

**WESTERN KENTUCKY UNIVERSITY
REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2005 and 2004**

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Crowe Chizek and Company LLC
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REPORT OF INDEPENDENT AUDITORS

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

Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

We have audited the accompanying financial statements of the business-type activities and discretely presented component units of Western Kentucky University (the "University") as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Western Kentucky University Research Foundation, Inc., which represents 3% and 5%, respectively, of the assets and revenues of Western Kentucky University's business-type activities. Also, we did not audit the financial statements of Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc., all of which are discretely presented component units of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for Western Kentucky University Research Foundation, Inc., Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc. is based on the reports of the other auditors. The 2004 financial statements of the University were audited by other auditors whose report, dated October 15, 2004, expressed an unqualified opinion on those financial statements and contained an explanatory paragraph referring to a change in method of determining the University's financial reporting entity.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component units of Western Kentucky University as of June 30, 2005, and the respective changes in financial position and cash flows, as applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2005 on our consideration of Western Kentucky University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the 2005 basic financial statements of Western Kentucky University taken as a whole. The accompanying schedule of expenditures of federal awards on pages 67 through 83 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 2005 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2005 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2005 basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 3 through 14 is not a required part of the 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.


Crowe Chizek and Company LLC

Louisville, Kentucky
October 10, 2005

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

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, 2005 and 2004. MD&A, in addition to the financial statements and the footnote disclosures, is the responsibility of University management.

All financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

An independent audit, performed by **Crowe Chizek and Company LLC**, provides an opinion on the basic financial statements taken as a whole. Crowe Chizek and Company LLC 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, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended. Furthermore, Crowe Chizek and Company LLC 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 and Budget Circular A-133 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Crowe Chizek and Company LLC 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.

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

Reporting Entity

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

Financial statements have also been included for the University's discretely presented component units, in accordance with the requirements of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. These component units are the Western Kentucky University Foundation, Inc., College Heights Foundation, Inc. and the WKU Student Life Foundation, Inc. Financial statements for these entities consist of Statements of Financial Position (balance sheet) and Statement of Activities (income statements). These statements are prepared in accordance with the appropriate Financial Accounting Standards Board (FASB) pronouncements.

Fiscal 2005 Highlights

The financial viability of a public university is a function of a secure and preferably growing enrollment base, solid and preferably growing private giving and state funding. It is noted that a majority of the assets of the WKU Foundation are held and expended through the Foundation and are not recognized in the University stand-alone financial statements except for capital asset purchases transferred to the University. Per state requirements, the "Bucks for Brains" state-funded endowment funds flow through the University, but are transferred to the Foundation for investment and management purposes.

The following data is provided to help assess the financial viability of the University:

<u>Enrollment Base (Headcount)</u>	<u>Fall 2004</u>	<u>Fall 2003</u>
Undergraduate applications	13,367	12,540
Undergraduate enrollment (including returning students)	15,843	15,234
First-time freshmen	3,056	3,175
Total graduate enrollment	2,670	2,593
Total enrollment	18,513	17,827

The following data, with a comparison between 2004/2005 and 2002/2003, is provided to help assess the financial viability of the University:

<u>WKU Foundation</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Endowments	\$39.0 million	\$35.2 million
Total cash receipts	\$ 6.3 million	\$ 4.3 million
<u>State Appropriations</u>		
General nonoperating revenue	\$ 66,859,000	\$ 65,697,000
Retirement of debt obligations	<u>3,181,400</u>	<u>2,946,700</u>
Total	<u>\$ 70,040,400</u>	<u>\$ 68,643,700</u>
State budget reduction	<u>\$(2,381,600)</u>	<u>\$ -</u>

Statement of Net Assets

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

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

A summary of the University's assets, liabilities and net assets, as of June 30, 2005 and 2004, are as follows:

Condensed Statement of Net Assets (in Thousands)

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets	\$ 41,566	\$ 41,357
Capital assets, net	184,169	160,699
Other noncurrent assets	<u>42,293</u>	<u>55,956</u>
Total assets	<u>\$ 268,028</u>	<u>\$ 258,012</u>
LIABILITIES		
Current liabilities	\$ 25,865	\$ 27,856
Noncurrent liabilities	<u>64,201</u>	<u>68,705</u>
Total liabilities	<u>\$ 90,066</u>	<u>\$ 96,561</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 115,839	\$ 87,972
Restricted		
Nonexpendable	11,867	11,503
Expendable	21,500	35,258
Unrestricted	<u>28,756</u>	<u>26,718</u>
Total net assets	<u>\$ 177,962</u>	<u>\$ 161,451</u>

Liabilities include pledges payable to the City of Bowling Green (City) in the amount of \$31,620,543 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$37,353,409 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 reports net operating losses of \$(82,019,925) and \$(82,887,979) for fiscal years 2005 and 2004, respectively.

A summary of the University's revenues, expenses and changes in net assets for the years ended June 30, 2005 and 2004, is as follows:

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

	<u>2005</u>	<u>2004</u>
Operating revenues		
Net tuition and fees	\$ 58,013	\$ 48,064
Grants and contracts	27,554	25,985
Sales and services of educational departments	11,335	12,028
Auxiliary enterprises	15,208	14,754
Other	<u>7,991</u>	<u>5,571</u>
Total operating revenues	<u>120,101</u>	<u>106,402</u>
Operating expenses	<u>202,121</u>	<u>189,290</u>
Operating loss	<u>(82,020)</u>	<u>(82,888)</u>
Nonoperating revenues (expenses)		
State appropriations	67,659	68,644
Grants and contracts	26,402	28,097
Investment income	1,555	561
Interest on capital asset-related debt	(2,160)	(2,211)
Other	<u>(38)</u>	<u>73</u>
Net nonoperating revenues	<u>93,418</u>	<u>95,164</u>
Income before other revenues, expenses, gains or losses	<u>11,398</u>	<u>12,276</u>
State capital appropriations	5,113	10,697
Additions to permanent endowment (state endowment match)	<u>-</u>	<u>4,759</u>
	<u>5,113</u>	<u>15,456</u>
Increase in net assets	16,511	27,732
Net assets, beginning of year	<u>161,451</u>	<u>133,719</u>
Net assets, end of year	<u>\$ 177,962</u>	<u>\$ 161,451</u>

