investments**

The University may legally invest in repurchase agreements, U. S. Treasury obligations and U. S. government agency obligations including collateralized mortgage obligations.

The University's investments are categorized to give an indication of the level of custodial credit risk assumed by the University. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by dealer bank's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer bank's trust department in other than the University's name, by the broker/dealer, by the dealer bank or by another bank that is a subsidiary of the same holding company as the dealer bank.

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

Investments at June 30, 2002, consisted of the following:

	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Mortgage-backed securities	\$ <u>0</u>	\$ <u>3,813,045</u>	\$ <u>0</u>	\$ <u>3,813,045</u>	\$ <u>3,813,045</u>

***Investment Income***

Investment income for the year ended June 30, 2002, consisted of:

Interest income	\$ 1,255,472
Net change for the year in fair value of investments	<u>(712,471)</u>
	<u>\$ 543,001</u>

**Note 4: Accounts Receivable**

Accounts receivable consisted of:

Tuition and fees – students	\$ 461,836
Tuition and fees – paid by third party	305,731
Sales and services to outside parties	348,504
Credit memos	441,994
Health insurance stop loss reimbursement	548,069
WKU Student Life Foundation, Inc.	1,286,736
Western Kentucky University Foundation, Inc.	74,169
College Heights Foundation, Inc.	2,238
Miscellaneous other	<u>37,103</u>
	3,506,380
Less allowance for doubtful accounts	<u>150,696</u>
Accounts receivable, net	<u>\$ 3,355,684</u>

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

**Note 5: Capital Assets**

Capital assets activity for the year ended June 30, 2002, was:

	Balance June 1, 2001	Cumulative Effect of Change in Accounting Principle (Note 14)	Additions	Disposals	Transfers	Balance June 30, 2002
<b>Cost</b>						
Land	\$ 2,613,695	\$ 1,465,486	\$ 321,870	\$ —	\$ —	\$ 4,401,051
Buildings and improvements	110,835,398	275,422	49,734	—	938,746	112,099,300
Infrastructure	7,784,046	—	—	—	2,585,508	10,369,554
Furniture, fixtures and equipment	41,958,450	(22,214,212)	1,604,255	(40,956)	—	21,307,537
Library materials	25,466,010	—	1,545,333	(45,101)	—	26,966,242
Intangible assets	1,569,172	(1,569,172)	—	—	—	0
Assets acquired under capital leases	3,100,947	(3,100,947)	—	—	—	0
Construction in progress	<u>11,766,289</u>	<u>—</u>	<u>18,769,176</u>	<u>—</u>	<u>(3,524,254)</u>	<u>27,011,211</u>
	<u>205,094,007</u>	<u>(25,143,423)</u>	<u>22,290,368</u>	<u>(86,057)</u>	<u>0</u>	<u>202,154,895</u>
<b>Less Accumulated Depreciation</b>						
Buildings and improvements	—	60,188,428	3,194,929	—	—	63,383,357
Infrastructure	—	3,592,117	349,472	—	—	3,941,589
Furniture, fixtures and equipment	—	12,812,331	1,964,598	—	—	14,776,929
Library materials	<u>—</u>	<u>18,348,416</u>	<u>1,342,793</u>	<u>(45,101)</u>	<u>—</u>	<u>19,646,108</u>
	<u>0</u>	<u>94,941,292</u>	<u>6,851,792</u>	<u>(45,101)</u>	<u>0</u>	<u>101,747,983</u>
<b>Net Capital Assets</b>	<u>\$ 205,094,007</u>	<u>\$(120,084,715)</u>	<u>\$ 15,438,576</u>	<u>\$ (40,956)</u>	<u>\$ 0</u>	<u>\$ 100,406,912</u>

A summary of construction in progress at June 30, 2002, is as follows:

Science Complex renovation	\$ 1,782,899
South Campus building	2,396,816
Diddle Arena renovation	1,455,090
Life Safety E&G building	503,766
High voltage underground distribution	608,661
Instructional Technology and Communication Project	8,321,733
South Regional Education Center	7,959,170
Others under \$500,000	<u>3,983,076</u>
	<u>\$ 27,011,211</u>

Contractual commitments in connection with all projects totaled \$13,663,126 at June 30, 2002.

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

**Note 6: Accounts Payable**

Accounts payable consisted of:

Unapplied financial aid, student payments and financial aid refunds due to students	\$ 1,230,690
Vendors	1,820,418
Grants and contracts	710,608
Procurement card	138,078
Other miscellaneous	<u>363,362</u>
 Total accounts payable	 \$ <u>4,263,156</u>

**Note 7: Deferred Revenue**

Deferred revenue consisted of:

Unexpended state capital appropriations	\$31,034,105
Summer school tuition and fees	2,481,955
Grants and contracts	4,586,762
Advance sale of football tickets	51,717
University master plan	74,600
Advance sales of parking passes	<u>17,800</u>
 Total deferred revenue	 \$ <u>38,246,939</u>

**Note 8: Long-term Liabilities**

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2002:

	Beginning Balance	Cumulative Effect of Change in Accounting Principle (Note 14)	Additions	Deductions	Balance June 30, 2002	Current Portion
Capital lease obligations	\$ 2,020,942	\$ (481,680)	\$ 926,103	\$ (764,890)	\$ 1,700,475	\$ 539,187
Bonds payable	23,065,000	—	—	(2,360,000)	20,705,000	2,495,000
Other long-term debt	2,520,324	—	—	(250,656)	2,269,668	285,689
Pledges payable, net of discount	—	—	<u>31,620,543</u>	—	<u>31,620,543</u>	—
	<u>\$27,606,266</u>	<u>\$ (481,680)</u>	<u>\$ 32,546,646</u>	<u>\$ (3,375,546)</u>	<u>\$ 56,295,686</u>	<u>\$ 3,319,876</u>

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

**Capitalization Policy Change Affecting Capital Leases**

Effective July 1, 2001, the capitalization policy for the University was changed for all equipment items that have a life of greater than one year and a cost of \$500 or more to equipment items that have a life of greater than one year and a cost of \$5,000 or more. This change in capitalization policy was made in conjunction with the University's adoption of GASB Nos. 34 and 35 (see Note 14). 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. Upon examination of existing capital leases as of July 1, 2001, it was noted that several of the capital leases were for items under the new University capitalization policies. Capital leases with assets less than the threshold of the new capitalization policy have been reclassified to operating leases. The total amount reclassified to operating leases was \$481,680.

