

Western Kentucky University

A Component Unit of the
Commonwealth of Kentucky

Accountants' Report and Financial Statements

June 30, 2004



Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
June 30, 2004

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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) and its aggregate discretely presented component units, collectively a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of College Heights Foundation, Inc., which represent 18.4% and 40.4% and 25.0%, respectively, of the assets, net assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for College Heights Foundation, Inc., is based on the report of the other auditors.

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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the University changed its method of determining its financial reporting entity by retroactively restating prior years' financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004, 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.

President Gary A. Ransdell and
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Western Kentucky University
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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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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*, as listed in the table of contents, 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**

October 15, 2004

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Management's Discussion and Analysis
June 30, 2004

Overview

Management's Discussion and Analysis (MD&A) of Western Kentucky University's (University) financial statements is intended to provide an overview of the financial position, changes in financial position and cash flows of the University as of and for the fiscal years ended June 30, 2004 and 2003. 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 the University as of June 30, 2004, 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 its 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 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 (GASB) 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.

Reporting Entity

The University is a component unit of the Commonwealth of Kentucky. The financial statements of the University include the University and its blended component unit, the Western Kentucky University Research Foundation (WKURF). Blended component units are units that are an extension of a primary government and should not be presented separately. The primary factors in treating WKURF as a blended component unit are that it provides services entirely to the University and it would be misleading to exclude WKURF because of its relationship to the University.

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

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Organizations are Component Units. These component units are the Western Kentucky University Foundation, Inc. (WKU Foundation), College Heights Foundation, Inc. (College Heights) and the WKU Student Life Foundation, Inc. (Student Life). Financial statements for these entities consist of Statement of Financial Position (balance sheets) and Statement of Activities (income statements). These statements are prepared in accordance with the appropriate Financial Accounting Standards Board (FASB) pronouncements. Fiscal year 2005 will include a prior year comparison for each discretely presented component unit.

Fiscal 2004 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 WKU Foundation and are not recognized in the financial statements except for capital asset purchases transferred to the University. Per state requirements, the "Bucks for Brains" state-funded endowment funds flow through the University, but are transferred to the WKU Foundation for investment and management purposes.

<u>Enrollment Base (Headcount)</u>	Fall 2003	Fall 2002
Applications	9,419	7,078
Admissions	8,497	6,132
First-time freshmen	3,175	2,710
Total undergraduate enrollment	15,798	14,135
Total graduate enrollment	2,593	2,444
Total enrollment	18,391	16,579

The following data, with a comparison between fiscal years 2003/2004 and 2001/2002, is provided to help assess the financial viability of the University:

<u>WKU Foundation</u>	2004	2002
Endowments	\$ 35.2 million	\$ 21.9 million
FY cash receipts	\$ 12.5 million	\$ 12.3 million
<u>State Appropriations</u>	2004	2002
General nonoperating revenue	\$ 65,697,000	\$ 63,873,700
Retirement of debt obligations	<u>2,946,700</u>	<u>2,263,900</u>
Total	<u>\$ 68,643,700</u>	<u>\$ 66,137,600</u>

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Statement of Net Assets

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

Restricted net assets are subject to externally imposed restrictions governing their use. The corpus of nonexpendable restricted resources is only available for investment purposes. Although unrestricted net assets are not subject to externally imposed stipulations, a significant portion of these assets have been internally designated to fund encumbrances brought forward from the prior fiscal year, working capital requirements, emergency reserves 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, 2004 and 2003, is as follows:

Condensed Statements of Net Assets (in thousands)

	<u>2004</u>	<u>2003</u>
Assets		
Current assets	\$ 41,357	\$ 43,633
Capital assets, net	160,699	139,753
Other noncurrent assets	<u>55,956</u>	<u>43,970</u>
Total assets	<u>\$ 258,012</u>	<u>\$ 227,356</u>
Liabilities		
Current liabilities	\$ 27,856	\$ 42,484
Noncurrent liabilities	<u>68,705</u>	<u>51,152</u>
Total liabilities	<u>\$ 96,561</u>	<u>\$ 93,636</u>

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	2004	2003
Net Assets		
Invested in capital assets, net of related debt	\$ 87,972	\$ 85,266
Restricted		
Nonexpendable	11,503	6,192
Expendable	35,258	22,930
Unrestricted	26,718	19,331
Total net assets	\$ 161,451	\$ 133,719

It is noted that liabilities included pledges payable to the City of Bowling Green (City) in the amount of \$31,620,543 as of June 30, 2004, for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$37,353,409 as of June 30, 2004, with final payments on the bonds scheduled for 2023.

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 non-exchange revenues provided by the General Assembly to the University without the General Assembly directly receiving commensurate value (goods and services) for those revenues. Other important nonoperating revenue sources include non-exchange grants and contracts and investment income.

Accordingly, the University reported net operating losses of \$(82,887,979) and \$(88,227,593) for fiscal years 2004 and 2003, respectively.

A summary of the University's revenues, expenses and changes in net assets for the years ended June 30, 2004 and 2003, is as follows:

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

	<u>2004</u>	<u>2003</u>
Operating Revenues		
Net tuition and fees	\$ 48,064	\$ 38,388
Grants and contracts	25,985	23,731
Sales and services of educational departments	12,028	8,069
Auxiliary enterprises	14,754	13,927
Other	<u>5,571</u>	<u>4,713</u>
Total Operating Revenue	<u>106,402</u>	<u>88,828</u>
Operating Expenses	<u>189,290</u>	<u>177,055</u>
Operating Loss	<u>(82,888)</u>	<u>(88,228)</u>
Nonoperating Revenues (Expenses)		
State appropriations	68,644	68,943
Grants and contracts	28,097	26,433
Investment income	561	1,157
Interest on capital asset-related debt	(2,211)	(1,262)
Other	<u>73</u>	<u>1,595</u>
Net nonoperating revenues	<u>95,164</u>	<u>96,866</u>
Income before Other Revenues, Expenses, Gains or Losses	<u>12,276</u>	<u>8,639</u>
State Capital Appropriations	10,697	12,261
Additions to Permanent Endowment (state endowment match)	<u>4,759</u>	<u>—</u>
	15,456	12,261
Increase in Net Assets	<u>27,732</u>	<u>20,900</u>
Net Assets, Beginning of Year	<u>133,719</u>	<u>112,819</u>
Net Assets, End of Year	<u>\$ 161,451</u>	<u>\$ 133,719</u>

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Operating Revenues

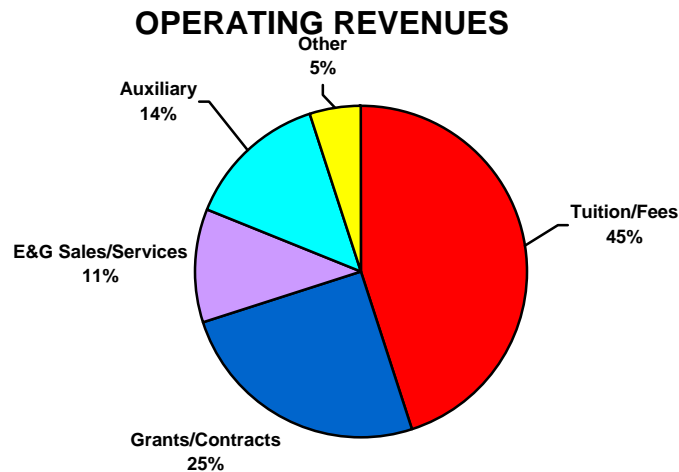
Operating revenues include all transactions that result in the sales of goods and services. For the University, the most significant operating revenue is student tuition and fees. Student tuition and fees revenue is a function of enrollment and rates approved by the University's board of regents. Other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

As previously noted, the University's total headcount enrollment increased by 3.2% between fall 2002 and 2003, and 10.9% over a two-year period. As of fall 2003, approximately 81% of students enrolled at the University were Kentucky residents. An additional 10% of the student population came from Tennessee with many coming to the University through a state reciprocity agreement, *i.e.*, enrolled at instate rates or the Tuition Incentive Program. The board approved a tuition and fee rate increase of approximately 17% for undergraduate resident students effective with fall 2003 and an additional increase approximately 7% with spring 2004. These rates are provided as a point of reference, given that 70% of the University's students are undergraduate Kentucky residents for fiscal year 2004. Thus, the combination of increased rates and enrollment growth resulted in gross tuition and fees, prior to the adjustment for discounts and allowances, growing to \$71.2 million from \$56.9 million.

Tuition and fees revenue is recorded in the financial statements net of scholarship allowances, gift scholarships and institutional aid. A scholarship allowance is the difference between the stated charges for goods and services provided by the institution and the amount that is billed to students and third parties making payments on behalf of students. Pell Grants, College Access Program and the 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. Net tuition and fees, as of June 30, 2004 and 2003, were 67.4 % and 67.5%, respectively, of the gross tuition and fees with approximately \$23.2 and \$18.5 million, respectively, being recorded as scholarship allowance.

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



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

Through the efforts of the Western Kentucky University Research Foundation and the University, grant and contract awards (excluding financial aid) continue to primarily demonstrate the strength of faculty in securing extramural funding. Such awards totaled \$11,531,856 for 1996-97 and increased to \$29,059,571 for 2003-04.

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 table provides a two-year comparison of total grants and contracts awarded (not received/recorded) during the 2004 and 2003 fiscal years.

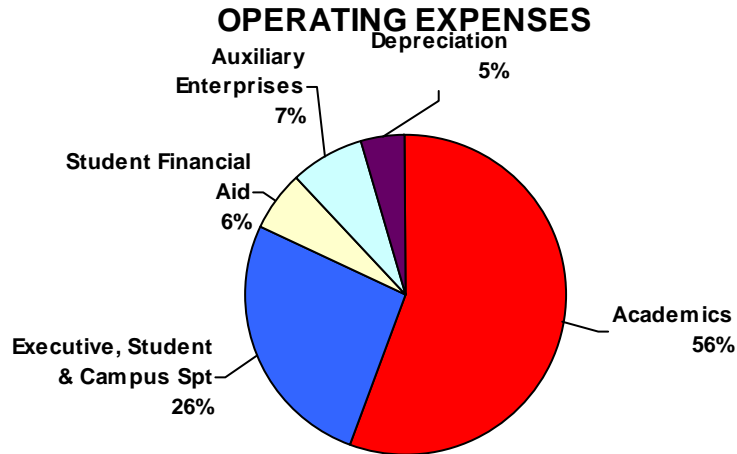
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Grants and Contracts Awards (Excluding Financial Aid)

	2004	2003
Federal	\$ 22,592,218	\$ 20,106,064
State	4,549,430	7,523,967
Other	1,917,923	2,155,154
Total	\$ 29,059,571	\$ 29,785,185

Operating Expenses

Operating expenses are all costs necessary to meet the University's mission, goals and objectives through a broad array of programs and activities. Expenses other than depreciation are reported by 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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Nonoperating Revenues (Expenses)

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

The University's investments consist primarily of collateralized mortgage obligations and its equity in Commonwealth of Kentucky pooled investment funds. Investment income for the years ended June 30, 2004 and 2003, is comprised of the following:

	2004	2003
Investment income	\$ 618,004	\$ 1,258,752
Net change for the year in the fair value of investments	(57,216)	(101,515)
	\$ 560,788	\$ 1,157,237

State appropriations, excluding debt retirement, were \$65,697,000 for 2003 and 2004 in comparison to \$63,873,700 for 2001 and 2002. The University's state appropriation, based on the enacted 2002-2004 Biennial Budget, was reduced by \$1,402,100 or 2.1% in comparison to the system wide average of 2.6% in recognition of the University's enrollment growth.