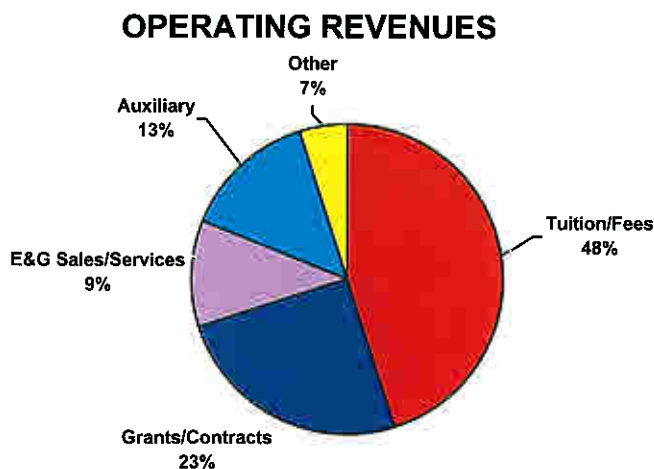
Operating Revenues

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

As previously noted, the University's total headcount enrollment increased by 6.2% and 3.2% between fall 2003 and 2004, and fall 2002 and fall 2003, respectively. As of fall 2004, approximately 80% of students enrolled at the University were Kentucky residents. An additional 9.5% 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.

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 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, 2005 and 2004, were 67.6% and 67.4%, respectively, of the gross tuition and fees with approximately \$27.9 million and \$23.2 million, respectively, being recorded as scholarship allowance.

The distribution of operating revenue, 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, grants and contracts awards (excluding financial aid) continue to increase. Such awards totaled \$11,531,856 for 1996-97 and increased to \$27,843,404 for 2004-05.

The grant and contract awards received in a given year are frequently multiyear awards for which only the current year activity related to the award will be recorded, *i.e.*, any cash received in excess of expenses incurred will be recorded as deferred revenues. Additionally, awards related to future periods are not recorded in the University's financial statements. The following chart provides a two-year comparison of total grants and contracts awarded (not received/recorded) during the 2005 and 2004 fiscal years.

Grants and Contracts Awards (Excluding Financial Aid)

	<u>2005</u>	<u>2004</u>
Federal	\$ 23,301,951	\$ 22,592,218
State	2,607,111	4,549,430
Other	<u>1,964,342</u>	<u>1,917,923</u>
Total	<u>\$ 27,873,404</u>	<u>\$ 29,059,571</u>

Operating Expenses

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

Change in Net Assets

For the years ended June 30, 2005 and 2004, the University's net assets increased \$16,510,973 and \$27,731,720, respectively. The year-end net assets for June 30, 2005 and 2004 were \$177,961,847 and \$161,450,874, 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 from noncapital financing activities
- Cash flows from capital and related financing activities
- Cash flows from investing activities
- Reconciliation of the net cash flows from operating activities to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets

The major sources of cash received for operating activities are tuition and fees of \$58,232,915, auxiliary enterprises of \$15,207,744 and grants and contracts of \$25,686,335. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$126,517,746 and to suppliers and contractors of \$65,440,526. 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 \$3,181,400 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 Statement of Cash Flows is summarized as follows:

Condensed Statement of Cash Flows (in thousands)

	<u>2005</u>	<u>2004</u>
Cash Provided By (Used In)		
Operating activities	\$(74,182)	\$ (80,255)
Noncapital financing activities	93,961	96,501
Capital and related financing activities	(37,213)	(13,296)
Investing activities	<u>251</u>	<u>(1,495)</u>
Net increase (decrease) in cash and cash equivalents	(17,183)	1,455
Cash and cash equivalents, beginning of year	<u>60,359</u>	<u>58,904</u>
Cash and cash equivalents, end of year	<u>\$ 43,176</u>	<u>\$ 60,359</u>

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2005 and 2004, the University had \$184.2 million and \$160.7 million invested in capital assets, net of accumulated depreciation of \$124.9 million and \$115.5 million, respectively. Capital assets at June 30, 2005 and 2004 are summarized below:

	<u>2005</u>	<u>2004</u>
Land	\$ 5,946,131	\$ 5,327,474
Buildings and improvements	205,533,480	181,429,689
Infrastructure	16,723,324	10,829,942
Furniture, fixtures and equipment	30,961,153	27,050,300
Library materials	32,018,208	30,301,507
Construction in progress	<u>17,868,692</u>	<u>21,292,739</u>
Total capital assets	309,050,988	276,231,651
Less accumulated depreciation	<u>(124,882,358)</u>	<u>(115,532,727)</u>
Capital assets	<u>\$ 184,168,630</u>	<u>\$ 160,698,924</u>

As of June 30, 2005 and 2004, the major construction project in progress consisted of the Science Complex renovation.

Debt

As of June 30, 2005 and 2004, the University had \$69,051,709 and \$73,220,399, 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 WKU Student Life Foundation, Inc. The debt obligations are summarized as follows:

	<u>2005</u>	<u>2004</u>
Pledges to the City	\$ 31,620,543	\$ 31,620,543
Consolidated Educational Buildings Revenue Bonds	33,714,577	37,353,409
Capital leases	1,846,850	2,410,942
Other long-term debt	<u>1,869,739</u>	<u>1,835,505</u>
Total	<u>\$ 69,051,709</u>	<u>\$ 73,220,399</u>

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 rates for fiscal years 2005 through 2008. The tuition rate 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 reflected a commitment to return to more modest rate increases. The 2005 General Assembly passed a tax modernization package that made a very good budget bill feasible. Thus, at the recommendation of the Council on Postsecondary Education, the tuition rates for fiscal year 2005-06 were reduced slightly by the Board.
- 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, and the University's premium structure and then makes recommendations to the administration regarding any rate revisions for the following calendar year. The University's 2005-06 operating budget includes a full-time employee contribution of \$390 per month effective July 1, 2005, with an increase to \$405 effective January 1, 2006. Based on the University benefits committee's work, the self-insurance program continues to be financially sound and minimal changes will be proposed for calendar year 2006.