**Bonds Payable**

Bonds payable are composed of Consolidated Educational Buildings Revenue Bonds, Series G, K, L and M. The bonds mature in varying amounts through May 1, 2012, with interest payable at annual rates ranging from 2.60% to 6.10%. Buildings and revenues from student registration fees are pledged as collateral against bonds payable. The total bonds payable by series issue as of June 30, 2002, were as follows:

Series G Bonds dated 5-01-1968 with interest rates from 5.00% to 6.00%. Final principal payment date 5-01-2008.	\$ 1,490,000
Series K Bonds dated 5-20-1992 with interest rates from 3.25% to 6.10%. Final principal payment date 5-01-2012.	4,540,000
Series L Bonds dated 12-01-1993 with interest rates from 2.60% to 5.00%. Final principal payment date 5-01-2010.	10,400,000
Series M Bonds dated 3-01-1997 with interest rates from 4.70% to 4.90%. Final principal payment date 5-01-2007.	<u>4,275,000</u>
Total bond issues	<u>\$ 20,705,000</u>



**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

The debt service requirements for the bonds payable as of June 30, 2002, are as follows:

<b>Year Ending June 30</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2003	\$ 3,566,473	\$ 2,495,000	\$ 1,071,473
2004	3,459,070	2,510,000	949,070
2005	3,464,250	2,640,000	824,250
2006	3,476,290	2,785,000	691,290
2007	3,488,840	2,940,000	548,840
2008 – 2012	<u>8,303,955</u>	<u>7,335,000</u>	<u>968,955</u>
	<u>\$ 25,758,878</u>	<u>\$ 20,705,000</u>	<u>\$ 5,053,878</u>

On September 1, 2002, the University defeased Consolidated Educational Buildings Revenue Bond issues G and K and issued a \$6,110,000 Western Kentucky University Consolidated Educational Buildings Refunding Revenue Bond, Series N. The proceeds generated from Series N bond issue have been placed in escrow to make future payments of G and K principal and interest as amounts become due.

**Capital Lease Obligations**

The University is obligated under leases accounted for as capital leases. Assets under capital leases consisted mainly of equipment and totaled \$2,550,882, net of accumulated depreciation of \$1,286,057 at June 30, 2002. 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, 2002:

<b>Year Ending June 30</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2003	\$ 613,866	\$ 539,187	\$ 74,679
2004	519,608	471,733	47,875
2005	327,097	301,939	25,158
2006	267,990	257,221	10,769
2007	30,291	26,000	4,291
2008 – 2012	<u>111,098</u>	<u>104,395</u>	<u>6,703</u>
	<u>\$ 1,869,950</u>	<u>\$ 1,700,475</u>	<u>\$ 169,475</u>

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

**Other Long-term Debt**

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

Debt service requirements on the other long-term debt at June 30, 2002, were as follows:

<b>Year Ending June 30</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2003	\$ 398,331	\$ 285,689	\$ 112,642
2004	250,897	148,467	102,430
2005	323,302	231,508	91,794
2006	520,697	447,918	72,779
2007	520,072	473,082	46,990
2008 – 2012	<u>705,708</u>	<u>683,004</u>	<u>22,704</u>
	<u>\$ 2,719,007</u>	<u>\$ 2,269,668</u>	<u>\$ 449,339</u>

**Pledges Payable**

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

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**Notes to Financial Statements**  
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The University has recorded both Series 2002B and 2002C as the pledges payable to the City. Financing for both issues will be used for the improvement of University facilities and the University has an obligation to make up any difference that is not received from suite rental; therefore, HAF payments of interest and debt will be recorded as revenue when received and a reduction of bond principal or interest expense when paid.

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	Total to be Paid	Principal 2002B	Principal 2002C	Interest 2002B	Interest 2002C
2003	\$ 1,538,250	\$ —	\$ —	\$ 1,425,188	\$ 113,062
2004	1,538,250	—	—	1,425,188	113,062
2005	1,538,250	—	—	1,425,188	113,062
2006	1,538,250	—	—	1,425,188	113,062
2007	1,668,250	120,000	10,000	1,425,188	113,062
2008 – 2012	10,620,913	2,985,000	150,000	6,935,288	550,625
2013 – 2017	13,426,519	6,585,000	365,000	5,996,101	480,418
2018 – 2022	15,478,425	10,435,000	630,000	4,136,500	276,925
2023 – 2026	<u>12,028,050</u>	<u>9,990,000</u>	<u>645,000</u>	<u>1,284,500</u>	<u>108,550</u>
	59,375,157	30,115,000	1,800,000	25,478,329	1,981,828
Less unamortized discount	<u>294,457</u>	<u>286,219</u>	<u>8,238</u>	<u>—</u>	<u>—</u>
Total pledges payable	<u>\$ 59,080,700</u>	<u>\$ 29,828,781</u>	<u>\$ 1,791,762</u>	<u>\$ 25,478,329</u>	<u>\$ 1,981,828</u>

**Note 9: Operating Leases**

The University leases certain equipment under operating lease agreements. The operating leases expire in various years through 2005. These leases generally transfer equipment at the end of the lease term, but individual equipment items are less than the capitalization policies of the University. Periods on these leases range from two to five years and require the University to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at June 30, 2002, were:

2003	\$ 326,416
2004	68,283
2005	<u>26,138</u>
	<u>\$ 420,837</u>

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

**Note 10: Supporting Foundations**

The University's financial statements do not include the assets, liabilities, net assets, revenues and expenses of the College Heights Foundation, Inc.; the Western Kentucky University Foundation, Inc.; the Hilltopper Athletic Foundation; the Ogden College Foundation; the Western Kentucky University Alumni Association; and the WKU Student Life Foundation, Inc. Each foundation is a separate legal entity with its own governing board and each has legal title to its respective assets. The foundations are not component units of the University, as they do not meet the criteria of accounting principles generally accepted in the United States of America for inclusion in the University's financial reporting entity. The financial statements for these foundations are issued separately.