Change in Net Assets

For the years ended June 30, 2004 and 2003, the change in the University's net assets increased \$27,731,720 and \$20,900,455, respectively. The year-end net assets for June 30, 2004 and 2003, were \$161,450,874 and \$133,719,154, respectively.

Statement of Cash Flows

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

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- Cash flows from capital and related financing activities
- Cash flows from investing activities
- Reconciliation of the net cash flows from operating activities to the operating income or loss reflected on the statement of revenues, expenses and changes in net assets

The major sources of cash received for operating activities are tuition and fees of \$46,531,079, auxiliary enterprises of \$14,754,437 and grants and contracts of \$24,828,843. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$112,305,828 and to suppliers and contractors of \$57,558,917. A majority of the noncapital financing activities is state appropriations and grants and contracts. Principal and interest paid on capital debt and leases are recognized as capital and related financing activities. A state appropriation of \$2,946,700 was allocated for debt payments of the University. Investing activities recognize the cash flows from proceeds from sales and maturities of investments, purchases of investments and interest receipts.

The statements of cash flows is summarized as follows:

Condensed Statements of Cash Flows (in thousands)

	2004	2003
Cash Provided by (Used in)		
Operating activities	\$ (80,255)	\$ (75,059)
Noncapital financing activities	96,501	95,345
Capital and related financing activities	(13,296)	(47,516)
Investing activities	(1,496)	3,575
Net increase (decrease) in cash and cash equivalents	1,454	(23,655)
Cash and Cash Equivalents, Beginning of Year	58,904	82,559
Cash and Cash Equivalents, End of Year	\$ 60,358	\$ 58,904

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Capital Asset and Debt Administration

Capital Assets

As of June 30, 2004, the University had \$160.7 million invested in capital assets, net of accumulated depreciation of \$115.5 million. Capital assets at June 30, 2004 and 2003, are summarized below:

	<u>2004</u>	<u>2003</u>
Land	\$ 5,327,474	\$ 4,586,665
Buildings and improvements	181,429,689	115,447,950
Infrastructure	10,829,942	10,572,427
Furniture, fixtures and equipment	27,050,300	22,901,609
Library materials	30,301,507	28,618,117
Construction in progress	<u>21,292,739</u>	<u>65,139,906</u>
Total capital assets	276,231,651	247,266,674
Less accumulated depreciation	<u>(115,532,727)</u>	<u>(107,513,834)</u>
Capital assets	<u>\$ 160,698,924</u>	<u>\$ 139,752,840</u>

As of June 30, 2004, the major construction project in progress consisted of the Science Complex renovation.

Debt

As of June 30, 2004 and 2003, the University had \$73,220,399 and \$54,667,258, respectively, 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 Student Life. The debt obligations are summarized as follows:

	<u>2004</u>	<u>2003</u>
Pledges to the City	\$ 31,620,543	\$ 31,620,543
Consolidated Educational Buildings Revenue Bonds	37,353,409	18,300,000
Capital leases	2,410,942	2,762,736
Other long-term debt	<u>1,835,505</u>	<u>1,983,979</u>
Total	<u>\$ 73,220,399</u>	<u>\$ 54,667,258</u>

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Economic Factors Impacting Future Periods

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

- ◆ The University's board of regents, at its spring 2004 meeting, approved tuition rate for fiscal years 2005 through 2008. The tuition rates increases for fiscal years 2005 and 2006 include midyear increases to even out the rate increases over two semesters. The midyear increases are dedicated to academic quality initiatives and infrastructure improvements. The rates approved for fiscal years 2007 and 2008 reflect a commitment to return to more modest rate increases. This is in expectation that the state's economy will improve and the general assembly will be able to sustain reasonable increases in funding for the University.
- ◆ Under its self-insurance plan, the University provides a comprehensive health insurance program for its employees. The University benefits committee analyzes claims history, projected health care costs, the University's premium structure and the committee makes recommendations to the administration regarding any rate revisions for the following calendar year. The University's 2004 and 2005 operating budget includes a full-time employee contribution of \$390 per month. Based on the University benefit committee's work, the self-insurance program is in solid financial condition and minimal changes will be proposed for calendar year 2005.
- ◆ The general assembly has not enacted a budget for 2004 through 2006. Governor Ernie Fletcher implemented, by executive order, an emergency-spending plan for the first and second quarters of fiscal year 2005. The University's board of trustees approved the 2004 and 2005 operating budget with no increase in state appropriation. Such action is consistent with the Governor's proposed biennial budget and actions taken by both houses of the general assembly. Current economic data support that there will not be state appropriation reductions for fiscal year 2005. In the event that there are minimal reductions, unbudgeted tuition revenue and the emergency reserve will be the first sources to apply to a reduction.

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Statement of Net Assets
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Assets

Current Assets

Cash and cash equivalents	\$ 29,362,287
Accounts receivable, net	3,581,221
Interest receivable	107,416
Federal and state grants receivable	6,074,610
Inventories	1,383,272
Loans to students, net	745,591
Prepaid expenses	<u>102,208</u>

Total current assets 41,356,605

Noncurrent Assets

Restricted cash and cash equivalents	30,995,721
Long-term investments	4,909,437
Loans to students, net of allowance; \$549,962	4,989,723
Assets held in trust	14,291,354
Capital assets	276,231,651
Accumulated depreciation on capital assets	(115,532,727)
Deferred bond issuance costs, net of accumulated amortization of \$42,941	<u>770,280</u>

Total noncurrent assets 216,655,439

Total assets \$ 258,012,044

Liabilities

Current Liabilities

Accounts payable	\$ 4,168,355
Self insured health liability	784,345
Accrued payroll and withholdings	1,326,205
Accrued compensated absences	2,060,638
Accrued interest	352,389
Deferred revenue	13,911,926
Long-term obligations – current portion	4,515,656
Deposits held in custody for others	<u>736,913</u>

Total current liabilities 27,856,427

Long-term Obligations

68,704,743

Total liabilities \$ 96,561,170

Net Assets

Invested in capital assets, net of related debt	\$ 87,972,604
Restricted for	
Nonexpendable – endowments	11,502,775
Expendable	
Loans	6,084,152
Capital projects	24,104,882
Debt service	5,068,767
Unrestricted	<u>26,717,694</u>
Total net assets	<u>\$ 161,450,874</u>

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Western Kentucky University Foundation, Inc.
Statement of Financial Position
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Assets

Assets

Cash and cash equivalents	\$ 7,312,479
Investments	19,555,311
Accounts receivable	142,023
Contributions receivable, net of allowance of \$100,000	10,318,163
Beneficial interest in charitable remainder trusts	2,824,015
Prepaid expenses and other assets	2,682
Assets held for others	<u>11,600,935</u>
Total assets	<u>\$ 51,755,608</u>

Liabilities

Accounts payable	\$ 825,611
Notes payable	900,731
Annuities payable	2,282,767
Assets held for others	<u>11,600,935</u>
Total liabilities	<u>15,610,044</u>

Net Assets

Unrestricted	7,993,099
Temporarily restricted	8,573,244
Permanently restricted	<u>19,579,221</u>
Total net assets	<u>36,145,564</u>
Total liabilities and net assets	<u>\$ 51,755,608</u>

Western Kentucky University
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WKU Student Life Foundation, Inc.
Statement of Financial Position
June 30, 2004

Assets

Assets

Cash and cash equivalents	\$ 2,175,041
Accounts receivable	2,486,285
Accrued interest receivable	73,743
Prepaid expenses	843,933
Assets limited as to use	7,672,949
Property and equipment, net	66,982,618
Other assets	<u>663,160</u>
Total assets	<u>\$ 80,897,729</u>

Liabilities and Net Assets

Liabilities

Line of credit	\$ 3,562,178
Accounts payable	1,368,079
Accrued expenses	284,646
Student deposits	504,608
Interest rate collar and swap agreements, at fair value	8,866,356
Long-term debt, net of unamortized discounts of \$240,241 for 2004	<u>64,957,108</u>
Total liabilities	79,542,975

Net Assets – Unrestricted

	<u>1,354,754</u>
Total liabilities and net assets	<u>\$ 80,897,729</u>

Western Kentucky University
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College Heights Foundation, Inc.
Statement of Financial Position
June 30, 2004

Assets

Current Assets

Cash and cash equivalents	\$ 832,085
Note receivable	26,000
Interest and dividends receivable	129,054
Short-term investments	1,699,329
Contributions receivable	<u>403,655</u>

Total current assets 3,090,123

Investments and Long-term Receivables

Long-term investments	23,129,436
Assets held in trust	1,432,042
Assets held for others	1,589,630
Note receivable	156,295
Contributions receivable	<u>400,502</u>

Total investments and long-term receivables 26,707,905

Other Assets

94,697

Total assets \$ 29,892,725

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 69,481
Current portion of long-term debt	69,536
Current portion of refundable advances and gift annuity liabilities	<u>305,376</u>
Total current liabilities	<u>444,393</u>

Long-term Liabilities

Note payable	713,452
Refundable advances and gift annuity liabilities	1,677,738
Assets held for others	<u>1,589,630</u>
Total long-term liabilities	<u>3,980,820</u>
Total liabilities	<u>4,425,213</u>

Net Assets

Donor restricted	
Permanently	19,869,250
Temporarily	<u>6,503,471</u>
	26,372,721
Unrestricted	
Designated by board for perpetual scholarship fund	<u>(905,209)</u>
Total net assets	<u>25,467,512</u>
Total liabilities and net assets	<u>\$ 29,892,725</u>

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2004

Operating Revenues

Tuition and fees, net of discounts and allowances; \$23,161,100	\$ 48,063,798
Federal grants and contracts	14,270,411
State grants and contracts	11,667,524
Local and private grants and contracts	46,952
Sales and services of educational activities	12,028,014
Auxiliary enterprise revenues, net of discounts and allowances; \$593,874	14,754,437
Other operating revenues	<u>5,570,456</u>
Total operating revenues	<u>106,401,592</u>

Operating Expenses

Instruction	70,147,414
Research	7,250,081
Public service	16,065,892
Libraries	3,834,958
Academic support	7,939,136
Student services	16,949,980
Institutional support	17,301,712
Operations and maintenance of plant	15,801,223
Student financial aid	11,397,493
Depreciation	8,616,982
Auxiliary enterprises	<u>13,984,700</u>
Total operating expenses	<u>189,289,571</u>

Operating Loss

(82,887,979)

Nonoperating Revenues (Expenses)

State appropriations	68,643,700
Federal grants and contracts	19,289,141
State grants and contracts	5,214,431
Local and private grants and contracts	3,593,824
Investment income	560,788
Interest on capital asset-related debt	(2,210,639)
Gain on disposal of capital assets	122,332
Other nonoperating expenses	<u>(49,256)</u>
Net nonoperating revenues	<u>95,164,321</u>

Income Before Other Revenues, Expenses, Gains or Losses	\$ 12,276,342
State capital appropriations	10,696,378
Additions to permanent endowment	<u>4,759,000</u>
Increase in Net Assets	27,731,720
Net Assets, Beginning of Year	<u>133,719,154</u>
Net Assets, End of Year	\$ <u>161,450,874</u>