- Western Kentucky University has historically provided workers' compensation coverage for its employees through the Commonwealth of Kentucky workers' compensation plan. Due to extraordinary increases in premiums in recent years, the University thoroughly investigated alternative means of providing workers' compensation coverage with the assistance of a provider of insurance broker and risk management services. As a result of those investigations, the University terminated participation in the state program effective July 1, 2005 in favor of a self-insured workers' compensation program. The self-insured workers' compensation program is designed to provide managed and efficient programs to protect the health interests of employees at a significantly lower projected cost than a fully-insured plan.
- The 2005 Kentucky General Assembly enacted a financial budget that was very favorable for higher education. Among other improvements, the budget included:
 - Restoration of all the recurring postsecondary education reductions of 2004;
 - Operation and maintenance funding for new facilities;
 - An additional 1.8% across the board increase and a 1.8% increase for benchmark equity funding; and
 - Enrollment growth funding for growth between Fall 1998 and Fall 2004.

This extraordinary endorsement of postsecondary education by the 2005 General Assembly , along with the aforementioned scheduled tuition increases, assisted Western Kentucky University in approving a 2005-06 operating budget totaling \$272,586,000.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 27,498,455	\$ 29,362,287
Accounts receivable, net of allowance of \$564,339 and \$276,655 respectively	3,714,123	3,581,221
Interest receivable	198,185	107,416
Federal and state grants receivable	7,701,289	6,074,610
Inventories	1,545,207	1,383,272
Loans to students, net	760,816	745,591
Prepaid expenses	<u>148,338</u>	<u>102,208</u>
Total current assets	41,566,413	41,356,605
Noncurrent assets		
Restricted cash and cash equivalents	15,677,725	30,996,899
Long-term investments	5,184,328	4,908,259
Loans to students, net of allowance of \$561,192 and \$549,962, respectively	5,091,611	4,989,723
Assets held in trust	15,617,262	14,291,354
Capital assets	309,050,988	276,231,651
Accumulated depreciation on capital assets	(124,882,358)	(115,532,727)
Deferred bond issuance costs, net of accumulated amortization of \$91,255 and \$42,941, respectively	<u>721,966</u>	<u>770,280</u>
Total noncurrent assets	<u>226,461,522</u>	<u>216,655,439</u>
Total assets	<u>\$ 268,027,935</u>	<u>\$ 258,012,044</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 6,607,179	\$ 4,168,355
Self insured health liability	976,360	784,345
Accrued payroll and withholdings	1,194,508	1,326,205
Accrued compensated absences	2,284,334	2,060,638
Accrued interest	335,485	352,389
Deferred revenue	8,979,445	13,911,926
Long-term obligations - current portion	4,850,930	4,515,656
Deposits held in custody for others	<u>637,068</u>	<u>736,913</u>
Total current liabilities	25,865,309	27,856,427
Long-term obligations	<u>64,200,779</u>	<u>68,704,743</u>
Total liabilities	<u>\$ 90,066,088</u>	<u>\$ 96,561,170</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Net assets		
Invested in capital assets, net of related debt	\$ 115,838,662	\$ 87,972,604
Restricted for		
Nonexpendable - endowments	11,866,588	11,502,775
Expendable		
Loans	6,069,986	6,084,152
Capital projects	10,282,854	24,104,882
Debt service	5,147,563	5,068,767
Unrestricted	<u>28,756,194</u>	<u>26,717,694</u>
Total net assets	<u>\$ 177,961,847</u>	<u>\$ 161,450,874</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL CONDITION
December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash and cash equivalents	\$ 1,838,298	\$ 7,312,479
Investments	29,078,716	19,133,372
Accounts receivable	58,798	41,920
Contributions receivable, net of allowance of \$100,000 for 2005 and 2004 respectively	10,551,663	10,318,163
Beneficial interest in charitable remainder trusts	2,669,886	2,824,015
Prepaid expenses and other assets	2,682	2,682
Assets held for others	<u>12,621,783</u>	<u>12,022,874</u>
Total assets	<u>\$ 56,821,826</u>	<u>\$ 51,655,505</u>
LIABILITIES		
Accounts payable	\$ 325,995	\$ 303,569
Notes payable	994,106	900,731
Annuities payable	2,282,767	2,282,767
Assets held for others	<u>12,621,783</u>	<u>12,022,874</u>
Total liabilities	16,224,651	15,509,941
NET ASSETS		
Unrestricted	9,104,526	7,993,099
Temporarily restricted	10,334,198	8,573,244
Permanently restricted	<u>21,158,451</u>	<u>19,579,221</u>
Total net assets	<u>40,597,175</u>	<u>36,145,564</u>
Total liabilities and net assets	<u>\$ 56,821,826</u>	<u>\$ 51,655,505</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
WKU STUDENT LIFE FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and cash equivalents	\$ 2,405,597	\$ 1,171,613
Accounts receivable	2,207,417	2,486,285
Accrued interest receivable	79,362	73,743
Prepaid expenses	368,733	843,933
Assets limited as to use	8,719,691	8,171,769
Assets held for others - student deposits	667,657	504,608
Property and equipment, net	65,595,271	66,982,618
Other assets	<u>624,472</u>	<u>663,160</u>
 Total assets	 <u>\$ 80,668,200</u>	 <u>\$ 80,897,729</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Line of credit	\$ 4,466,700	\$ 3,562,178
Accounts payable	1,422,515	1,368,079
Accrued expenses	149,523	284,646
Student deposits	667,657	504,608
Interest rate collar and swap agreements, at fair value	9,719,610	8,866,356
Long-term debt, net of unamortized discounts of \$230,972 for 2005 and \$240,241 for 2004	<u>63,712,381</u>	<u>64,957,108</u>
Total liabilities	80,138,386	79,542,975
 Net assets - unrestricted	 <u>529,814</u>	 <u>1,354,754</u>
 Total liabilities and net assets	 <u>\$ 80,668,200</u>	 <u>\$ 80,897,729</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 763,273	\$ 832,085
Notes receivable	26,000	26,000
Interest and dividends receivable	134,146	129,054
Short-term investments	4,031,452	1,699,329
Contributions receivable	<u>94,134</u>	<u>403,655</u>
Total current assets	5,049,005	3,090,123
Investments and long-term receivables		
Long-term investments	23,250,529	23,129,436
Assets held in trust	1,365,543	1,432,042
Assets held for others	1,669,924	1,589,630
Note receivable	130,295	156,295
Contributions receivable	<u>249,308</u>	<u>400,502</u>
Total investments and long-term receivables	26,665,599	26,707,905
Other assets	<u>94,697</u>	<u>94,697</u>
Total assets	<u>\$ 31,809,301</u>	<u>\$ 29,892,725</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 29,764	\$ 69,481
Current portion of long-term debt	69,536	69,536
Current portion of refundable advances and gift annuity liabilities	<u>322,921</u>	<u>305,376</u>
Total current liabilities	422,221	444,393
Long-term liabilities		
Note payable	834,309	713,452
Refundable advances and gift annuity liabilities	1,659,227	1,677,738
Assets held for others	<u>1,669,924</u>	<u>1,589,630</u>
Total long-term liabilities	4,163,460	3,980,820
Total liabilities	4,585,681	4,425,213
Net assets		
Donor restricted		
Permanently	21,736,110	20,849,867
Temporarily	<u>2,606,141</u>	<u>1,476,040</u>
	24,342,251	22,325,907
Unrestricted		
Designated by board for perpetual scholarship fund	<u>2,881,369</u>	<u>3,141,605</u>
Total net assets	27,223,620	25,467,512
Total liabilities and net assets	<u>\$ 31,809,301</u>	<u>\$ 29,892,725</u>