The University makes annual lease payments of \$26,000 to the College Heights Foundation, Inc., under a capital lease consisting of real property. Future minimum lease payments for this lease are included in the capital leases in Note 8.

**Note 11: Pension Plans**

***Kentucky Teachers' Retirement System***

The University contributes to the Kentucky Teachers' Retirement System (KTRS), a cost-sharing, multiple-employer, defined-benefit pension plan administered by the Board of Trustees of KTRS. The plan provides retirement, disability and death benefits to plan members. The Commonwealth of Kentucky assigns the authority to establish and amend benefit provisions to the KTRS Board of Trustees. KTRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or by calling 502 573-3266.

Funding for the plan is provided from eligible employees who contribute 6.16% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 13.84% 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, 2002, 2001 and 2000, were \$5,060,415, \$5,148,038 and \$5,199,230, 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

# **Western Kentucky University**

## **Notes to Financial Statements**

### **June 30, 2002**

KERS Board of Trustees. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 502 564-4646.

Plan members are required to contribute 5.00% of their annual covered salary, and the University is required to contribute at an actuarially determined rate. The current rate is 5.89% of annual covered payroll. University police officers participate in the Hazardous Duty Division of KERS. The officers are required to contribute 8.00% of their annual covered salary, and the University is required to contribute at an actuarially determined rate. The current rate is 18.84% 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, 2002, 2001 and 2000, were \$999,283, \$941,859 and \$1,197,197, respectively, which equals 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 for 2002 expressed as a percentage of covered payroll were 6.16% and 13.84%, respectively. Of the University's 13.84% contribution, 3.78% 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, 2002, 2001 and 2000, were \$1,771,295, \$1,381,063 and \$1,063,537, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2002, 2001 and 2000, were \$1,084,608, \$790,645 and \$611,608, respectively.

#### **Note 12: 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.

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

**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 or unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

**Note 13: 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.

The University has 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 pays an annual premium to the pool for its workers' compensation insurance coverage. The pool's governing agreement specifies 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.

Under its self-insurance 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 health care claims liabilities are summarized as follows:

Balance, beginning of year	\$ 791,089
Claims and changes in estimates	7,199,784
Claims payments	(6,475,371)
Administration costs	<u>(599,624)</u>
Balance, end of year	<u>\$ 915,878</u>

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

**Note 14: Change in Accounting Principle**

In 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

The changes in financial statement presentation provide a comprehensive look at the total governmental entity, require recording of depreciation on capital assets and include a narrative of management's discussion and analysis (MD&A) of the government's financial activities. Prior to the adoption of GASB Nos. 34 and 35, the University did not maintain a complete set of detailed historical cost records on its capital assets nor did it record depreciation on its capital assets. To comply with the requirements of these statements, the University has prepared detail cost records on all of its capital assets and the related accumulated depreciation on those capital assets as of July 1, 2001. The cumulative effect of adoption at July 1, 2001, is as follows:

	<b>Increase (Decrease) to Net Assets</b>
Adjustment to reduce capital assets carrying amounts to agree to detailed cost records and adjustment to record accumulated depreciation on capital assets	\$ (120,084,715)
Adjustment to deferred revenue for unexpended state capital appropriations	(21,723,070)
Adjustment to reduce capital leases for existing leases in which the assets do not meet the University's capitalization policy	481,680
Adjustment to record grant reimbursement of plant expenditures	(575,182)
Adjustment to deferred revenue for summer tuition	1,634,781
Adjustment to grants and contracts restricted fund balances required by GASB 35 to be reported as deferred revenues	(2,196,061)
Decrease to net assets at July 1, 2001	<u>\$ (142,462,567)</u>

In addition to the changes described above, there was a significant change in the overall form and content of the University's financial statements.

**Note 15: Adjustment Applicable to Prior Years**

The University has changed reporting for funds received from the Regional University Excellence Trust Fund (RUETF). During 2002, the Commonwealth of Kentucky determined that funds provided from the state for this fund, as further described in Note 16, still are state funds and should be reported as assets held in trust on the University's financial statements. The amount of the prior year's net assets adjustment at July 1, 2001, was \$7,228,399.

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The University has determined there are prior sinking fund amounts related to University's maintained auxiliary service buildings being held in trust for the University by the WKU Student Life Foundation, Inc. Though the University has been aware of these amounts held in trust, the amounts have not been reflected in prior financial statement information of the University. The prior year's net assets adjustment at July 1, 2001, was \$341,279 and was reported as assets held in trust on the University's financial statements.

Adjustments applicable to prior years are summarized as follows:

	<b>Increase to Net Assets</b>
Regional University Excellence Trust Fund (RUETF)	\$ 7,228,399
Amounts held in trust by the WKU Student Life Foundation, Inc.	<div style="border-top: 1px solid black; border-bottom: 1px solid black; display: inline-block; width: 100px; text-align: right;">341,279</div>
Increase to net assets at July 1, 2001	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100px; text-align: right;">\$ 7,569,678</div>

**Note 16: Regional University Excellence Trust Fund**

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 matched dollar-for-dollar from external sources. The Commonwealth's Council on Postsecondary Education (CPE) was designated to oversee the distribution and use of these funds.

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

The University transfers these state match funds to the Western Kentucky University Foundation, Inc. for investment purposes. The Western Kentucky University Foundation, Inc. is a non-affiliated foundation under the governing laws of the Commonwealth of Kentucky. The Western Kentucky University Foundation, Inc. is 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 by the Western Kentucky University Foundation, Inc.