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Western Kentucky University Foundation, Inc.
Statement of Activities
Year Ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, Gains and Other Support				
Contributions	\$ 147,758	\$ 1,201,515	\$ 881,483	\$ 2,230,756
Investment return	2,482,422	220,981	—	2,703,403
Miscellaneous income	<u>—</u>	<u>95,672</u>	<u>—</u>	<u>95,672</u>
	2,630,180	1,518,168	881,483	5,029,831
Net assets released from restrictions	<u>2,033,868</u>	<u>(2,033,868)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>4,664,048</u>	<u>(515,700)</u>	<u>881,483</u>	<u>5,029,831</u>
Expenses				
Payments made on behalf of Western Kentucky University				
Programs				
Salaries, benefits and related expenses	270,052	—	—	270,052
Awards and scholarships	425,754	—	—	425,754
Travel and entertainment	177,810	—	—	177,810
Services and professional fees	138,209	—	—	138,209
Supplies and office expenses	53,682	—	—	53,682
Printing	48,230	—	—	48,230
Prizes, gifts and donations	54,718	—	—	54,718
Equipment rental and maintenance	8,352	—	—	8,352
Freight and delivery	10,825	—	—	10,825
Subscriptions, dues and registration	87,787	—	—	87,787
Capital purchases	1,097,614	—	—	1,097,614
Miscellaneous	<u>42,827</u>	<u>—</u>	<u>—</u>	<u>42,827</u>
	<u>2,415,860</u>	<u>—</u>	<u>—</u>	<u>2,415,860</u>
Management and general				
Salaries, benefits and related expenses	56,047	—	—	56,047
Services and professional fees	105,236	—	—	105,236
Interest	66,406	—	—	66,406
Real estate expenses	29,908	—	—	29,908
Miscellaneous	<u>26,495</u>	<u>—</u>	<u>—</u>	<u>26,495</u>
	<u>284,092</u>	<u>—</u>	<u>—</u>	<u>284,092</u>
Fundraising				
Travel and entertainment	17,007	—	—	17,007
Service and professional fees	11,700	—	—	11,700
Supplies and printing	2,940	—	—	2,940
Gifts and donations	21,667	—	—	21,667
Equipment rental	1,726	—	—	1,726
Capital purchases	14,936	—	—	14,936
Miscellaneous	<u>645</u>	<u>—</u>	<u>—</u>	<u>645</u>
	<u>70,621</u>	<u>—</u>	<u>—</u>	<u>70,621</u>
Total expenses	<u>2,770,573</u>	<u>—</u>	<u>—</u>	<u>2,770,573</u>
Change in Net Assets	1,893,475	(515,700)	881,483	2,259,258
Net Assets, Beginning of Period	<u>6,099,624</u>	<u>9,088,944</u>	<u>18,697,738</u>	<u>33,886,306</u>
Net Assets, End of Period	<u>\$ 7,993,099</u>	<u>\$ 8,573,244</u>	<u>\$ 19,579,221</u>	<u>\$ 36,145,564</u>

See Notes to Financial Statements

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
WKU Student Life Foundation, Inc.
Statement of Activities
Year Ended June 30, 2004

Operating Revenues	
Rent	\$ 10,097,273
In-kind contributions	236,963
Other	<u>977,596</u>
Total operating revenues	<u>11,311,832</u>
Operating Expenses	
Salaries, benefits and related expenses	3,171,342
Utilities	1,389,803
Repairs, maintenance and supplies	342,156
Management fee	129,635
Professional fees	48,442
Insurance	948,070
Depreciation and amortization	2,112,038
Other	<u>905,965</u>
Total operating expenses	<u>9,047,451</u>
Change in Net Assets from Operations	<u>2,264,381</u>
Non-operating Revenues (Expenses)	
Interest income	520,342
Interest expense and fees	(1,103,749)
Change in fair value of interest rate collar and swap agreements	<u>2,761,410</u>
	<u>2,178,003</u>
Change in Unrestricted Net Assets	4,442,384
Unrestricted Net Deficit, Beginning of Year	<u>(3,087,630)</u>
Unrestricted Net Assets, End of Year	<u>\$ 1,354,754</u>

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
College Heights Foundation, Inc.
Statement of Activities
Year Ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, Gains and Other Support				
Contributions	\$ —	\$ 482,444	\$ 1,795,583	\$ 2,278,027
Investment income	77,418	556,018	—	633,436
Net realized and unrealized gains on investments	265,901	2,110,911	—	2,376,812
Net change in value of split-interest agreements	—	318,411	—	318,411
Net assets released from restrictions				
Satisfaction of program restrictions	<u>1,799,413</u>	<u>(1,799,413)</u>	<u>—</u>	<u>0</u>
Total revenues, gains and other support	<u>2,142,732</u>	<u>1,668,371</u>	<u>1,795,583</u>	<u>5,606,686</u>
Expenses				
Program				
Scholarships and awards	1,113,411	—	—	1,113,411
Other	<u>858,249</u>	<u>—</u>	<u>—</u>	<u>858,249</u>
Management and general	<u>1,971,660</u>	<u>0</u>	<u>0</u>	<u>1,971,660</u>
Salaries and benefits	266,821	—	—	266,821
Interest expense	13,883	—	—	13,883
Other	<u>26,410</u>	<u>—</u>	<u>—</u>	<u>26,410</u>
Total expenses	<u>307,114</u>	<u>0</u>	<u>0</u>	<u>307,114</u>
Total expenses	<u>2,278,774</u>	<u>0</u>	<u>0</u>	<u>2,278,774</u>
Change in Net Assets	(136,042)	1,668,371	1,795,583	3,327,912
Net Assets, Beginning of Year	<u>(769,167)</u>	<u>4,835,100</u>	<u>18,073,667</u>	<u>22,139,600</u>
Net Assets, End of Year	<u>\$ (905,209)</u>	<u>\$ 6,503,471</u>	<u>\$ 19,869,250</u>	<u>\$ 25,467,512</u>

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statement of Cash Flows
Year Ended June 30, 2004

Operating Activities	
Tuition and fees	\$ 46,531,079
Grants and contracts	24,828,843
Payments to employees	(112,305,828)
Payments to suppliers	(57,558,917)
Loans issued to students	(1,060,432)
Collection of loans to students	840,488
Sales and services of educational departments	12,028,014
Other operating revenues	5,750,456
Auxiliary enterprise revenues	14,754,437
Auxiliary enterprise payments	
Payments to employees	(5,050,128)
Payments to suppliers	<u>(8,832,821)</u>
Net cash used in operating activities	<u>(80,254,809)</u>
Noncapital Financing Activities	
State appropriations	68,643,700
Grants and contracts for other than capital purposes	28,097,396
Other payments	<u>(239,608)</u>
Net cash provided by noncapital financing activities	<u>96,501,488</u>
Capital and Related Financing Activities	
Proceeds from bond issuance	22,153,061
Payment of bond issuance costs	(385,898)
Proceeds from sale of capital assets	163,654
Purchases of capital assets	(28,908,381)
Principal paid on capital debt and leases	(4,194,467)
Interest paid on capital debt and leases	<u>(2,124,067)</u>
Net cash used in capital and related financing activities	<u>(13,296,098)</u>
Investing Activities	
Proceeds from sales and maturities of investments	2,608,642
Purchase of investments	(4,926,614)
Investment income	<u>821,486</u>
Net cash used in investing activities	<u>(1,496,486)</u>
Increase in Cash and Cash Equivalents	1,454,095
Cash and Cash Equivalents, Beginning of Year	<u>58,903,913</u>
Cash and Cash Equivalents, End of Year	<u>\$ 60,358,008</u>

See Notes to Financial Statements

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

Cash and cash equivalents	\$ 29,362,287
Restricted cash and cash equivalents	<u>30,995,721</u>
Total cash and cash equivalents	<u>\$ 60,358,008</u>

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

Operating loss	(82,887,979)
Depreciation expense	8,616,982
Changes in operating assets and liabilities	
Accounts receivable, net	(1,452,383)
Federal and state grants receivable	509,301
Inventories	101,751
Loans to students, net	(219,944)
Prepaid expenses	22,458
Accounts payable	(1,409,454)
Health insurance liability	(660,891)
Accrued payroll and payroll withholdings	(744,114)
Accrued compensated absences	(297,847)
Deferred revenue	<u>(1,832,689)</u>

Net Cash Used in Operating Activities \$ (80,254,809)

Supplemental Cash Flows Information

Capital leases incurred for capital assets	\$ 489,199
Construction in process included in accounts payable	\$ 206,808
Increase in assets held in trust from state endowment match	\$ 4,759,000

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2004

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 served a student population of approximately 18,400 and 17,800 in 2004 and 2003, respectively. The University is operated under the jurisdiction of a board of regents and is a component unit of the Commonwealth of Kentucky. Major federally funded student financial aid programs in which the University participates include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study, Federal Family Education Loan, Federal Direct Loan and Federal Perkins Loan Programs. The University extends unsecured credit to students.

Reporting Entity

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

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

The Research Foundation is included in the University's financial statements as a blended 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 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.

During 2004, the University retroactively changed its method determining its financial reporting entity by adopting the provisions of Governmental Accounting Standards Board Statement No. 39 (GASB No. 39), *Determining Whether Certain Organizations are Component Units*. GASB No. 39 requires certain organizations be reported as component units of a primary government based on the nature and significance of that organization's relationship to the primary government. Application of this statement resulted in including Western Kentucky University Foundation, Inc., College Heights Foundation, Inc. and WKU Student Life Foundation, Inc. (the Foundations) as

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2004

discretely presented component units of the University. The Foundations are private nonprofit organizations that report under FASB standards, including FASB No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations' financial information in the University's financial report for these differences.

Basis of Accounting and Presentation

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

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

The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of GASB. Pursuant to GASB Statement No. 20, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The University has elected not to apply FASB pronouncements issued after the applicable date.

Use of Estimates

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

Cash and Cash Equivalents

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

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2004

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

Restricted Cash and Cash Equivalents

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

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.

Accounts Receivable

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

Inventories

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

Loans to Students

The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was \$549,962 at June 30, 2004.

Assets Held in Trust

Assets held in trust are stated at fair value.

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2004

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 of a year's depreciation taken during the year of purchase or donation. Library materials are capitalized in total for the year with one-half of a year's depreciation taken during the 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 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.

Assets under capital leases are amortized over the estimated useful lives of the related assets, or the lease term, whichever is shorter.

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

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

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowings. Total interest capitalized was:

Total interest expense incurred on borrowings for project	\$ 436,125
Interest income from investment of proceeds of borrowings for project	<u>84,361</u>
Net interest cost capitalized	<u>351,764</u>
Interest capitalized	351,764
Interest charged to expense	<u>2,210,639</u>
Total interest incurred	\$ <u>2,562,403</u>

Historical Collections

The University owns historical collections housed throughout the campus that it does not capitalize, including collections in the Kentucky Building & Museum. These collections adhere to the University's policy to (1) maintain them for public exhibition, education or research; (2) protect, keep unencumbered, care for and preserve them; and (3) require proceeds from their sale to

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2004

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.

Deferred Bond Issuance Costs

Bond issuance costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the straight-line method which approximates the effective interest method.

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.

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, *Basic Financial Statements – Management’s Discussion & Analysis – for State & Local Governments*, such as state appropriations and investment income.

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2004

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.

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.

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2004

Reclassifications

Certain financial 2003 amounts have been reclassified to conform with the 2004 financial statement presentation.

Note 2: Assets Held in Trust

Assets held in trust consisted of:

Cash equivalents	\$ 2,788,579
Common equity, common fixed income and mutual funds	<u>11,502,775</u>
Fair value of assets held in trust	\$ <u>14,291,354</u>

Assets held with the City are held pursuant to sinking fund requirements of pledges to the City as further described in Note 7. Funding received through the Regional University Excellence Trust Fund is further described in Note 15.