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
REVENUES		
Operating revenues		
Tuition and fees, net of discounts and allowances of \$27,863,157 and \$23,161,100	\$ 58,013,215	\$ 48,063,798
Federal grants and contracts	14,553,794	14,270,411
State grants and contracts	12,995,867	11,667,524
Local and private grants and contracts	4,316	46,952
Sales and services of educational activities	11,334,805	12,028,014
Auxiliary enterprise revenues, net of discounts and allowances of \$714,440 and \$593,874	15,207,744	14,754,437
Other operating revenues	<u>7,991,435</u>	<u>5,570,456</u>
Total operating revenues	<u>120,101,176</u>	<u>106,401,592</u>
EXPENSES		
Operating expenses		
Education and general		
Instruction	75,675,552	70,147,414
Research	8,323,528	7,250,081
Public service	15,512,017	16,065,892
Libraries	4,123,438	3,834,958
Academic support	8,779,750	7,939,136
Student services	17,382,346	16,949,980
Institutional support	19,311,636	17,301,712
Operation and maintenance of plant	17,127,611	15,801,223
Student financial aid	10,384,913	11,397,493
Depreciation	9,894,594	8,616,982
Auxiliary enterprises	<u>15,605,716</u>	<u>13,984,700</u>
Total operating expenses	<u>202,121,101</u>	<u>189,289,571</u>
Operating loss	(82,019,925)	(82,887,979)

See accompanying notes.
(Continued)

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Nonoperating revenues (expenses)		
Gross state appropriations	\$ 70,040,400	\$ 68,643,700
Less: state budget reduction	(2,381,600)	-
Federal grants and contracts	20,860,383	19,289,141
State grants and contracts	3,586,552	5,214,431
Local and private grants and contracts	1,955,114	3,593,824
Investment income	1,554,634	560,788
Interest on capital asset-related debt	(2,159,743)	(2,210,639)
Gain on disposal of capital assets	73,157	122,332
Loss on sale of investments	(6,445)	-
Other nonoperating expenses	<u>(104,481)</u>	<u>(49,256)</u>
Net nonoperating revenues	<u>93,417,971</u>	<u>95,164,321</u>
Income before other revenue expenses, gains or losses	11,398,046	12,276,342
State capital appropriations	5,112,927	10,696,378
Additions to permanent endowment	<u>-</u>	<u>4,759,000</u>
Increase in net assets	16,510,973	27,731,720
Net assets, beginning of year	<u>161,450,874</u>	<u>133,719,154</u>
Net assets, end of year	<u>\$ 177,961,847</u>	<u>\$ 161,450,874</u>

See accompanying notes.
(Continued)

WESTERN KENTUCKY UNIVERSITY
 WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
 STATEMENTS OF ACTIVITIES
 Year ended December 31, 2004 and six months ended December 31 2003