**Western Kentucky University**  
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Following is a summary of the funding for the RUETF as of June 30, 2002:

	<b>CPE Funding Received</b>	<b>External Matched Pledges</b>	
		<b>University Received</b>	<b>University Pledge</b>
Balance, July 1, 2001	\$ 6,988,000	\$ 2,703,963	\$ 4,284,037
Current year additions (deletions)	<u>25,209</u>	<u>1,278,062</u>	<u>(1,252,853)</u>
Balance, June 30, 2002	<u>\$ 7,013,209</u>	<u>\$ 3,982,025</u>	<u>\$ 3,031,184</u>

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

**Note 17: Natural and Functional Classifications of Operating Expenses**

The University's operating expenses by functional classification were as follows:

<b>Functional Classification</b>	<b>Natural Classification</b>						<b>Total</b>
	<b>Compensation and Benefits</b>	<b>Supplies, Contractual Services and Other</b>	<b>Utilities</b>	<b>Non Capitalized Property</b>	<b>Scholarships</b>	<b>Depreciation</b>	
Instruction	\$ 52,600,285	\$ 4,267,903	\$ 137,735	\$ 1,565,218	\$ 324,402	\$ —	\$58,895,543
Research	3,418,806	2,124,609	21,040	856,784	40,133	—	6,461,372
Public service	7,333,266	6,077,152	116,833	160,923	38,520	—	13,726,694
Libraries	3,172,635	219,217	2,046	18,254	—	—	3,412,152
Academic support	4,811,925	1,518,955	16,332	192,524	8,916	—	6,548,652
Student services	7,718,050	4,357,257	43,746	152,480	1,473,046	—	13,744,579
Institutional support	11,704,731	3,393,886	36,584	196,166	1,522	—	15,332,889
Operation and maintenance of plant	6,872,260	3,943,302	3,723,400	381,300	—	—	14,920,262
Student financial aid	68,110	980,554	—	2,650	11,732,334	—	12,783,648
Depreciation	—	—	—	—	—	6,851,792	6,851,792
Auxiliary enterprises	<u>4,505,362</u>	<u>5,719,212</u>	<u>1,817,954</u>	<u>59,924</u>	<u>—</u>	<u>—</u>	<u>12,102,452</u>
Total operating expenses	<u>\$102,205,430</u>	<u>\$32,602,047</u>	<u>\$ 5,915,670</u>	<u>\$ 3,586,223</u>	<u>\$ 13,618,873</u>	<u>\$ 6,851,792</u>	<u>\$164,780,035</u>

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

**Note 18: Future Change in Accounting Principle**

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14. This new statement provides additional guidance to determine whether certain organizations should be included as component units in the University's financial statements based on the nature and significance of their relationship with the University. The statement generally requires reporting, as component units, organizations that raise and hold economic resources for the direct benefit of the University. The University expects to first apply the new statement during the year ending June 30, 2004. The impact of applying the new statement has not yet been determined.

## **Supplementary Information**

# Western Kentucky University

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2002

<u>Cluster/Program</u>	<u>Federal Agency/ Pass-through Entity</u>	<u>CFDA Number</u>	<u>Grant or Identifying Number</u>	<u>Amount Expended</u>
<b><u>Student Financial Assistance</u></b>				
Federal Family Education Loan Program	U.S. Department of Education	84.032		\$25,554,869
National Direct Student Loan	U.S. Department of Education	84.038		58,055
SEOG Grants 2001-2002	U.S. Department of Education	84.007	P007A001615	409,481
On Campus Work Study-Federal	U.S. Department of Education	84.033	P033A1615	574,536
America Reads WS	U.S. Department of Education	84.033	P033A21615	59,795
Off Campus Work Study-Federal	U.S. Department of Education	84.033	P033A1615	105,451
PELL Grants 2000-2001	U.S. Department of Education	84.063	P063P000657	18,770
PELL Grants 2001-2002	U.S. Department of Education	84.063	P063P000657	11,486,899
Total Student Financial Assistance				38,267,856
<b><u>Research and Development</u></b>				
Poultry Waste Management (Proj 1)	U.S. Department of Agriculture	10.001	5864061017	83,397
Poultry Waste Management (Proj 2)	U.S. Department of Agriculture	10.001	5864061017	72,477
Poultry Waste Management (Proj 3)	U.S. Department of Agriculture	10.001	5864061017	53,698
Transform Corn Dimboa- Resistant	U.S. Department of Agriculture	10.206	96353113915	7,784
PLOW- People Learning Other's Ways	U.S. Department of Agriculture	10.224	97362015260	31,517
Non Point Source Pollution	U.S. Department of Agriculture /Kentucky Division of Conservation	10.901	MOA019122	865
Warm Season Grass in Livestock Mark	U.S. Department of Agriculture /Warren County Conservation District	10.913	MOA101299	4,864
Thermal Stability Silicate	U.S. Department of Defense	12.630	F49620-00-1-	106,589
X- Ray Diffractometer	U.S. Department of Defense	12.630	F49620011033	119,000
Transportable Detectron Probe	U.S. Department of Defense	12.910	DAA0798C0118	305,067
Pelan Neutron-Based UXO Id Probe	U.S. Department of Defense	12.910	DACA7201C001	98,790
UXO Tool (PFTNA)	U.S. Department of Defense /Science International Corp	12.301	N0017400C007	244,387
PELAN IEP 2000 Phase 3	U.S. Department of Defense /Batelle Memorial Institute	12.901	1598984	259,555
Fish Population	National Park Service	15.608	H553001007	16,883
Sinking Springs	National Park Service	15.921	1443CA553099	4,875
KY Space Grant Consortium Yr 6	National Aeronautics & Space Administration	43.001	NGT5-40051	10,994
KY Space Grant Consortium Yr 7	National Aeronautics & Space Administration	43.001	NGT5-40051	7,710
KY Space Grant Consortium Yr 8	National Aeronautics & Space Administration	43.001	NGT5-40051	12,466
KY Space Grant Consortium Yr 9	National Aeronautics & Space Administration	43.001	NGT5-40051	85,467
KY Space Grant Consortium Yr 10	National Aeronautics & Space Administration	43.001	NGT5-40105	58,838
Astr/Space SC Workshop Sub516104	National Aeronautics & Space Administration	43.001	NGT5-40051	5,851
Energetics of Flares-Sub 516105	National Aeronautics & Space Administration	43.001	SUB TO 516105 NGT5-40105	3,000
Photometric Monitoring-Sub 516105	National Aeronautics & Space Administration	43.001	SUB TO 516105 NGT5-40105	7,453
Starbase Network	National Aeronautics & Space Administration	43.001	NAG5-08762	355,548
NASA EPSCoR	National Aeronautics & Space Administration	43.001	NCC5-222	264,722
NASA EPSCoR Preparation Program	National Aeronautics & Space Administration	43.001	NCC5-396	100,044
Radio Galaxies	National Aeronautics & Space Administration	43.001	NCC5-396 SUB TO 516122	3,632
Chemical Senors/Life Support Systems	National Aeronautics & Space Administration	43.001	NCC5-222	8,593
Mesospheric Dynamics	National Aeronautics & Space Administration	43.001	NGT5-40051	403
Detection of Extrasolar Planets	National Aeronautics & Space Administration	43.001	NGT5-40105	9,090
Particle Bombardment	National Aeronautics & Space Administration	43.001	NGT5-40105	3,000
Effects of Radiation Damage	National Aeronautics & Space Administration	43.001	NGT5-40105	3,000
Trans Properties/High Tc Materials	National Aeronautics & Space Administration	43.001	NGT5-40105	3,000
High Tc Super Conductors	National Aeronautics & Space Administration	43.001	NGT5-40105	7,972
MaCWAVE Sounding Rocket	National Aeronautics & Space Administration	43.001	NGT5-40105	8,656
Modeling the Stratosphere&Mesosphere	National Aeronautics & Space Administration	43.001	NGT5-40105	3,000
Classroom Galaxies	National Aeronautics & Space Administration	43.001	NGT5-40105	3,000
Velocity Structure/Radio Galaxies	National Aeronautics & Space Administration	43.001	NGT5-40105	3,000
A Web-Based Solar Physics Workshop	National Aeronautics & Space Administration	43.001	NGT5-40105	6,703
KY NASA/EPSCoR Program Yr 8	National Aeronautics & Space Administration	43.001	NCC5-571	140,201
Monitor & Assess Human Health	National Aeronautics & Space Administration	43.001	NCC5-571 SUB 516140	2,265
Cass 2001	National Aeronautics & Space Administration/ Tennessee State University	43.001	CONTRACO.WKS	53,771