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
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2004

Investments at June 30, 2004, 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>4,909,437</u>		\$ <u>4,909,437</u>	\$ <u>4,909,437</u>

Investment Income

Investment income for the year ended June 30, 2004 consisted of:

Interest income, including interest earned on cash equivalents		\$ 618,004
Net decrease in fair value of investments		<u>(57,216)</u>
		<u>\$ 560,788</u>

Note 4: Accounts Receivable

As of June 30, 2004, accounts receivable consisted of:

Tuition, fees, sales and services		\$ 2,973,642
Credit memos		530,402
Miscellaneous other		<u>353,832</u>
		3,857,876
Less allowance for doubtful accounts		<u>(276,655)</u>
Accounts receivable, net		<u>\$ 3,581,221</u>

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2004

Note 5: Capital Assets

Capital assets activity for the year ended June 30, 2004, was:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2004</u>
Cost					
Land	\$ 4,586,665	\$ 740,809	\$ —	\$ —	\$ 5,327,474
Buildings and improvements	115,447,950	—	—	65,981,739	181,429,689
Infrastructure	10,572,427	—	—	257,515	10,829,942
Furniture, fixtures and equipment	22,880,993	2,544,878	(427,049)	2,051,478	27,050,300
Library materials	28,618,117	1,875,161	(191,771)	—	30,301,507
Construction in progress	<u>65,139,906</u>	<u>24,443,565</u>	<u>—</u>	<u>(68,290,732)</u>	<u>21,292,739</u>
	<u>247,246,058</u>	<u>29,604,413</u>	<u>(618,820)</u>	<u>0</u>	<u>276,231,651</u>
Less Accumulated Depreciation					
Buildings and improvements	\$ 66,651,276	\$ 4,871,532	\$ —	\$ —	\$ 71,522,808
Infrastructure	4,341,003	399,773	—	—	4,740,776
Furniture, fixtures and equipment	15,608,569	1,864,669	(385,702)	—	17,087,536
Library materials	<u>20,892,370</u>	<u>1,481,008</u>	<u>(191,771)</u>	<u>—</u>	<u>22,181,607</u>
	<u>107,493,218</u>	<u>8,616,982</u>	<u>(577,473)</u>	<u>0</u>	<u>115,532,727</u>
Net Capital Assets	<u>\$ 139,752,840</u>	<u>\$ 20,987,431</u>	<u>\$ (41,347)</u>	<u>\$ 0</u>	<u>\$ 160,698,924</u>

Capitalized interest on construction in progress during the year ended June 30, 2004, was \$351,764.

A summary of construction in progress at June 30, 2004, is as follows:

Science Complex renovation	\$ 15,259,876
Parking Structure	619,932
Diddle Arena renovation	702,555
Life Safety E&G building	503,766
High voltage underground distribution	663,861
ADA Projects Pool	969,624
Others under \$500,000	<u>2,573,125</u>
	<u>\$ 21,292,739</u>

Contractual commitments in connection with all projects totaled \$10,709,479 at June 30, 2004.

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Note 6: Deferred Revenue

Deferred revenue as of June 30, 2004, consisted of:

Unexpended state capital appropriations	\$ 8,075,839
Summer school tuition and fees	2,499,944
Grants and contracts	3,145,859
Advance sale of football tickets	59,931
University master plan	64,700
ATM Rental	41,650
Advance sales of parking passes	18,875
Miscellaneous	<u>5,128</u>
 Total deferred revenue	 \$ <u>13,911,926</u>

Note 7: Long-term Obligations

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2004:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 2,762,736	\$ 489,199	\$ (840,993)	\$ 2,410,942	\$ 645,305
Bonds payable, net of discounts and deferred loss on refinancing	18,300,000	22,258,409	(3,205,000)	37,353,409	3,688,833
Other long-term debt	1,983,979	—	(148,474)	1,835,505	231,518
Pledges payable, net of discount	<u>31,620,543</u>	<u>—</u>	<u>—</u>	<u>31,620,543</u>	<u>—</u>
 Total bonds, pledges and capital leases	 \$ <u>54,667,258</u>	 \$ <u>22,747,608</u>	 \$ <u>(4,194,467)</u>	 \$ <u>73,220,399</u>	 \$ <u>4,515,656</u>

Bonds Payable

Bonds payable as of June 30, 2004, are composed of Consolidated Educational Buildings Revenue Bonds, Series M, N, O, P and Q. The bonds mature in varying amounts through May 1, 2023, with interest payable at annual rates ranging from 2.00% to 5.00%. Buildings and revenues from student registration fees are pledged as collateral against bonds payable.

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The total bonds payable as of June 30, 2004, were as follows:

Series M Bonds dated March 1, 1997, with interest rates from 4.70% to 4.90%. Final principal payment date May 1, 2007	\$ 2,620,000
Series N Bonds dated September 1, 2002, with interest rates from 2.00% to 3.375%. Final principal payment date May 1, 2012	4,885,000
Series O Bonds dated July 1, 2003, with interest rates from 2.00% to 2.85%. Final principal payment date May 1, 2010	8,245,835
Series P Bonds dated September 1, 2003, with interest rates from 2.00% to 4.75%. Final principal payment date May 1, 2023	10,640,744
Series Q Bonds dated December 1, 2003, with interest rates from 1.50% to 4.25%. Final principal payment date May 1, 2023	<u>10,961,830</u>
Total bonds payable	<u>\$ 37,353,409</u>

The debt service requirements for the bonds payable as of June 30, 2004, are as follows:

Year Ending June 30	Total to be Paid	Principal	Interest
2005	\$ 4,991,075	\$ 3,695,000	\$ 1,296,075
2006	5,006,135	3,805,000	1,201,135
2007	5,018,705	3,920,000	1,098,705
2008	4,058,478	3,075,000	983,478
2009	3,775,470	2,875,000	900,470
2010-2014	11,641,080	8,210,000	3,431,080
2015-2019	8,427,458	6,250,000	2,177,458
2020 – 2024	<u>6,741,227</u>	<u>6,050,000</u>	<u>691,227</u>
	49,659,628	37,880,000	11,779,628
Less: unamortized discounts, net of premium on CEBR Series O	(252,552)	(252,552)	—
Less: deferred loss on defeasance of CEBR Series L	<u>(274,039)</u>	<u>(274,039)</u>	<u>—</u>
	<u>\$ 49,133,037</u>	<u>\$ 37,353,409</u>	<u>\$ 11,779,628</u>

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On July 1, 2003, the University defeased the Consolidated Educational Building Revenue Bond issues L and issued a \$9,830,000 Western Kentucky University Consolidated Educational Buildings Refunding Bond, Series O. The proceeds generated from the Series O bond issue have been placed in irrevocable trusts to make future payments of Series L principal and interest as amounts become due. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the accompanying financial statements.

On September 1, 2003, the University issued Western Kentucky University Consolidated Educational Buildings Revenue Bond, Series P. The \$11,135,000 proceeds generated from the bond issue will be used for the expansion and renovation of the Student Parking Structure and for relocating the Department of Facilities Management from the existing parking structure to facilities to be constructed as part of the Series P Project.

On December 1, 2003, the University issued Western Kentucky University Consolidated Educational Buildings Revenue Bond, Series Q. The \$11,145,000 proceeds generated from the bond issue will be used for the expansion and renovation of the Downing University Center and for the construction and relocation of the Materials Characterization Center.

Capital Lease Obligations

The University has acquired certain equipment under various lease-purchase contracts and other capital lease agreements. The costs of University assets held under capital leases totaled \$3,493,024, net of accumulated depreciation of \$1,229,708 at June 30, 2004. 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, 2004:

Year Ending June 30	Total to be Paid	Present Value of Future Minimum Lease Payments	Interest Portion
2005	\$ 733,243	\$ 645,305	\$ 87,938
2006	655,221	595,075	60,146
2007	403,729	366,372	37,357
2008	364,786	340,671	24,115
2009	232,276	218,739	13,573
2010 – 2014	<u>251,485</u>	<u>244,780</u>	<u>6,705</u>
	<u>\$ 2,640,740</u>	<u>\$ 2,410,942</u>	<u>\$ 229,798</u>

Other Long-term Debt

In connection with the University's transfer to the WKU Student Life Foundation, Inc. (Student Life) of substantially all its residence halls in 1999, the University agreed to make future payments to the Student Life. These payments represent the principal and interest allocation for the Garrett

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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 Student Life. 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, 2004, were as follows:

Year Ending June 30	Total to be Paid	Principal	Interest
2005	\$ 323,302	\$ 231,518	\$ 91,784
2006	520,697	447,937	72,760
2007	520,072	473,102	46,970
2008	518,039	498,267	19,772
2009	<u>187,580</u>	<u>184,681</u>	<u>2,899</u>
	<u>\$ 2,069,690</u>	<u>\$ 1,835,505</u>	<u>\$ 234,185</u>

Pledges Payable

The University has pledged certain future revenues consisting of student athletic fees to the City. The University has signed a Memorandum of Agreement dated April 15, 2002, and amended by supplement No. 1 dated June 1, 2002, between the City, Hilltopper Athletic Foundation (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.

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.

Pledge payments for principal on Series 2002B will be used to pay principal payments when due, while pledge payments on Series 2002C Term Bonds will be set aside in a debt service reserve account held in trust with the City until date of term requires payment of principal. Series 2002C

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bonds are due June 1, 2018, and June 1, 2026, in amounts of \$630,000 and \$1,170,000, respectively. 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
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	1,818,463	275,000	10,000	1,420,988	112,475
2009	1,967,563	425,000	20,000	1,410,675	111,888
2010 – 2014	11,943,994	4,515,000	240,000	6,658,638	530,356
2015 – 2019	14,308,681	8,020,000	465,000	5,389,087	434,594
2020 – 2024	15,518,050	11,480,000	710,000	3,073,250	254,800
2025 – 2026	<u>6,058,875</u>	<u>5,280,000</u>	<u>345,000</u>	<u>399,750</u>	<u>34,125</u>
	56,360,376	30,115,000	1,800,000	22,627,952	1,817,424
Less unamortized discount	<u>294,457</u>	<u>286,219</u>	<u>8,238</u>	<u>—</u>	<u>—</u>
Total pledges payable	<u>\$ 56,065,919</u>	<u>\$ 29,828,781</u>	<u>\$ 1,791,762</u>	<u>\$ 22,627,952</u>	<u>\$ 1,817,424</u>

Note 8: Operating Leases

The University leases certain equipment under operating lease agreements. The operating leases expire in various years through 2014. 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, 2004, were:

2005	\$ 297,747
2006	262,970
2007	144,739
2008	147,391
2009	119,701
Thereafter	<u>401,625</u>
	<u>\$ 1,374,173</u>

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Note 9: Western Kentucky University Foundation, Inc. – Accounting Policies and Disclosures

Nature of Operations

Western Kentucky University Foundation, Inc. (Foundation) is a Kentucky nonprofit corporation formed to receive, invest and expend funds for the enhancement and improvement of the University. It is a legal separate, tax-exempt component unit of the University that manages certain endowments and investments on behalf of the University. The Foundation has a board of trustees separate from that of the University; however, the president and certain other officers of the University are also officers of the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statement package.

Related-party Transactions

During 2003, the Foundation changed its fiscal year from June 30 to December 31. Accordingly, the accompanying financial statements reflect the activity from July 1, 2003, through December 31, 2003. During the period from July 1, 2003, through December 31, 2003, the Foundation made payments/reimbursements on behalf of the University of \$2,415,860 from restricted sources. Accounts receivable from the Foundation and accounts payable to the Foundation as of the University's fiscal year ended June 30, 2004 were insignificant. Complete financial statements for the Foundation can be obtained from the WKU Foundation Office, Alumni House, 1 Big Red Way, Bowling Green, Kentucky, 42101.