	<u>2004</u>	<u>2003</u>
Changes in unrestricted net assets		
Unrestricted revenues, gains and other support		
Contributions	\$ 270,113	\$ 147,758
Investment return	2,008,507	2,482,422
Net assets released from restrictions	<u>2,986,930</u>	<u>2,033,868</u>
Total unrestricted revenues, gains and other support	<u>5,265,550</u>	<u>4,664,048</u>
Expenses		
Payments made on behalf of Western Kentucky University for		
Programs	3,563,887	2,415,860
Management and general	547,502	284,092
Fundraising	<u>42,734</u>	<u>70,621</u>
Total expenses	<u>4,154,123</u>	<u>2,770,573</u>
Change in unrestricted net assets	<u>1,111,427</u>	<u>1,893,475</u>
Changes in temporarily restricted net assets		
Contributions	4,054,792	1,201,515
Investment return	401,654	220,981
Miscellaneous income	291,438	95,672
Net assets released from restrictions	<u>(2,986,930)</u>	<u>(2,033,868)</u>
Change in temporarily restricted net assets	<u>1,760,954</u>	<u>(515,700)</u>
Changes in permanently restricted net assets		
Contributions	<u>1,579,230</u>	<u>881,483</u>
Increase in net assets	4,451,611	2,259,258
Net assets, beginning of period	<u>36,145,564</u>	<u>33,886,306</u>
Net assets, end of period	<u>\$ 40,597,175</u>	<u>\$ 35,145,564</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
WKU STUDENT LIFE FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues		
Rent	\$ 12,606,644	\$ 10,097,273
Contributions	-	206,377
In-kind contributions	-	30,586
Other	<u>728,760</u>	<u>977,596</u>
Total operating revenues	<u>13,335,404</u>	<u>11,311,832</u>
Operating expenses		
Salaries, benefits and related expenses	3,467,704	3,171,342
Utilities	1,560,362	1,389,803
Repairs, maintenance and supplies	620,347	434,182
Management fee	69,135	129,635
Professional fees	52,770	48,442
Insurance	810,624	948,070
Depreciation and amortization	2,488,642	2,112,038
Bad debt expense	123,451	-
Other	<u>791,196</u>	<u>813,939</u>
Total operating expenses	<u>9,984,231</u>	<u>9,047,451</u>
Change in net assets from operations	<u>3,351,173</u>	<u>2,264,381</u>
Nonoperating revenues (expenses)		
Interest income	568,372	520,342
Interest expense and fees	(1,806,573)	(1,103,749)
Change in fair value of interest rate collar and swap agreements	<u>(2,937,912)</u>	<u>2,761,410</u>
Total nonoperating revenues (expenses)	<u>(4,176,113)</u>	<u>2,178,003</u>
Change in unrestricted net assets	(824,940)	4,442,384
Unrestricted net assets (deficit), beginning of year	<u>1,354,754</u>	<u>(3,087,630)</u>
Unrestricted net assets, end of year	<u>\$ 529,814</u>	<u>\$ 1,354,754</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Changes in unrestricted net assets		
Unrestricted revenues, gains and other support		
Investment income	\$ 69,244	\$ 77,418
Net realized and unrealized gains on investments	223,657	1,974,942
Net assets released from restrictions:		
Satisfaction of program restrictions	<u>1,282,867</u>	<u>1,921,733</u>
Total unrestricted revenues, gains and other support	<u>1,575,768</u>	<u>3,974,093</u>
Expenses		
Program		
Scholarships and awards	1,203,334	1,113,411
Other	<u>272,096</u>	<u>858,249</u>
	<u>1,475,430</u>	<u>1,971,660</u>
Management and general		
Salaries and benefits	281,909	266,821
Interest expense	31,244	13,883
Other	<u>47,421</u>	<u>26,410</u>
	<u>360,574</u>	<u>307,114</u>
Total expenses	<u>1,836,004</u>	<u>2,278,774</u>
Change in unrestricted net assets	<u>(260,236)</u>	<u>1,695,319</u>
Changes in temporarily restricted net assets -		
Contributions	308,496	482,444
Investment income	576,450	556,018
Net realized and unrealized gains on investments	1,342,570	401,870
Net change in value of split interest agreements	185,452	318,411
Net assets released from restrictions	<u>(1,282,867)</u>	<u>(1,921,733)</u>
	<u>1,130,101</u>	<u>(162,990)</u>
Changes in permanently restricted net assets -		
Contributions	<u>886,243</u>	<u>1,795,583</u>
Increase in net assets	1,756,108	3,327,912
Net assets, beginning of year	<u>25,467,512</u>	<u>22,139,600</u>
Net assets, end of year	<u>\$ 27,223,620</u>	<u>\$ 25,467,512</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Tuition and fees	\$ 58,232,915	\$ 46,531,079
Grants and contracts	25,686,335	24,828,843
Payments to employees	(120,907,945)	(112,305,828)
Payments to suppliers	(55,282,675)	(57,558,917)
Loans issued to students	(873,930)	(1,060,432)
Collection of loans issued to students	756,817	840,488
Sales and services of educational departments	11,334,805	12,028,014
Other operating revenues	7,431,700	5,570,456
Auxiliary enterprise revenues	15,207,744	14,754,437
Auxiliary enterprise payments		
Payments to employees	(5,609,801)	(5,050,128)
Payments to suppliers	(10,157,851)	(8,832,821)
Net cash used in operating activities	<u>(74,181,886)</u>	<u>(80,254,809)</u>
Cash flows from noncapital financing activities		
State appropriations	67,658,800	68,643,700
Grants and contracts receipts	26,402,049	28,097,396
Student organization agency disbursements	(99,845)	(239,608)
Net cash from noncapital financing activities	<u>93,961,004</u>	<u>96,501,488</u>
Cash flows from 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	155,338	163,654
Purchases of capital assets	(30,636,457)	(28,908,381)
Principal paid on capital debt and leases	(4,555,370)	(4,194,467)
Interest paid on capital debt and leases	(2,176,647)	(2,124,067)
Net cash flows used in capital and related financing activities	<u>(37,213,136)</u>	<u>(13,296,098)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	2,745,130	2,608,642
Purchase of investments	(3,571,012)	(4,926,614)
Investment income	1,076,894	822,664
Net cash flows from (used in) investing activities	<u>251,012</u>	<u>(1,495,308)</u>
Net change in cash and cash equivalents	(17,183,006)	1,455,273
Cash and cash equivalents at beginning of year	<u>60,359,186</u>	<u>58,903,913</u>
Cash and cash equivalents at end of year	<u>\$ 43,176,180</u>	<u>\$ 60,359,186</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Reconciliation of cash and cash equivalents to the statement of net assets		
Cash and cash equivalents	\$ 27,498,455	\$ 29,362,287
Restricted cash and cash equivalents	<u>15,677,725</u>	<u>30,996,899</u>
Total cash and cash equivalents	<u>\$ 43,176,180</u>	<u>\$ 60,359,186</u>
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (82,019,925)	\$ (82,887,979)
Depreciation expense	9,894,594	8,616,982
Capital assets contributed by foundations	(158,568)	-
Changes in operating assets and liabilities		
Accounts receivable, net	(132,902)	(1,452,383)
Federal and state grants receivable	(1,626,679)	509,301
Assets held in trust	(395,569)	-
Inventories	(161,935)	101,751
Loans to students, net	(117,113)	(219,944)
Prepaid expenses	(46,130)	22,458
Accounts payable	117,881	(1,409,454)
Health insurance liability	192,015	(660,891)
Accrued payroll and payroll withholdings	(131,697)	(744,114)
Accrued compensated absences	223,696	(297,847)
Deferred revenue	<u>180,446</u>	<u>(1,832,689)</u>
Net cash used in operating activities	<u>\$ (74,181,886)</u>	<u>\$ (80,254,809)</u>
Supplemental cash flows information		
Capital leases incurred for capital assets	\$ 64,761	\$ 489,199
WKU Real Estate Corporation debt assumed in exchange for capital asset	265,752	-
Construction in process included in accounts payable	2,320,943	206,808
Increase in assets held in trust from state endowment match	-	4,759,000