# Western Kentucky University

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2002

MRI/RUI: Manufacturing Systems	National Science Foundation	47.041	DM1-0116515	\$163,017
Catalysis of Diverted Orth- Metal	National Science Foundation	47.049	CHE-0101435	146,288
Surfactant Immobilized Sorbent Material	National Science Foundation	47.049	CHE-0132181	9,115
Acquisition of Workstation Computer	National Science Foundation	47.070	ECS-9724186	13,788
International Planning South Africa	National Science Foundation	47.075	NSF0125413	1,970
Lifespan Psychology	National Science Foundation	47.075	SES-0097491	41,628
Zebrafish Regeneration/ Visual	National Science Foundation /University of Kentucky Research Foundation	47.049	462905002	2,852
Case Study- Crown Ethers	National Science Foundation /University of Kentucky Research Foundation	47.049	UKRF	9,685
Organic Carbon Trans.	National Science Foundation /University of Kentucky Research Foundation	47.049	UKRF	9,044
Dev PCR-ID KY Whitetail Deer	National Science Foundation /University of Kentucky Research Foundation	47.049	4-62905-2	409
NSF SBIR Coal Analysis	National Science Foundation /University of Kentucky Research Foundation	47.050	PRIV-SUB	48,848
PELAN System Training	Tennessee Valley Authority	62.001	TVA 4778	8,782
Biological Monitoring Program	U.S. Environmental Protection Agency /Kentucky Division of Water	66.460	M-01133685	40,782
Bacteriological & Biological Assessment	U.S. Environmental Protection Agency /Kentucky Division of Water	66.460	M-01133436	44,700
KRWA	U.S. Environmental Protection Agency	66.606	X826659-01-3	134,560
Task 3 Yr 3	U.S. Environmental Protection Agency	66.606	X826659-01-3	93,993
Task 4 Yr 3	U.S. Environmental Protection Agency	66.606	X826659-01-3	73,521
Small Rural Water Admin 3	U.S. Environmental Protection Agency	66.606	X826659-01-3	81,277
Waste Management	U.S. Environmental Protection Agency	66.606	X-97418901-0	13,957
Waste Management	U.S. Environmental Protection Agency	66.606	X-97418901-0	95,413
Waste Management	U.S. Environmental Protection Agency	66.606	X-97418901-0	11,117
Waste Management	U.S. Environmental Protection Agency	66.606	X-97418901-0	8,757
Multi-Parameter On-line Coal Bulk	U.S. Department of Energy /University of Kentucky Research Foundation	81.049	4257459563	8,513
Mental Health- Farmers	U.S. Department of Health & Human Services / University of Kentucky Research Foundation	93.262	4642680101141	2,257
EMS Bumout	U.S. Department of Health & Human Services /University of Cincinnati	93.263	UNIV OF CINCINNATI LETTER	4,345
WKU KBRIN	U.S. Dept of Health & Human Services /University of Louisville	93.389	LTR121901	32,310
Learning & Judgement in Older Adult	National Institute of Aging	93.866	1 R01 AG19155-01	144,398
Visual Processing Older Adults	National Institute of Aging /University of Alabama at Birmingham	93.866	5R37 AG05739-17	14,044
Visual Processing in Older Adults 2002	National Institute of Aging /University of Alabama at Birmingham	93.866	5R37AG057391	74,000
Enhancing Mobility in Elderly FY02	National Institute of Aging /University of Alabama at Birmingham	93.866	5P50AG11684-10	79,600
Total Research & Development				3,994,097
<b><u>Head Start</u></b>				
Quality Center IVA Head Start 00-01	U.S. Department of Health & Human Services	93.600	90YQ0001/04	274,560
Quality Impro Center IVA- Early HS A01	U.S. Department of Health & Human Services	93.600	90YQ0001/04	102,330
Head Start General 17	U.S. Department of Health & Human Services	93.600	04CH0201/17	367,997
Head Start T/TA 17	U.S. Department of Health & Human Services	93.600	04CH0201/17	1,761
Quality Improvement Center IVB				
Head Start	U.S. Department of Health & Human Services	93.600	90YQ0016/04	259,125
Quality Improvement Early				
Head Start B01	U.S. Department of Health & Human Services	93.600	90YQ0016/04	145,958
Quality Center IV-A Head Start 2002	U.S. Department of Health & Human Services	93.600	90YQ0001/05	1,301,340
Early Quality IV-A 2002	U.S. Department of Health & Human Services	93.600	90YQ001/05	439,249
Quality Center IV B 2002	U.S. Department of Health & Human Services	93.600	90YQ0016/05	1,351,234
Early Quality IV B 2002	U.S. Department of Health & Human Services	93.600	90YQ0016/05	591,922
Headstart General 18-2002	U.S. Department of Health & Human Services	93.600	04CH0201/18	926,394
Headstart T/TA 18-2002	U.S. Department of Health & Human Services	93.600	04CH0201/18	76,847