Investments

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost or fair value. Investment return includes dividend, interest and other investment income and realized and unrealized gains and losses on investments carried at fair value, and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

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

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The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated quarterly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Investments held at December 31, 2003, were as follows:

Common Equity Fund	\$ 17,079,560
Common Fixed Income Fund	8,138,010
Mutual funds	<u>3,904,537</u>
	29,122,107
Investments held for the University included above	<u>(9,566,796)</u>
	<u>\$ 19,555,311</u>

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors. At December 31, 2003, the fair value of all of the assets of these funds was more than the level required by donor stipulation or law.

Note 10: College Heights Foundation, Inc. – Accounting Policies and Disclosures

Nature of Operations

College Heights Foundation, Inc., (College Heights) is a Kentucky nonprofit corporation that is a legally separate, tax-exempt component unit of the University that manages certain investments on behalf of the University. College Heights has a board of directors separate from that of the University; however, the president of the University is also a board member of College Heights. Although the University does not control the timing or amount of receipts from College Heights, the majority of resources or income thereon that College Heights holds and invests is restricted to the activities of the University by donors. Because these restricted resources held by College Heights can only be used by or for the benefit of, the University. College Heights is considered a component unit of the University and is discretely presented in the University's financial statement package. A substantial portion of the donations received consists of endowment funds from which the corpus is not available to be distributed.

Related-party Transactions

During College Heights' fiscal year ended December 31, 2003, College Heights made scholarship payments of \$1,113,411 on behalf of students attending the University. The University currently makes annual payments of \$26,000 under a capital lease agreement to College Heights. The present value of future minimum lease payments of \$182,395 is included in the capital leases

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described at Note 7. Accounts receivable from College Heights and accounts payable to College Heights as of the University's fiscal year ended June 30, 2004, were insignificant. Complete financial statements for College Heights can be obtained from the College Heights Foundation Office, Alumni House, 1 Big Red Way, Bowling Green, Kentucky, 42101.

Note 11: WKU Student Life Foundation, Inc. – Accounting Policies and Disclosures

Nature of Operations

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

Property and Equipment

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

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

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Capital asset activity for the year ended June 30, 2004, was:

	Balance July 1, 2003	Additions	Disposals	Balance June 30, 2004
Cost				
Land	\$ 1,200,000	\$ —	\$ —	\$ 1,200,000
Land improvements	485,269	—	—	485,269
Buildings and improvements	53,998,454	10,200,565	—	64,199,019
Furniture, fixtures and equipment	2,077,545	980,121	—	3,057,666
Construction-in-progress	<u>6,958,070</u>	<u>7,226,012</u>	<u>(11,152,061)</u>	<u>3,032,021</u>
	<u>64,719,338</u>	<u>18,406,698</u>	<u>(11,152,061)</u>	<u>71,973,975</u>
Less accumulated depreciation				
Land improvements	2,022	12,132	—	14,154
Building and improvements	2,638,624	1,674,844	—	4,313,468
Furniture, fixtures and equipment	<u>310,637</u>	<u>353,098</u>	<u>—</u>	<u>663,735</u>
	<u>2,951,283</u>	<u>2,040,074</u>	<u>0</u>	<u>4,991,357</u>
Net capital assets	<u>\$ 61,768,055</u>	<u>\$ 16,366,624</u>	<u>\$ (11,152,061)</u>	<u>\$ 66,982,618</u>

Long-term Debt and Letter of Credit

The following is a summary of long-term obligation transactions for Student Life for the year ended June 30, 2004:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds payable	\$ 65,455,000	\$ —	\$ (770,000)	\$ 64,685,000	\$ 1,175,000
Less: unamortized discount	(249,511)	—	9,270	(240,241)	—
Note payable – swap agreement	<u>574,231</u>	<u>—</u>	<u>(61,882)</u>	<u>512,349</u>	<u>72,765</u>
	<u>\$ 65,779,720</u>	<u>\$ 0</u>	<u>\$ (822,612)</u>	<u>\$ 64,957,108</u>	<u>\$ 1,247,765</u>

Bonds payable as of June 30, 2004, were:

County of Warren, Kentucky	
Variable rate revenue bonds dated May 25, 2000, with an interest rate at 1.08% at June 30, 2004. Final principal payment date May 1, 2030.	\$ 64,685,000
Less unamortized discount	<u>(240,241)</u>
	<u>\$ 64,444,759</u>

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The debt service requirements for the bonds payable as of June 30, 2004, are as follows:

Year Ending June 30	Total to be Paid	Principal	Interest
2005	\$ 1,877,066	\$ 1,175,000	\$ 702,066
2006	2,189,313	1,500,000	689,313
2007	2,253,033	1,580,000	673,033
2008	2,310,884	1,655,000	655,884
2009	2,062,922	1,425,000	637,922
2010-2014	10,695,115	7,740,000	2,955,115
2015-2019	12,539,883	10,055,000	2,484,883
2020-2024	14,775,607	12,895,000	1,880,607
2025-2029	17,645,495	16,540,000	1,105,495
2030	<u>10,229,839</u>	<u>10,120,000</u>	<u>109,839</u>
	76,579,157	64,685,000	11,894,157
Less unamortized discount	<u>(240,241)</u>	<u>(240,241)</u>	<u>—</u>
	<u>\$ 76,338,916</u>	<u>\$ 64,444,759</u>	<u>\$ 11,894,157</u>

Student Life has a \$66,574,012 letter of credit securing all principal and interest payments due on the bonds payable.

The debt service requirements for the note payable swap agreement as of June 30, 2004, are as follows:

Year Ending June 30	Total to be Paid	Principal	Interest
2005	\$ 194,049	\$ 72,765	\$ 121,284
2006	197,166	78,090	119,076
2007	199,645	83,377	116,268
2008	202,369	89,065	113,304
2009	205,463	95,255	110,208
2010-2014	<u>201,329</u>	<u>93,797</u>	<u>107,532</u>
	<u>\$ 1,200,021</u>	<u>\$ 512,349</u>	<u>\$ 687,672</u>

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Related-party Transactions

During Student Life's fiscal year ended June 30, 2004, Student Life received rental revenues of \$10,097,273. Additionally, Student Life received payments of \$148,474 from the University as repayment of the fiscal year 2004 debt payments related to Downing University Center (DUC) and Garrett Conference Center (GCC). Accounts receivable from the University totaled \$2,208,076 (which includes the amount owed by the University related to DUC and GCC noted above). Likewise, accounts payable to the University totaled \$612,225 at June 30, 2004. In connection with the operations of Student Life, a management fee of \$129,635 is paid annually to the University. Rental payments of \$12,000 were made by Student Life to the University during the fiscal year ended June 30, 2004, for a construction staging site that Student Life occupied during the renovation of several dormitories on the University's campus.

Note 12: 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, 2004, 2003 and 2002, were \$5,351,098, \$5,095,068 and \$5,060,415, respectively, which equaled the required contributions for each year.

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Kentucky Employees' Retirement System

The University contributes to the Kentucky Employees' Retirement System (KERS), a cost-sharing, multiple-employer, defined-benefit pension plan administered by the Board of Trustees of KERS. The plan provides retirement, disability and death benefits to plan members. The Commonwealth of Kentucky assigns the authority to establish and amend benefit provisions to the KERS Board of Trustees. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 502 564-4646.

Plan members are required to contribute 5.00% 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, 2004, 2003 and 2002, were \$1,125,771, \$1,127,453 and \$999,283, respectively, which equal the required contributions for each year.

Optional Retirement Plan

University faculty and administrative staff hired after July 1, 1996, have the option of participating in the Optional Retirement Program, a defined contribution pension plan. The plan is administered by one of three providers chosen by the employee. The plan provides retirement benefits to plan members. Benefit provisions are contained in the plan document and were established and may be amended by action of the Commonwealth of Kentucky. Contribution rates for plan members and the University for 2004, expressed as a percentage of covered payroll were 6.16% and 13.84%, respectively. Of the University's 13.84% contribution, 5.63% 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, 2004, 2003 and 2002, were \$1,904,083, \$1,923,156 and \$1,771,295, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2004, 2003 and 2002, were \$1,428,615, \$1,280,230 and \$1,084,608, respectively.

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Note 13: Commitments and Contingencies

Claims and Litigation

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

Government Grants

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

Note 14: 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-insured health plan, the University accrued the estimated costs of health care claims based on claims filed subsequent to year end and an additional amount for incurred but not yet reported claims based on prior experience.

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

Balance, beginning of year	\$ 1,445,236
Claims and changes in estimates	7,386,717
Claims payments	(7,034,186)
Administration costs and stop loss insurance	<u>(1,013,422)</u>
Balance, end of year	<u>\$ 784,345</u>

Note 15: Regional University Excellence Trust Fund

The Kentucky General Assembly appropriated funds to the Regional University Excellence Trust Fund (RUETF) with the passage of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The purpose of this fund is to encourage private investment in public higher education activities within the Commonwealth of Kentucky. These funds were made available when matched dollar-for-dollar from external sources. The Commonwealth's Council on Postsecondary Education (CPE) was designated to oversee the distribution and use of these funds.

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

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

Following is a summary of the funding for the RUETF as of June 30, 2004:

	CPE Funding Received	External Matched Pledges	
		Received	Pledge
Balance, July 1, 2003	\$ 7,013,209	\$ 5,380,960	\$ 1,632,249
Current year additions	<u>4,759,000</u>	<u>1,814,035</u>	<u>2,944,965</u>
Balance, June 30, 2004	<u>\$ 11,772,209</u>	<u>\$ 7,194,995</u>	<u>\$ 4,577,214</u>

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The University's external matched pledges, both received and outstanding, have not been recorded on the University's financial statements. The external matched pledges, which are generated by the Foundation and College Heights, are recorded on those financial statements.

Note 16: Natural and Functional Classifications of Operating Expenses

The University's operating expenses by functional classification on June 30, 2004, were as follows:

Functional Classification	Natural Classification							Total
	Compensation and Benefits	Supplies, Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation		
Instruction	\$ 60,635,926	\$ 6,160,190	\$ 71,265	\$ 2,508,410	\$ 771,622	\$ —	\$ 70,147,414	
Research	3,676,752	3,245,596	8,107	232,039	87,587	—	7,250,081	
Public service	7,866,325	7,564,516	102,166	199,667	333,218	—	16,065,892	
Libraries	3,485,350	321,046	2,207	26,355	—	—	3,834,958	
Academic support	5,539,443	2,026,505	20,660	342,108	10,240	—	7,939,136	
Student services	9,271,159	6,303,703	53,299	420,034	901,786	—	16,949,980	
Institutional support	12,986,706	3,981,140	35,031	298,835	—	—	17,301,712	
Operation and maintenance of plant	7,731,165	2,260,464	4,734,454	1,075,060	80	—	15,801,223	
Student financial aid	71,041	1,122,897	—	1,112	10,202,443	—	11,397,493	
Depreciation	—	—	—	—	—	8,616,982	8,616,982	
Auxiliary enterprises	<u>5,050,128</u>	<u>7,042,213</u>	<u>1,833,529</u>	<u>57,198</u>	<u>1,632</u>	<u>—</u>	<u>13,984,700</u>	
Total operating expenses	<u>\$ 116,313,995</u>	<u>\$40,028,270</u>	<u>\$ 6,860,718</u>	<u>\$ 5,160,818</u>	<u>\$ 12,308,788</u>	<u>\$ 8,616,982</u>	<u>\$ 189,289,571</u>	

Note 17: Future Changes in Accounting Principles

GASB has issued Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The new statement changes reporting for investment risk note disclosures and the provisions of this statement are effective for the University financial statements for periods beginning after June 15, 2004.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and For Insurance Recoveries*. This statement requires certain disclosures when the value of a capital asset has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The provision of this statement are effective for financial statements for fiscal periods beginning after December 15, 2004. The University does not expect the adoption of this statement to have a material effect of its financial statements.