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 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 serves a student population of approximately 18,500 and 17,800 in 2005 and 2004, respectively. The University is operated under the jurisdiction of a board of regents and is a component unit of the Commonwealth of Kentucky. Major federally funded student financial aid programs in which the University participates include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study, Federal Family Education Loan, Federal Direct Loan and Federal Perkins Loan Programs. The University extends unsecured credit to students.

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

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

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

During 2004, the University retroactively changed its method of financial statement presentation and disclosure 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 Western Kentucky University Student Life Foundation, Inc. (the Foundations) as 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.

The financial information included for each foundation noted above is derived from the respective foundation's annual audited financial statements. Western Kentucky University Foundation, Inc. and College Heights Foundation, Inc. operate on a calendar year. Thus, the information included for each of these foundations is as of December 31, 2004 and 2003. The Student Life Foundation, Inc. operates on a fiscal year beginning July, 1 and extending through June 30, likewise the information contained herein is as of June 30, 2005 and 2004.

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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

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

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 with an original maturity of 3 months or less that are immediately available to the University to be cash equivalents. Funds held by the Commonwealth of Kentucky are considered cash equivalents.

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

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

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

Deferred Bond Issue Costs: Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the straight-line method.

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

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

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset and is not allocated to functional expense categories. Equipment with an estimated useful life of greater than one year and a cost of \$5,000 is capitalized and depreciated with one-half a year's depreciation taken during the year of purchase or donation. Library materials are capitalized in total for the year with one-half 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.

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

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

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

	<u>2005</u>	<u>2004</u>
Total interest expense incurred on borrowings for project	\$ 833,117	\$ 436,125
Interest income from investment of proceeds of borrowings for project	<u>607,031</u>	<u>84,361</u>
Net interest cost capitalized	<u>226,086</u>	<u>351,764</u>
Interest capitalized	226,086	351,764
Interest charged to expense	<u>2,159,743</u>	<u>2,210,639</u>
Total interest incurred	<u>\$ 2,385,829</u>	<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 be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than capitalized.

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

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

Classification of Revenues: The University has classified its revenues as either operating or 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.

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, 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

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

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

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

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

Reclassifications: Certain financial 2004 amounts have been reclassified to conform with the 2005 financial statement presentation. These items included a reclassification between investments and cash and equivalents on the University's financial statements, as well as certain statement of net asset reclassifications on each of the separately reported supporting foundation's financial statements. These reclassifications had no effect on the change in net assets.

NOTE 2 - ASSETS HELD IN TRUST

Assets held in trust consisted of:

	<u>2005</u>	<u>2004</u>
Cash equivalents	\$ 3,750,675	\$ 2,788,579
Common equity, common fixed income and mutual funds	<u>11,866,587</u>	<u>11,502,775</u>
Fair value of assets held in trust	<u>\$ 15,617,262</u>	<u>\$ 14,291,354</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 2 - ASSETS HELD IN TRUST (Continued)

Assets held with the City and the WKU Student Life Foundation, Inc. are held pursuant to sinking fund requirements of pledges to the City and notes payable to the WKU Student Life Foundation, Inc. as further described in Note 7. Funding received through the Regional University Excellence Trust Fund is further described in Note 15.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash

The carrying amount of cash was \$43,176,180 at June 30, 2005, while the bank balances were \$44,528,904. All account balances at banks were either insured by the Federal Deposit Insurance Corporation (FDIC) for \$100,000, or collateralized with securities of the U.S. Government or with letters of credit issued by the Federal Home Loan Bank held in the University's name by financial institutions acting as the University's agent.

Investments (excluding 457(f) Incentive Plan)

The investments which the University may purchase are limited by Commonwealth of Kentucky law to the following: (1) U.S. Treasury Obligations; (2) U.S. Government Agency securities including collateralized mortgage obligations; (3) certificates of deposit or time deposits of banks and savings and loan associations which are insured by a Federal corporation; (4) fully collateralized repurchase agreements.