# Western Kentucky University

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2002

Early Head Start Delegate 2001	U.S. Department of Health & Human Services /Murray Head Start	93.600	04YC0661/001	\$36,445
Early Headstart Delegate 2002	U.S. Department of Health & Human Services /Murray Head Start	93.600	09YC 0661 001	147,307
Early Headstart Delegate 2002	U.S. Department of Health & Human Services /Murray Head Start	93.600	09YC 0661 001	1,263
Family Literacy Project 2000-2001	U.S. Department of Health & Human Services /National Center for Family Literacy	93.600	90YL0001/02	67,039
Family Literacy Project	U.S. Department of Health & Human Services /National Center for Family Literacy	93.600	90YL0001/03	23,702
MSSA 2000-2001	U.S. Department of Health & Human Services /Medical Administration AHEC	93.600	5U76PE0323/	25,001
Total Head Start				6,139,474
<b>Total Major Programs</b>				<b>48,401,427</b>
 <b><u>Other Federal Awards</u></b>				
Rural Mobile Health Unit	U.S. Department of Health & Human Services /Medical Administration AHEC	93.912	PL104-299	343,817
KEMSA Rural Health	U.S. Department of Health & Human Services /Medical Administration AHEC	93.912	PL104-299	120,444
RHP: Empowering the Elderly	U.S. Department of Health & Human Services /Medical Administration AHEC	93.912	ID1ARH00068-01	12,341
				476,602
Fed Trio Training- General 2001	U.S. Department of Education	84.103	P103A000029	227,678
Fed Trio Training- Report 2001	U.S. Department of Education	84.103	P103A000060	196,605
Fed Trio Training- Regulatory 2001	U.S. Department of Education	84.103	P103A000035	306,377
				730,660
Improving Teacher Quality- USDE Sem	U.S. Department of Education	84.336	P336B9900140	7,825
Improving Teacher Quality	U.S. Department of Education	84.336	P336B9900140	147,150
Improving Teacher Quality Yr 3	U.S. Department of Education	84.336	P336B990014-01	481,150
Improving Teacher Quality Yr 2	U.S. Department of Education	84.336	P336B9900140	701,781
				1,337,906
University Center Program 2002	U.S. Department of Commerce	11.303	04-66-04928	87,772
Disaster Mitigation	U.S. Department of Commerce	11.307	04-69-04980	73,483
				161,255
USAR - Training 100th Division	U.S. Department of Defense	12.113	DAKF29-01-M-0555&0477	58,231
USAR - Training 108th Division	U.S. Department of Defense	12.113	DAKF29-01-M-0497 & 0494	59,322
100th Division Training 02	U.S. Department of Defense	12.113	DAKF29-02-M-0379&0404	130,011
108th Division Training 02	U.S. Department of Defense	12.113	DAKF29-02-M-0356&0374	146,160
				393,724
Digital Library - Collection Websit	National Park Service	15.921	CA5530110003	15,879
Develop National Park Species Database	National Park Service	15.921	CA553000002	9,672
Impact/Lock & Dam #6	National Park Service	15.921	H5530010104	7,323
Backlog Cataloging 10,000 Items	National Park Service	15.921	1443 CA5530 00 001	11,586
Preserve Maps, Drawings & Photos	National Park Service	15.921	1443 CA5530 00 001	9,538
Assess Off-Site Museum Collections	National Park Service	15.921	1443 CA5530 00 001	2,238
Ecological Monitoring Collection	National Park Service	15.921	H5530010144	4,210
Student Research at Mammoth Cave	National Park Service	15.921	H5530020034	3,313
Rehousing Catalog Specimens	National Park Service	15.921	CA55049007	35,021
				98,780
Woodrat Monitoring Sites	U.S. Department of Interior/Kentucky Dept. of Fish & Wildlife	15.615	MOA 5-10-01	2,000