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In June 2004, the GASB issued Statement s No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition and display of other postemployment benefit expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of employers subject to governmental accounting standards. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. The University has not yet evaluated the impact that adoption of this statement will have on its financial statements, but it is likely to be significant.

Supplementary Information

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Schedule of Expenditures of Federal Awards
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Cluster/Program	Federal Agency/ Pass-through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
<u>Student Financial Assistance</u>				
Federal Family Education Loan Program	U.S. Dept of Education	84.032		\$36,822,015
National Direct Student Loan	U.S. Dept of Education	84.038		61,371
Off Campus Work Study- Federal	U.S. Dept of Education	84.033	P033A1615	98,657
On Campus Work Study	U.S. Dept of Education	84.033	P033A21615	579,472
America Reads	U.S. Dept of Education	84.033	P033A21615	61,833
SEOG 2003-2004	U.S. Dept of Education	84.007	P0007A021615	405,842
PELL Grants 2002-2003	U.S. Dept of Education	84.063	P007A011615	3,181
Pell Grants 2003-2004	U.S. Dept of Education	84.063	P063P0120657	13,996,507
Advanced Education Nursing Trainees	U.S. Dept of Education	93.358	2 - A10 HP 00189-04	<u>33,059</u>
Total Student Financial Assistance				<u>52,061,937</u>
<u>Research & Development</u>				
Poultry Waste Management (Proj 1)	U.S. Dept of Agriculture	10.001	5864061017	229,729
Poultry Waste Management (Proj 2)	U.S. Dept of Agriculture	10.001	5864061017	138,338
Poultry Waste Management (Proj 3)	U.S. Dept of Agriculture	10.001	5864061017	70,003
Poultry Waste Management Proj 4	U.S. Dept of Agriculture	10.001	58-6406-1-017	4,055
Poultry Waste Mgmt. YR 3 Proj. 5	U.S. Dept of Agriculture	10.001	58-6404-1-017	3,215
PWMS YR 3 Greenhouse	U.S. Dept of Agriculture	10.001	58-6406-1-017	14,078
PWMS YR 3 Adm	U.S. Dept of Agriculture	10.001	58-6406-1-017	784
Hydrometeorological Assessment	U.S. Dept of Agriculture/University Corp for Atmospheric Research	11.467	S04-44689	1,110
Survey of UXO @ White Oak Navy	Dept of Navy	12.300	N0464A-03-M-0084	9,363
Support for PELAN III @ Maryland	Dept of Navy	12.300	EMAIL DATED 10-21-03	655
Navy Mare Island	Dept of Navy	12.300	NAVY CONTRACT 3-10-04	558
UXO tool (PFTNA)	Dept of Navy	12.301	N0017400C007	75,395
Pelan Neutron-Based UXO Id Probe	Dept of Navy	12.910	DACA7201C001	1
Support of RSEDS Project	Dept of Navy/Idaho National Engineering and Environmental Lab	12.800	CONTRACT 000 24617	16,290
Fish Population	U.S. National Park Service	15.608	H5530010071 MOD 3	10,728
Long-term Ecological Program	U.S. National Park Service	15.608	H5530030002MOD1	6,389
Interactions - Cave Shrimp & Trout	U.S. National Park Service	15.608	H5530030048	29,118
Mercury in Mammoth Cave	U.S. National Park Service/University of KY Research Foundation	15.805	UKRF4-64694-02-303	2,087
Mercury in Mammoth Cave	U.S. National Park Service/University of KY Research Foundation	15.805	UKRF4-64694-03-309	9,002
Fine Sediment Source Areas	U.S. National Park Service/University of KY Research Foundation	15.805	UKRF 4-64694-04-332	2,596
Impact/Lock & Dam #6	U.S. National Park Service	15.921	H5530010104	13,715
Mercury in Mammoth CaveNP Phase II	U.S. National Park Service	15.921	H5530030029	4,797
Yellow Orchid Project	U.S. National Park Service	15.921	H550030054	38,517
Survey of DNA Extracted from Cave	U.S. National Park Service	15.923	H2360020009 TO 02-01 MOD1	655
Graduate-level Training	U.S. National Park Service	15.923	H2360020009 T002-02	1,390
KY Space Grant Consortium YR 10	National Aeronautics & Space Adm.	43.001	NGT5-40105	22,109
KY Space Consortium YR 11	National Aeronautics & Space Adm.	43.001	NGT5-40105	96,343
KY Space Grant Consortium YR 12	National Aeronautics & Space Adm.	43.001	NGT5-40105	128,398
Photometric Monitoring-Sub 516105	National Aeronautics & Space Adm.	43.001	SUB TO 516105 NGT5-40105	997
Starbase Network	National Aeronautics & Space Adm.	43.001	NAG5-08762	11,470
Detection of Extrasolar Planets	National Aeronautics & Space Adm.	43.001	NGT5-40105	275
KY NASA/EPSCoR Program YR 8-10	National Aeronautics & Space Adm.	43.001	NCC5-571	736,324
Monitor & Assess Human Health	National Aeronautics & Space Adm.	43.001	NCC5-571 SUB 516140	7,873
Optical Photo Monitoring-Sub 516140	National Aeronautics & Space Adm.	43.001	NCC5-571SUB516140	30,172
Astronomy to Classroom - Sub 516106	National Aeronautics & Space Adm.	43.001	NGT5-40105 SUB	1,500
Controlled Assembly - Films s516107	National Aeronautics & Space Adm.	43.001	WKU 516107-04-11	8,658
Clumps in Wolf-Rayet Wind-sub516107	National Aeronautics & Space Adm.	43.001	WKU 516107-04-13	3,000
Historical Light Curves sub 516107	National Aeronautics & Space Adm.	43.001	NGTS-40105 SUB	1,500
Wind-Collision Effects	National Aeronautics & Space Adm.	43.001	NAS5-32985-D088	3,051
Class 2001	National Aeronautics & Space Adm. Tennessee State University	43.001	CONTRACO.WKS	4,403

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KY Space Grant Consortium, YR 13	National Aeronautics & Space Adm.	43.001	NGT5-40105 (SUPPL 6 & 7)	1,399
MRI/RUI: Manufacturing Systems Applied Nuclear Technology, Inc.	National Science Foundation	47.041	DM1-0116515	17,864
	National Science Foundation/Applied Nuclear Technology, Inc.	47.041	RA SIGNED 6/27/03	85,127
Catalysis of Diverted Orth-Metal	National Science Foundation	47.049	CHE-0101435	61,512
Surfactant Immobilized Sorbent Mat	National Science Foundation	47.049	CHE-0132181	56,919
Acquisition of Nuclear Magnetic Res	National Science Foundation	47.049	CHE-0320600	349,200
Virtual Synthesis of 3 D Nano.	National Science Foundation	47.049	DMR-0340613	9,074
Computation of Rope Length of Large	National Science Foundation/ University of North Carolina at Chapel Hill	47.049	2975-03-0194	58,760
REU: Summer Research	National Science Foundation	47.050	EAR-0353651	25,775
RUI: Molecular Phylogenetics	National Science Foundation	47.074	DEB-0236166	54,687
Lifespan Psychology	National Science Foundation	47.075	SES-0097491	58,409
Fluorescence Quenching Studies	National Science Foundation/KY NSF EPSCoR	47.076	4-65499-03-362	17,747
Experimental and Computational Stud	National Science Foundation/ University of KY Research Foundation	47.076	UKRF 4-65499-03-364	13,500
Ecological Studies of Dung Beetles	National Science Foundation/ University of KY Research Foundation	47.076	UKRF 4-65499-03-363	19,635
Effects/Seed Mixes on Mammals	National Science Foundation/KY NSF EPSCoR	47.076	UKRF4-65499-04-345	16,639
Integer Factorization Elliptic	National Science Foundation/KY NSF EPSCoR	47.076	UKRF 4-65499-04-372	12,885
TVA Analyzer Installation & Repair Green River Watershed Project	Tennessee Valley Authority U.S. Environmental Protection Agency/KY Division of Water	62.001	PO7417 AKU-R	58,950
Arsenic Remediation of Water	U.S. Environmental Protection Agency/KY Division of Water	66.500	LETTER 7-03-03	3,462
KRWA	U.S. Environmental Protection Agency	66.606	X826659-01-3	3,092
Task 3 YR 3	U.S. Environmental Protection Agency	66.606	X826659-01-3	89,190
Task 4 YR 3	U.S. Environmental Protection Agency	66.606	X826659-01-3	73,015
Small Rural Water Admin 3	U.S. Environmental Protection Agency	66.606	X826659-01-3	107,882
Task 2B Groundwater Sensitivity Map	U.S. Environmental Protection Agency	66.606	X-97418901-0	18,287
Wastewater Admin & Mgmt	U.S. Environmental Protection Agency	66.606	X-97418901-0	49,779
Wastewater Quality & Sampling	U.S. Environmental Protection Agency	66.606	X-97418901-0	29,289
Wastewater Database	U.S. Environmental Protection Agency	66.606	X-97418901-0	31,856
Technical Asst.Ctr/Water Quality	U.S. Environmental Protection Agency	66.606	X-83123601-0	249,528
Archeological Site Stewardship Prog	U.S. Environmental Protection Agency	66.606	H5530020075	2,335
Archeological Site Mod 2	U.S. Environmental Protection Agency	66.606	H5530020075	11,961
Method for Measuring Carbon Balance	U.S. Dept of Energy/Paras Research Corp	81.049	RA DATED 8-5-03	32,985
Environmental Control Tech Lab	U.S. Dept of Energy	81.089	DE-FC26-03NY41840	167,256
Northwest Nuclear LLC WO#W03-02	U.S. Dept of Energy/Northwest Nuclear, LLC	81.089	W-03-02	27,242
Raising Science Achievement	U.S. Dept of Education/Council of Postsecondary Education	84.281	EISENHOWER 17	6,285

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Personal Preparation in EI	U.S. Dept of Education/University of CT	84.325	PS350703	46,040
Center for PP in EI/EC Special Educ	U.S. Dept of Education/University of CT	84.325	PS 376004	5,448
Developing Health Beliefs Model	National Institute of Aging/ University of Cincinnati	93.263	UC-EMAIL 9-4-03	6,439
WKU KBRIN	National Institute of Aging/ University of Louisville	93.389	LTR121901	969
WKU KBRIN YR 2 of 3	National Institute of Aging/ University of Louisville	93.389	ULRF 01-555	25,311
Molecular Systematics of Mints	National Institute of Aging/ University of Louisville	93.389	ULRF 01-555-02SI	14,870
Detection & Tracking of Bacterial..	National Institute of Aging/ University of Louisville	93.389	ULRF-01-555-0251	17,757
Zebrafish Visual Function	National Institute of Aging/ University of Louisville	93.389	ULRF 01-555-0251	23,236
Use of Amino Acid Properties	National Institute of Aging/ University of KY Research Foundation	93.389	UKRF 4-66404-03-286	4,840
Nitric Oxide Signaling: Pulmonary	National Institute of Aging/ University of Louisville	93.389	SUB P20RR16481 ULRF01-0555A1	10,949
Identification of Cellular Genes	National Institute of Aging/ University of Louisville	93.389	ULRF 01-0555A2 5P20RR16481-02	11,000
Zebrafish Visual Function YR 2	National Institute of Aging/ University of Louisville	93.389		45,702
Detection & Tracking YR 2	National Institute of Aging/ University of Louisville	93.389		29,444
Molecular Systematics of Mints	National Institute of Aging/ University of Louisville	93.389		48,674
WKU KBRIN YR 3 of 3	National Institute of Aging/ University of Louisville	93.389		68,807
Nitric Oxide/PulmonaryMyofibroblast	National Institute of Aging/ University of KY Research Foundation	93.389	UKRF SUB 1-30-04	10,867
Learning & Judgement in Older Adult Improvement of Visual Processing in	National Institute of Aging National Institute of Aging/ University of AL at Birmingham	93.866	1 R01 AG19155-01-02-03	179,554
Predicting Long-term Mobility	National Institute of Aging/ University of AL at Birmingham	93.866	5R37 AG05739-18	79,421
		93.866	1 R01 AG021958 SUB	123,659
Total Research & Development				4,335,003
<u>Other Programs</u>				
Quality Center IV-A Head Start 2003	U.S. Dept of Health & Human Services	93.600	90YQ0001/06	344,095
Early Quality IV-A 2003	U.S. Dept of Health & Human Services	93.600	90YQ001/06	198,682
Quality Center IV-B 2003	U.S. Dept of Health & Human Services	93.600	90YQ0016/06	343,614
Early Quality IV-B 2003	U.S. Dept of Health & Human Services	93.600	90YQ0016/06	204,383
Head Start General 19-2003	U.S. Dept of Health & Human Services	93.600	04CH0201/19	440,879
Head Start T/TA 19-2003	U.S. Dept of Health & Human Services	93.600	04CH0201/19	115,780
Head Start General 20 - 2004	U.S. Dept of Health & Human Services	93.600	04CH0210/20	831,739
Head Start PA 20- 2004	U.S. Dept of Health & Human Services	93.600	04CH0201/20	17,618
Family Literacy 03-04	U.S. Dept of Health & Human Services/ National Center for Family Literacy	93.600	90YL 001/05	208,407
Early Head Start Delegate 2003	U.S. Dept of Health & Human Services /Murray Head Start	93.600	04YC0661-001	30,831
Early Head Start Training	U.S. Dept of Health & Human Services /Murray Head Start	93.600	04YC0661-001	969