457(f) Incentive Plan Investments

Pursuant to plan documents, the investments included in this plan are directed by the beneficiaries of the account and consist of money market mutual funds. The beneficiaries of these investments vest a certain percentage of the account balance on an annual basis. The vested balance is paid to the beneficiary subsequent to the University's fiscal year-end. The total amount vested and payable as of June 30, 2005 was \$121,560. The investments in this plan, by plan agreement, may be liquidated at any time and, as such, have been classified with maturities of less than one year.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the University's investments at June 30, 2005:

Investment Type	Fair Value	Less than One Year	One to Five Years	Six to Ten years	Greater than Ten Years
U.S. Treasury Notes	\$ 4,897,818	\$ 4,897,818	\$ -	\$ -	\$ -
457(f) Incentive Plan	286,510	286,510	-	-	-
Total	<u>\$ 5,184,328</u>	<u>\$ 5,184,328</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk: The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, bond resolutions govern the investment of bond reserves.

Credit Risk: The University's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The University's investment policy allows investments in U.S. Agency securities if such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services.

University investments in debt securities, at June 30, 2005, consisted solely of investments in U.S. Treasuries, which are not considered to have credit risk

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's investment policy requires that all amounts in excess of any insurance limits be collateralized by securities eligible for University investment. The market value of the pledge securities shall equal or exceed the portion of the deposit requiring collateralization. The University is fully collateralized as of June 30, 2005.

Concentration of Credit Risk: The Commonwealth of Kentucky places no limit on the amount the University may invest in any one issuer. More than 90% percent of the University's investments are U.S. Treasury Obligations. The investments reported in the University's 457(f) Incentive Plan are beneficiary directed money market mutual funds.

The University is not exposed to foreign currency risk as of June 30, 2005.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Investment Income

Investment income for the year ended June 30, 2005 and 2004 consisted of:

	<u>2005</u>	<u>2004</u>
Interest income, including interest earned on cash equivalents	\$ 979,784	\$ 618,004
Net increase (decrease) in fair value of investments	<u>574,850</u>	<u>(57,216)</u>
	<u>\$ 1,554,634</u>	<u>\$ 560,788</u>

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of June 30:

	<u>2005</u>	<u>2004</u>
Tuition, fees, sales and services	\$ 3,802,385	\$ 2,973,642
Credit memos	308,603	530,402
Miscellaneous, other	<u>167,474</u>	<u>353,832</u>
	4,278,462	3,857,876
Less allowance for doubtful accounts	<u>(564,339)</u>	<u>(276,655)</u>
Accounts receivable, net	<u>\$ 3,714,123</u>	<u>\$ 3,581,221</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 5 - CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2005, are summarized as follows:

	Balance July 1, <u>2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance June 30, <u>2005</u>
Cost					
Land	\$ 5,327,474	\$ 618,657	\$ -	\$ -	\$ 5,946,131
Buildings and improvements	181,429,689	-	-	24,103,791	205,533,480
Infrastructure	10,829,942	-	-	5,893,382	16,723,324
Furniture, fixtures and equipment	27,050,300	3,123,921	(475,496)	1,262,428	30,961,153
Library materials	30,301,507	1,868,349	(151,648)	-	32,018,208
Construction in progress	<u>21,292,739</u>	<u>27,835,554</u>	<u>-</u>	<u>(31,259,601)</u>	<u>17,868,692</u>
	<u>276,231,651</u>	<u>33,446,481</u>	<u>(627,144)</u>	<u>-</u>	<u>309,050,988</u>
Accumulated depreciation					
Buildings and improvements	71,522,808	5,634,410	-	-	77,157,218
Infrastructure	4,740,776	483,863	-	-	5,224,639
Furniture, fixtures, and equipment	17,087,536	2,219,611	(393,315)	-	18,913,832
Library materials	<u>22,181,607</u>	<u>1,556,710</u>	<u>(151,648)</u>	<u>-</u>	<u>23,586,669</u>
	<u>115,532,727</u>	<u>9,894,594</u>	<u>(544,963)</u>	<u>-</u>	<u>124,882,358</u>
Net capital assets	<u>\$ 160,698,924</u>	<u>\$ 23,551,887</u>	<u>\$ (82,181)</u>	<u>\$ -</u>	<u>\$ 184,168,630</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 5 - CAPITAL ASSETS (Continued)

Changes in capital assets for the year ended June 30, 2004, are summarized as follows:

	Balance July 1, <u>2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance June 30, <u>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>-</u>	<u>276,231,651</u>
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>-</u>	<u>115,532,727</u>
Capital assets, net	<u>\$ 139,752,840</u>	<u>\$ 20,987,431</u>	<u>\$ (41,347)</u>	<u>\$ -</u>	<u>\$ 160,698,924</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 5 - CAPITAL ASSETS (Continued)

A summary of construction in progress at June 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Science Complex renovation	\$ -	\$ 15,259,876
Parking structure	8,544,691	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
Downing University Center (phase II)	4,230,686	-
Combustion Lab	2,786,747	-
Others under \$500,000	<u>2,306,568</u>	<u>2,573,125</u>
	<u>\$ 17,868,692</u>	<u>\$ 21,292,739</u>

Contractual commitments in connection with all projects totaled \$6,814,609 and \$10,709,479 at June 30, 2005 and 2004, respectively.