# Western Kentucky University

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2002

International Journalism Training	Department of State/Internews Network, Inc.	19.300	LTR 6/15/01	<u>\$335,509</u>
Software Selection/Data Compliation	Federal Aviation Administration /Barren River District Health Department	20.600	0130326015	1,466
KY Earth Science	Federal Aviation Administration /Barren River District Health Department	43.001	NAG5-8517	9,064
Extending Nova Network-KY-IDEAS	Federal Aviation Administration /Barren River District Health Department	43.001	NAG5-9388	996
				<u>11,526</u>
Folklore Archives	National Endowment for Humanities	45.149	PA-24016-01	<u>2,197</u>
We * Can	National Science Foundation	47.041	HRD-0086370	<u>67,267</u>
Small Business 2001	Small Business Administration /University of Kentucky Research Foundation	59.037	UKRF	19,334
Small Business Center FY 02	Small Business Administration /University of Kentucky Research Foundation	59.037	UKRF 465241-02-113	36,223
				<u>55,557</u>
Vocational Evaluation	Department of Vetrans Affairs	64.117	V3027	<u>34,950</u>
River Institute: Building Ed Part	Environmental Protection Agency /Kentucky Division of Water	66.460	M-02025681	<u>21,486</u>
Utility Mgmt Institute-Phase III	Environmental Protection Agency /Kentucky Rural Water Association	66.606	X826659	8,120
Utility Mgmt Institute-Phase IV	Environmental Protection Agency /Kentucky Rural Water Association	66.606	X-97418901-SUB KRWA	18,085
				<u>26,205</u>
Energy Workshop/High School Chemistry	U.S. Department of Energy /University of Kentucky Research Foundation	81.049	42574595-64	<u>2,740</u>
Global Workforce Yr 1 & 2	U.S. Department of Education	84.016	P016A000012-01	6,637
Global Workforce Yr 1 & 2	U.S. Department of Education	84.016	P016A000012-01	55,329
Project GATE	U.S. Department of Education	84.016	P016A010025	<u>73,792</u>
				<u>135,758</u>
Missing Link: Parents as Partners	U.S. Department of Education /University of North Carolina at Chapel Hill	84.027	UNC/USDE	<u>230</u>
First Steps Resource & Assist 2001	U.S. Department of Education /Kentucky Cabinet for Health Services	84.027	M-00160738	631
First Steps 2002	U.S. Department of Education /Kentucky Cabinet for Health Services	84.027	M-01133704	42,632
First Steps Monitoring System	U.S. Department of Education /Kentucky Cabinet for Health Services	84.027	M-1274411	103,430
				<u>146,693</u>
Special Education Tuition Program	U.S. Department of Education /Northern Kentucky University	84.027	NK4-23095	<u>46,568</u>

# Western Kentucky University

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2002

Student Support Services 98-02	U.S. Department of Education	84.042	P042A980514	\$217,709
Talent Search 98-02	U.S. Department of Education	84.044	9044A980350-	315,738
Veterans Upward Bound 00-03	U.S. Department of Education	84.047	IP047A990681	251,453
Upward Bound	U.S. Department of Education	84.047	P047A990886	315,287
				1,100,187
Perkins- Enrichment Act Business Teacher Education	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PL105-332	302
Perkins- Community College 2001	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PL105-332	564
Dental Hygiene Perkins FY01	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	TITLE I-C	920
Perkins-Marketing Program 2002	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PERKINS 2002	1,398
Tech Prep Activities	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PERKINS 2002	3,748
Perkins-Improve Technical Ed 2002	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048		12,000
Field-based Teacher Ed-Industrial	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PERKINS 2002	15,919
Agriculture - Perkins 2002	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PL#101392	24,820
Dental Hygiene - Perkins FY02	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PL105-332 - TITLE I-C	34,770
Community College-Perkins 2002	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PL 101-392	157,653
				252,094
OGBE Promoting E Commerce	U.S. Department of Education	84.116	P116Z010057	69,379
C C Middle School Resource Lab	U.S. Department of Education	84.116	P116B01184	83,492
				152,871
2001-2002 Faculty Assistance Grant	U.S. Department of Education /Ky Department of Education	84.173	M-01303795	7,068
IECE 2001 Proficiency Evaluation Faculty	U.S. Department of Education /Ky Department of Education	84.173	M-00140274	7,392
				14,460
Reduce Drinking	U.S. Dept of Education /Morehead State University	84.184	MSU LETTER	2,721
Focus- Workbased Learning 00-01	U.S. Department of Education /Oak Ridge Institute for Science & Education	84.278	LTR 09-20-00	30,804
The River 06/30/03	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER 17	2,194
Teach & Learn Astronomy /Space	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER 17	7,522
Science Project	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER 16	8,766
GREAT Science	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER 17	13,915



# Western Kentucky University

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2002

Teaching and Learning Science Core	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER 16	\$16,489
Science Project 2001	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER	26,021
The River: Improving Math & Science 2001	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER 16	41,173
				116,080
NWP Writing Project	U.S. Department of Education /National Writing Project Corporation	84.298	92KY-06	17,906
Quality- New Teachers	U.S. Department of Education	84.303	R303K010047	203,252
KY Gear Up Project Yr2	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.334	MOA120501	63,893
KY Gear Up Project	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.334	LTR 3-31-01	103,985
				167,878
CCAMPIS	U.S. Department of Education	84.335	P335A010005	24,946
Industrial Hygiene Curriculum WKU 02	U.S. Department of Health and Human Services	93.263	TO2/CCH10643-08	21,795
Nurse Traineeship	U.S. Department of Health and Human Services	93.358	2A10HP00189-02	35,690
Rural Mobile Health Unit	U.S. Department of Health and Human Services	93.359	1D11HP00069	3,463
				60,948
Model State Supported AHEC 2002	U.S. Department of Health & Human Services /University of Louisville	93.107	ULRF/DHHS 93.107	6,927
Training for KICS 2002	U.S. Department of Health & Human Services /University of Louisville	93.192	6D36HP10060-06-01	9,860
HETC 2001	U.S. Department of Health & Human Services /University of Louisville	93.600	ULRF/DHHS 93.600	44,318
HETC 2002	U.S. Department of Health & Human Services /University of Louisville	93.189	ULRF/DHHS 93.189	58,088
				119,193
Rehabilitation Sciences	U.S. Department of Health & Human Services /University of Kentucky Research Foundation	93.191	UKRF 464331-02-146	1,998
KEMSA Paramedic Course-Marshall	U.S. Dept of Health & Human Services /Kentucky Emergency Medical Services Board	93.241	M-01262771	4,005
Agriculture Research	U.S. Department of Health & Human Services /University of Kentucky Research Foundation	93.262	46132398-61	3,578
				7,583
Child Care Resource & Ref 2002	U.S. Department of Health & Human Services /Audubon Area Community Services	93.575	DOCUMENT #11	305,155
Child Care Resource & Ref 2001	U.S. Department of Health & Human Services /Audubon Area Community Services	93.575	DOCUMENT #10	19
				305,174