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Family Literacy 03-04	U.S. Dept of Health & Human Services/ National Center for Family Literacy	93.600	90YL 001/05	208,407
Early Head Start Delegate 2003	U.S. Dept of Health & Human Services /Murray Head Start	93.600	04YC0661-001	30,831
Early Head Start Training	U.S. Dept of Health & Human Services /Murray Head Start	93.600	04YC0661-001	969
Family Literacy Project 03	U.S. Dept of Health & Human Services /National Center for Family Literacy	93.600	90YL 0001/04	167,861
Early Head Start Delegate 2004	U.S. Dept of Health & Human Services /Murray Head Start	93.600	04CH2692-001	152,070
Early Head Start Training 2004	U.S. Dept of Health & Human Services /Murray Head Start	93.600	04CH2692-001	1,231
				3,058,159
University Center Program 2004	U.S. Dept of Commerce	11.303	04-66-05291	90,000
WKYUDT Phase I	U.S. Dept of Commerce	11.550	PBS 8-19-02	10,249
100th Division Training 2004	U.S. Dept of Defense	12.113	W912C504M0063 & 0084	121,425
108th Division Training 2004	U.S. Dept of Defense	12.113	W912C6-04-M-0066 & W912C6-04	141,966
Data Management System Dev.	National Park Service	15.916	#5000 04 8000	1,203
Dev Nat Pk Species Database	National Park Service	15.921	CA553000002	34,836
Rehousing Catalog Specimens	National Park Service	15.921	CA55049007	176
Backlog Cataloging 10,000 Items	National Park Service	15.921	1443 CA5530 00 001	38,090
Preserve Maps, Drawings & Photos	National Park Service	15.921	1443 CA5530 00 001	6,379
Assess Off-Site Museum Collections	National Park Service	15.921	1443 CA5530 00 001	13,882
Ecological Monitoring Collection	National Park Service	15.921	H5530010144 MOD 4	14,519
Student Research at Mammoth Cave	National Park Service	15.921	H5530020034	11,078
Oregon Caves National Monument	National Park Service	15.921	CONTRACT R934020005	4,658
Daily Curatorial Operations	National Park Service	15.921	H5530010101 MOD 3	3,573
WKU Juvenile Delinquency Project	U.S. Dept of Justice	16.541	2002-JP-FX 1001	747,078
International Journalism Training	Dept of State/Internews Network	19.300	LETTER 6-5-01	11,953
International Training -Egypt	Dept of State/Internews Network	19.300	1141-002	223,323
Microgravity - Hardin Co, KY	Dept of Transportation/ University of KY Research Foundation	20.215	UKRF-4-72040-04-014	3,540
Microgravity - Larue Co, KY	Dept of Transportation/ University of KY Research Foundation	20.215	UKRF 4-72040-04-013	7,835
Astro/Space Workshop 2003	National Aeronautics & Space Adm.	43.001	NGT5-40105 SUB	5,519
Astro & Space Workshop 04 s-516107	National Aeronautics & Space Adm.	43.001	WKU 516107-04-19	1,530
NASA-GSRP	National Aeronautics & Space Adm.	43.001	NGT-1-03012	24,241
Saturday Scholars Academy	National Aeronautics & Space Adm./ NAACP	43.001	NASA-NAACP	-1,187
Extending Nova Network-KY-IDEAS	National Aeronautics & Space Adm./ University of AL	43.001	NAG5-9388	13,869
KY Earth Science	National Aeronautics & Space Adm./ Institute for Global Environmental Strategies	43.001	NAG5-8517	15,669
SSA Workshop for Teachers	National Aeronautics & Space Adm./ SERCH	43.001	CK492443	6,044
How Old is Your Universe? A Worksh	National Aeronautics & Space Adm./ Space Telescope Science Institute	43.001	HST-ED-90251-01-A	15,950
Teaching Astronomy & Space Sci in KY	National Aeronautics & Space Adm./ SERCH	43.001	SERCH	4,004
Full Radius Dance	National Foundation for Arts & Humanities	45.024	NEA / ALTERNATE ROOTS	1,012
Black History Month at Your Library	National Foundation for Arts & Humanities/KY Humanities Council	45.129	2001-025	1,199
Forever Free	National Foundation for Arts & Humanities	45.164	GL-50055-03	461
Web-Based Homework: Curric. Reform	National Science Foundation	47.076	DUE-021353	32,542
Small Business Center FY 03	Small Business Adm./ University of KY Research Foundation	59.037	UKRF 4-66282-03-156	21,172

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Small Business Center FY04	Small Business Adm./ University of KY Research Foundation	59.037		41,199
Radon Survey 2001	National Park Service/Environmental Mgmt Branch	66.032	M-00109690	1,654
Radon Mitigation in Schools	National Park Service/KY Cabinet for Health Services	66.032	M-02074194	3,590
Radon Mitigation M-03163495	National Park Service/KY Cabinet for Health Services	66.032	M-03163495	46,748
River Institute: Building Ed Part	National Park Service/KY Division of Water	66.460	M-02025681 & M-02172347	79,858
KNSE for Landuse Development	National Park Service/KY Division of Water	66.460	M-04184956	530
Digital Library	National Park Service	66.606	H553002063	995
Field Test Adv. Utility Mercury	Dept of Energy/Student Technology Corp/DOE U.S. Dept of Education	81.057	LETTER DATED 4-20-04	11,720
PROJECT GATE	U.S. Dept of Education	84.016	P016A010025	(3,932)
Global Workforce Yr 1 & 2	U.S. Dept of Education	84.016	P016A000012-01	608
Caveland Educational Support Center	U.S. Dept of Education/KY Dept of Education	84.027	PL105-17IDEA	2,849
Student Support Services 02-06	U.S. Dept of Education	84.042	P042A021170	277,434
Talent Search 03-06	U.S. Dept of Education	84.044	PO44A020280	360,676
Veterans Upward Bound 00-03	U.S. Dept of Education	84.047	IP047A990681	79,926
Upward Bound- 99-04	U.S. Dept of Education	84.047	PO47A990886	286,431
Veterans Upward Bound 04-07	U.S. Dept of Education	84.047	P047A030239	198,942
Technical Assistance-TE/IE 2004	U.S. Dept of Education	84.048	PERKINS 2004 9-11-03	20,101
Perkins - Agriculture 2003	U.S. Dept of Education/KY Cabinet for Workforce Development	84.048	PERKINS 2003	6,407
Perkins - Dental Hygiene 2003	U.S. Dept of Education/KY Cabinet for Workforce Development	84.048	PERKINS 2003	2,020
Perkins-Community College 2003	U.S. Dept of Education/KY Cabinet for Workforce Development	84.048	PERKINS 2003	9,709
Integration of Academic and Technic	U.S. Dept of Education/KY Cabinet for Workforce Development	84.048	PERKINS 6-4-03	11,726
Perkins - Dental Hygiene 2004	U.S. Dept of Education/KY Cabinet for Workforce Development	84.048	PERKINS LTR 6-24-03	34,536
Perkins-Agriculture 2004	U.S. Dept of Education/KY Cabinet for Workforce Development	84.048	LETTER 6-24-03	30,436
Perkins FY-04-Community College	U.S. Dept of Education/KY Cabinet for Workforce Development	84.048	LETTER 6-24-03	145,041
Perkins -Administrative 2004	U.S. Dept of Education/KY Cabinet for Workforce Development	84.048	CARL PERKINS 6-24-03	2,101
Improve T E Programs 2004	U.S. Dept of Education/KY Cabinet for Workforce Development	84.048	PERKINS 2004	19,295
EOC-Educational Opportunity Centers	U.S. Dept of Education	84.066	P066A020229 & 229A	205,092
Fed Trio Training-General 03-05	U.S. Dept of Education	84.103	P103A020042	314,510
Fed Trio Training-Report 03-05	U.S. Dept of Education	84.103	P103A020013	185,631
Fed Trio Training-Regulatory 03-05	U.S. Dept of Education	84.103	P103A020011	298,180
CC Middle School Resource Lab	U.S. Dept of Education	84.116	P116B01184	71,691
OGBE Promoting E Commerce	U.S. Dept of Education	84.116	P116Z010057	49,988
Energizing Resources-WKU & Partners	U.S. Dept of Education	84.116	P1162020205	149,212
Equip Acquisition for Complex	U.S. Dept of Education	84.116	P1162030188	923,121
Nursing Accelerated Dev Program	U.S. Dept of Education	84.116	P1162040026	187,500
Equipment Acquisition (Biology)	U.S. Dept of Education	84.116	P1162040062	78,775
Achieving International Motive	U.S. Dept of Education	84.153	P153A020048	77,607
Comparing Watersheds Across KY	U.S. Dept of Education/Murray Head Start	84.168	MOA NO. OSP 2003-138	49,650
Watersheds-Science & Math Improve	U.S. Dept of Education/Murray Head Start	84.168	MSU-MOA 6-1-04	658
IECE Traineeship Grant	U.S. Dept of Education/KY Dept of Education	84.173	M-02359907	4,662
IECE Traineeship FY 2004	U.S. Dept of Education/KY Dept of Education	84.173	M-03244813	12,813

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Cluster/Program	Federal Agency/ Pass-through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Using the Environment: (EIC)	U.S. Dept of Education/Murray Head Start	84.215	MOA-OSP 2003-013	15,270
GREAT Science	U.S. Dept of Education/KY Council on Postsecondary Education	84.281	EISENHOWER 17	99
NWP Writing Project	U.S. Dept of Education/National Writing Project Corporation	84.298	92KY-06	30,257
Western Kentucky through Poetry	U.S. Dept of Education/National Writing Project Corporation	84.298	M-03029512	3,500
Quality- New Teachers	U.S. Dept of Education	84.303	R303K010047	26,225
AP Vertical Teaming, Social Studies	U.S. Dept of Education/KY Dept of Education	84.330	M-03158691	7,348
KY Gear Up Project YR 3	U.S. Dept of Education/Council of Postsecondary Education	84.334	LETTER 10-10-02	9,834
KY Gear Up Project YR 4	U.S. Dept of Education/Council of Postsecondary Education	84.334	MOA OSP 2004-099	40,493
CCAMPIS	U.S. Dept of Education	84.335	P335A010005	78,766
Improving Teacher Quality YR 1	U.S. Dept of Education	84.336	P336B99900140	4,645
Improving Teacher Quality YR 2	U.S. Dept of Education	84.336	P336B9900140	46,888
Improving Teacher Quality YR 3	U.S. Dept of Education	84.336	P336B990014-01-02	109,167
Improving Teacher Quality 99-04	U.S. Dept of Education	84.336	P336B990014-01-02	419,329
Improving Teacher Quality YR 5	U.S. Dept of Education	84.336	P336B990014-03	400,419
Improving Teacher Quality YR 4-Mtg Administrative Support for Title II	U.S. Dept of Education U.S. Dept of Education/KY's Educational Professional Standards Board	84.336	M-03120201	772,974
Curriculum Review Sub-543604	U.S. Dept of Education/KY's Educational Professional Standards Board	84.336	543604-04-12	28,245
Reading First Coach	U.S. Dept of Education	84.357		96,767
Improve Middle School Math & Lit	U.S. Dept of Education/Council of Postsecondary Education	84.367	MOA 3-31-04	15,883
MSS - AHEC 2002	Dept of Health & Human Services/ University of Louisville	93.107	ULRF/DHHS 93.107	(102)
MSSA 02-03	Dept of Health & Human Services/ University of Louisville	93.107	ULRF-DHHS SUB 12/18/02	49,724
Model State Supported AHEC 03-04	Dept of Health & Human Services/ University of Louisville	93.107	ULRF SUB 12-19-03	29,057
EMS for Children YR 2	Dept of Health & Human Services/KY Emergency Medical Services Board	93.127	M-03003264	4,732
HETC 2003	Dept of Health & Human Services/ University of Louisville	93.189	2D39HP00007-13SUB	16,006
HETC 2004	Dept of Health & Human Services/ University of Louisville	93.189	ULRF SUB 12-09-03	29,583
KICS Project - Supplement	Dept of Health & Human Services/ University of Louisville	93.192	ULRF SUB-02-0762-04	10,353
KEMSA Paramedic Course-Marshall	Dept of Health & Human Services/KY Emergency Medical Services Board	93.241	M-01262771	2,548
Rural Hospital Flexibility Grant	Dept of Health & Human Services/KY Emergency Medical Services Board	93.241	M-02337131	82,343
The Industrial Hygiene Curriculum a Bioterrorism Project (Part II)	Dept of Health & Human Services	93.263	T02/CCT 410463-10	22,157
Child Care Resource & Referral 2004	Dept of Health & Human Services/ KACCRRRA	93.283	M-03465201	28,339
Ky Youth Connect UTC -2004	Dept of Health & Human Services/ University of KY Research Foundation	93.575	C-03187334	326,420
TRC Title IV 2003	Dept of Health & Human Services/ Eastern Kentucky University	93.645	UKRF-4-67131-04-099	10,103
TRC Non Title IV 2003	Dept of Health & Human Services/ Eastern Kentucky University	93.658	EKU 03-171	111
TRC Title IV 2004	Dept of Health & Human Services/ Eastern Kentucky University	93.658	EKU 03-171	(32)
	Dept of Health & Human Services/ Eastern Kentucky University	93.658	EKU 04-384	125,625

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Cluster/Program	Federal Agency/ Pass-through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
TRC Non Title IV 2004	Dept of Health & Human Services/ Eastern Kentucky University	93.658	EKU 04-384	15,770
Group Train/Juvenile Justice Staff	Dept of Health & Human Services/ Eastern Kentucky University	93.658	EKU 04-216	41,295
MSW Program Development 03-04	Dept of Health & Human Services/ Eastern Kentucky University	93.658	EKU 04-384	100,934
Public Child Welfare Cert. 2004	Dept of Health & Human Services/ Eastern Kentucky University	93.658	EKU-04-357	7,673
KEMSA Rural Health	Dept of Health & Human Services	93.912	PL104-299	312
Rural Health Initiative/ MHU /RTU02	Dept of Health & Human Services	93.912	2 D1A RH 00032-02	276,263
RHP: Empowering the Elderly	Dept of Health & Human Services	93.912	1D1ARH00068-01	88,738
KEMSA Rural Health 03	Dept of Health & Human Services	93.912	2DIARH00048-02	388,133
Rural Health Initiative	Dept of Health & Human Services	93.912	5D1A RH00032-03	91,524
Total Other Federal Awards				<u>\$ 9,771,274</u>
Total Federal Awards				<u>\$ 69,226,373</u>

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

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:

Program	CFDA Number	Subrecipient	Amount Provided
<u>National Air and Space Administration</u>			
Kentucky Space Consortium Year 10	43.001	Murray State University	(1,000)
Kentucky Space Consortium Year 10	43.001	Morehead State University	7,000
Kentucky Space Consortium Year 10	43.001	Eastern Kentucky University	7,600
Kentucky Space Consortium Year 10	43.001	Bellarmine University	258
Kentucky Space Consortium Year 10	43.001	Transylvania University	(1,000)
Kentucky Space Consortium Year 10	43.001	Northern Kentucky University	(1,500)
Kentucky Space Consortium Year 11	43.001	Eastern Kentucky University	20,818
Kentucky Space Consortium Year 11	43.001	Murray State University	4,259
Kentucky Space Consortium Year 11	43.001	University of Kentucky	75,477
Kentucky Space Consortium Year 11	43.001	Morehead State University	7,500
Kentucky Space Consortium Year 12	43.001	Eastern Kentucky University	12,105
Kentucky Space Consortium Year 12	43.001	University of Louisville	11,941
Kentucky Space Consortium Year 12	43.001	Murray State University	30,521
Kentucky Space Consortium Year 12	43.001	Northern Kentucky University	9,549
Kentucky Space Consortium Year 12	43.001	Morehead State University	834
Kentucky Space Consortium Year 12	43.001	University of Kentucky	35,295
Kentucky NASA EPSCoR Program Year 8	43.001	University of Kentucky	264,119
Kentucky NASA EPSCoR Program Year 8	43.001	University of Louisville	414,254
Kentucky NASA EPSCoR Program Year 8	43.001	Kentucky Science & Tech. Corp	16,000
Nova Network Through Ky IDEAS	43.001	University of Kentucky	2,491
Nova Network Through Ky IDEAS	43.001	Eastern Kentucky University	2,500
Nova Network Through Ky IDEAS	43.001	Northern Kentucky University	2,296
Nova Network Through Ky IDEAS	43.001	Murray State University	2,500
Nova Network Through Ky IDEAS	43.001	Morehead State University	2,496
Kentucky Earth Science	43.001	Morehead State University	8,000
<u>U.S. Department of Agriculture</u>			
Poultry Waste	10.001	Purdue University	15,000
<u>U. S. Department of Health & Human Services</u>			
Head Start General 19	93.600	Audubon Head Start	43,950
Head Start General 19	93.600	Murray Head Start	161,964
Head Start General 20	93.600	Audubon Head Start	147,000
Head Start General 20	93.600	Murray Head Start	232,482

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Program	CFDA Number	Subrecipient	Amount Provided
<u>U.S. Department of Justice</u>			
Juvenile Delinquency Project	16.541	Warren County Board of Education	189,010
Juvenile Delinquency Project	16.541	Kentucky Child Now	23,592
Juvenile Delinquency Project	16.541	Bowling Green/Warren County Comm. Ed.	18,703
Juvenile Delinquency Project	16.541	Girls, Inc.	13,462
Juvenile Delinquency Project	16.541	Warren County Fiscal Court	25,646
Juvenile Delinquency Project	16.541	Housing Authority of Bowling Green	105,882
<u>Environmental Protection Agency</u>			
Kentucky Rural Water Agency	66.606	Kentucky Rural Water Association	22,022
Small Rural Water	66.606	Kentucky Rural Water Association	76,435
Wastewater Administration	66.606	Kentucky Rural Water Association	46,049
Tech. Asst./Water Quality	66.606	Kentucky Rural Water Association	103,188
Tech. Asst./Water Quality	66.606	University of Louisville	561
<u>U. S. Department of Education</u>			
Improve Teacher Quality	84.366B	Eastern Michigan University	35,081
Improve Teacher Quality	84.366B	California State University	58,290
Improve Teacher Quality	84.366B	Southeast Missouri University	2,237
Improve Teacher Quality	84.366B	Longwood College	1,296
Improve Teacher Quality	84.366B	Eastern Michigan University	23,908
Improve Teacher Quality	84.366B	University of Northern Iowa	1,863
Improve Teacher Quality	84.366B	Emporia State	34,300
Improve Teacher Quality	84.366B	Middle Tennessee University	58,322
Improve Teacher Quality	84.366B	Warren County Board of Education	14,286
Improve Teacher Quality	84.366B	Bowling Green City Board of Education	10,714
Improve Teacher Quality	84.366B	California State University	53,632
Improve Teacher Quality	84.366B	Southeast Missouri University	25,284
Improve Teacher Quality	84.366B	Longwood College	41,236
Improve Teacher Quality	84.366B	Kentucky State University	21,624
Improve Teacher Quality	84.366B	Millersville University	23,390
Improve Teacher Quality	84.366B	Idaho State University	46,717
Improve Teacher Quality	84.366B	Eastern Michigan University	47,683
Improve Teacher Quality	84.366B	University of Northern Iowa	131,145
Improve Teacher Quality	84.366B	Emporia State	37,183
Improve Teacher Quality	84.366B	California State University	5,643
Improve Teacher Quality	84.366B	Southeast Missouri University	10,804
Improve Teacher Quality	84.366B	Longwood College	33,630
Improve Teacher Quality	84.366B	Kentucky State University	29,848
Improve Teacher Quality	84.366B	Idaho State University	18,999
Reading First Coach	84.357	Warren County Board of Education	89,005
Admin. Support for Title II	84.336	University of Kentucky	70,111
Admin. Support for Title II	84.336	Eastern Kentucky University	67,670
Admin. Support for Title II	84.336	University of Louisville	57,547
Admin. Support for Title II	84.336	AIKCU	136,741
Admin. Support for Title II	84.336	University of Tennessee	59,964
Admin. Support for Title II	84.336	Northern Kentucky University	54,728
Admin. Support for Title II	84.336	Morehead State University	51,969
Admin. Support for Title II	84.336	Murray State University	127,485
University Center '04	11.303	Highland Steel, LLC	8,600
University Center '04	11.303	Robert Zeller, Inc	1,500
University Center '04	11.303	Kentucky Industrial Development	15,000

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

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

We have audited the financial statements of Western Kentucky University (University) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 15, 2004. 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

President Gary A. Ransdell
and Board of Regents
Western Kentucky University
Page 2

This report is intended solely for the information and use of the board of regents, 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**

October 15, 2004

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 (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, 2004. 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 the 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, the 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, 2004.

Internal Control Over Compliance

The management of the 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 board of regents, 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**

October 15, 2004

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

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
A Component Unit of the Commonwealth of Kentucky
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

7. The University's major programs were:

Cluster/Program	CFDA Number
Student Financial Assistance Cluster Head Start	Various 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 \$2,076,791.

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

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Western Kentucky University
A Component Unit of the Commonwealth of Kentucky
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2004

Reference Number	Summary of Finding	Status
03-1	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's management consider the costs and benefits of segregating the custodial and access functions from the recording functions of these employees.	Resolved