**Western Kentucky University**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2002**

Public Child Welfare Certification 2001	U.S. Departmentt of Health & Human Services /Eastern Kentucky University	93.658	EKU01-035	\$39
PCWCP 2002	U.S. Departmentt of Health & Human Services /Eastern Kentucky University	93.658	EKU 02-115	57,861
Juvenile Justice Training Center 2002	U.S. Departmentt of Health & Human Services /Eastern Kentucky University	93.658	EKU 02-141	78,327
Training Resource Center 2002	U.S. Departmentt of Health & Human Services /Eastern Kentucky University	93.658	EKU 7301	163,214
				<hr/> <hr/> 299,441
Total Other Federal Awards				<hr/> 6,965,149
Total Federal Awards				<hr/> \$55,366,576

**Western Kentucky University**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2002**

**Notes to Schedule**

1. This schedule includes the federal awards activity of 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 basic financial statements.
2. Of the federal expenditures presented in this schedule, the University provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Subrecipient</u>	<u>Amount Provided</u>
43.001	University of Kentucky	\$ 34,440
43.001	Murray State University	8,816
43.001	Morehead State University	1,000
43.001	Transylvania University	1,000
43.001	Northern Kentucky University	1,500
43.001	University of Kentucky	23,599
43.001	University of Louisville	17,868
43.001	Murray State University	10,458
43.001	Morehead State University	9,486
43.001	Centre College	335
43.001	Northern Kentucky University	107
43.001	Morehead State University	2,777
43.001	University of Kentucky	636
43.001	University of Kentucky	68,404
43.001	University of Louisville	30,763
43.001	University of Kentucky	145,723
43.001	University of Louisville	80,157
43.001	Kentucky Science & Technology	8,756
43.001	University of Kentucky	57,976
43.001	Morehead State University	8,675

**Western Kentucky University**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2002**

11.307	Murray State University	68,598
66.606	Kentucky Rural Water Association	198,056
84.336	California State University	76,703
84.336	Southeast Missouri University	21,911
84.336	Eastern Michigan University	4,520
84.336	Emporia State University	4,024
84.336	Kentucky State University	12,619
84.336	Middle Tennessee State University	22,698
84.336	Southeast Missouri University	17,990
84.336	Longwood College	40,323
84.336	Millersville University	37,088
84.336	California State University	113,570
84.336	Eastern Michigan University	83,596
84.336	Emporia State University	34,756
84.336	University of Northern Iowa	204,277
84.336	Idaho State University	4,000
84.336	Kentucky State University	50,016
84.336	Middle Tennessee State University	39,311
84.336	Eastern Michigan University	114,301
84.336	University of Northern Iowa	120,026
84.336	Emporia State University	12,625
84.336	California State University	2,894
84.336	Southeast Missouri University	29,130
84.336	Longwood College	28,252
84.336	Millersville University	76,347
84.336	Idaho State University	8,455
84.334	Bowling Green Technical College	6,631
84.334	Owensboro Community College	2,761
84.334	Bowling Green Junior High School	22,669
84.334	Owensboro Middle School	19,262
84.334	Hardin County Schools/Radcliffe	10,052
84.334	West Point	3,606
84.334	Bowling Green Technical College	608
84.334	Bowling Green Junior High School	10,159
84.334	Owensboro Middle School	6,958
84.334	West Point	2,248
		\$2,023,516

**Independent Accountants' Report on Compliance and Internal Control Over  
Financial Reporting Based on the Audit of the Financial Statements in  
Accordance with *Government Auditing Standards***

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

We have audited the financial statements of Western Kentucky University as of and for the year ended June 30, 2002, and have issued our report thereon dated November 21, 2002, which contained an explanatory paragraph regarding a change in accounting principle. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Compliance***

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 02-1.

President Gary A. Ransdell  
and Board of Regents  
Western Kentucky University  
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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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

/s/ **BKD, LLP**

November 21, 2002

## **Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs**

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

### ***Compliance***

We have audited the compliance of Western Kentucky University with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the compliance of Western Kentucky University based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, Western Kentucky University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

President Gary A. Ransdell  
and Board of Regents  
Western Kentucky University  
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### ***Internal Control Over Compliance***

The management of Western Kentucky University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

/s/ **BKD, LLP**

November 21, 2002



**Western Kentucky University**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2002**

**Summary of Auditor's Results**

1. The opinion expressed in the independent accountants' report was:  
 Unqualified       Qualified       Adverse       Disclaimed
  
2. The independent accountants' report on internal control over financial reporting described:  
Reportable condition(s) noted considered material weakness(es)?       Yes       No  
Reportable condition(s) noted that are not considered to be material weakness(es)?       Yes       No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?       Yes       No
  
4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:  
Reportable condition(s) noted considered material weakness(es)?       Yes       No  
Reportable condition(s) noted that are not considered to be material weakness(es)?       Yes       No
  
5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:  
 Unqualified       Qualified       Adverse       Disclaimed
  
6. The audit disclosed findings required to be reported by OMB Circular A-133?       Yes       No

**Western Kentucky University**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2002**

7. The University's major programs were:

<b>Cluster/Program</b>	<b>CFDA Number</b>
Student Financial Assistance Cluster	Various
Research and Development Cluster	Various
Head Start	93.600

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$1,660,997.

9. The University qualified as a low-risk auditee as that term is defined in OMB Circular A-133?  Yes  No

**Western Kentucky University**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2002**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
02-1	Certain employees in the bursar/billings and receivables area have custody of or access to cash receipts and can also record or can adjust entries to record cash receipts. We recommend the University management consider the costs and benefits of segregating the custodial and access functions from the recording functions of these employees.	None

**Findings Required to be Reported by OMB Circular A-133**

No matters are reportable.

**Western Kentucky University**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2002**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
01-1	Certain employees have custody of or access to cash receipts and can also record or can adjust entries to record cash receipts. We recommend segregating the custodial and access functions from the recording functions of these employees.	Unresolved, see current year finding 02-1.