NOTE 6 - DEFERRED REVENUES

Deferred revenue as of June 30 consisted of:

	<u>2005</u>	<u>2004</u>
Unexpended state capital appropriations	\$ 2,962,912	\$ 8,075,839
Summer school tuition and fees	2,852,545	2,499,944
Grants and contracts	2,904,896	3,145,859
Advance sale of football tickets	76,587	59,931
University master plan	78,825	64,700
ATM rental	24,250	41,650
Miscellaneous	<u>79,430</u>	<u>24,003</u>
Total deferred revenue	<u>\$ 8,979,445</u>	<u>\$ 13,911,926</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 7 - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2005:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 2,410,942	\$ 64,761	\$ (628,853)	\$ 1,846,850	\$ 643,199
Bonds payable, net of discounts and deferred loss on refinancing	37,353,409	-	(3,638,832)	33,714,577	3,748,833
Other long-term debt	1,835,505	265,752	(231,518)	1,869,739	458,898
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>\$ 73,220,399</u>	<u>\$ 330,513</u>	<u>\$ (4,499,203)</u>	<u>\$ 69,051,709</u>	<u>\$ 4,850,930</u>

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	3,638,833
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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

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

	<u>2005</u>	<u>2004</u>
Series M Bonds, dated March 1, 1997, with interest rates from 4.70% to 4.90%. Final principal payment date May 1, 2007	\$ 1,790,000	\$ 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	4,195,000	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	6,962,362	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	10,235,663	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>10,531,552</u>	<u>10,961,830</u>
Total bonds payable	<u>\$ 33,714,577</u>	<u>\$ 37,353,409</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

The debt service requirements for the bonds payable as of June 30, 2005 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 3,805,000	\$ 1,201,135	\$ 5,006,135
2007	3,920,000	1,098,705	5,018,705
2008	3,075,000	983,478	4,058,478
2009	2,875,000	900,470	3,775,470
2010	2,975,000	821,405	3,796,405
2011-2015	6,385,000	3,145,338	9,530,338
2016-2020	6,515,000	1,911,594	8,426,594
2021-2024	<u>4,635,000</u>	<u>421,429</u>	<u>5,056,429</u>
	34,185,000	10,483,554	44,668,554
Less: unamortized discounts, net of premium on DEBR Series O	(242,057)	-	(242,057)
Less: deferred loss on defeasance of CEBR Series L	<u>(228,366)</u>	<u>-</u>	<u>(228,366)</u>
	<u>\$ 33,714,577</u>	<u>\$ 10,483,554</u>	<u>\$ 44,198,131</u>

On July 1, 2003, the University defeased 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 liability 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 are being used for the expansion and renovation of the Student Parking Structure and for relocating the Department of Facilities Management from the existing parking structure to facilities to be constructed as part of the Series P Project.

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

Capital Lease Obligations

The University has acquired certain equipment under various lease-purchase contracts and other capital lease agreements. The costs of University assets held under capital leases totaled \$3,800,622 and \$5,093,901 net of accumulated depreciation of \$1,312,207 and \$1,229,708 at June 30, 2005 and 2004, respectively. 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, 2005:

Year ending June 30	Total to <u>be Paid</u>	Present Value of Future Minimum Lease <u>Payments</u>	Interest <u>Portion</u>
2006	\$ 716,550	\$ 643,199	\$ 73,351
2007	415,558	376,403	39,155
2008	376,615	351,300	25,315
2009	245,361	231,168	14,193
2010	225,131	218,387	6,744
2011-2015	<u>26,393</u>	<u>26,393</u>	<u>-</u>
	<u>\$ 2,005,608</u>	<u>\$ 1,846,850</u>	<u>\$ 158,758</u>

Other Long-Term Debt

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

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

Debt service requirements on the other long-term debt at June 30, 2005, were as follows:

Year ending June 30	Total to <u>be Paid</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 544,696	\$ 458,898	\$ 85,798
2007	544,072	484,624	59,448
2008	542,039	510,379	31,660
2009	211,580	197,412	14,168
2010	24,000	13,383	10,617
2011-2015	120,000	77,911	42,089
2016-2020	120,000	99,988	20,012
2021-2025	<u>28,000</u>	<u>27,144</u>	<u>856</u>
	<u>\$ 2,134,387</u>	<u>\$ 1,869,739</u>	<u>\$ 264,648</u>

Pledges Payable

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

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

The University has recorded the principal of both Series 2002B and 2002C City Bonds as 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 payment 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 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 <u>June 30</u>	Total to <u>be Paid</u>	Principal <u>2002B</u>	Principal <u>2002C</u>	Interest <u>2002B</u>	Interest <u>2002C</u>
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	2,124,388	590,000	30,000	1,393,675	110,713
2011-2015	12,501,369	5,230,000	285,000	6,470,113	516,256
2016-2020	14,763,494	8,820,000	515,000	5,021,938	406,556
2021-2025	15,397,900	11,940,000	750,000	2,499,250	208,650
2026	<u>3,042,450</u>	<u>2,715,000</u>	<u>180,000</u>	<u>135,750</u>	<u>11,700</u>
	54,822,127	30,115,000	1,800,000	21,202,765	1,704,362
Less unamortized discount	<u>294,457</u>	<u>286,219</u>	<u>8,238</u>	<u>-</u>	<u>-</u>
Total pledges payable	<u>\$ 54,527,670</u>	<u>\$ 29,828,781</u>	<u>\$ 1,791,762</u>	<u>\$ 21,202,765</u>	<u>\$ 1,704,362</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

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 ten years and require the University to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at June 30, 2005, were:

2006	\$ 429,277
2007	436,072
2008	324,954
2009	300,106
2010	187,971
Thereafter	<u>975,771</u>
	<u>\$ 2,654,151</u>

**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 Western Kentucky University. The Foundation's fiscal year ends on December 31. It is a legally separate, tax-exempt component unit of the University that manages certain endowments and investments on behalf of the University. The Foundation has a Board of Trustees separate from that of the University; however, the President and certain other officers of the University are also officers of the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the use of a majority of the resources, or income thereon, which the Foundation holds and invests is restricted by the donors to the activities of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statement package.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 9 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. -
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

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

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

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

Spending Policy: The annual distribution goal of the Foundation shall be 4.50% of the endowment fund's trailing twelve-month calendar quarter moving market average. The annual distribution goal for an individual endowment in its initial year shall be 4.50% of the beginning market value of the endowment asset. The annual distribution goal for the second and third years of an individual endowment shall be based on the average market value of the endowment asset for the preceding four calendar quarters and eight calendar quarters respectively.

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 9 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. -
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

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 January 1, 2004 through December 31, 2004 and from July 1, 2003, through December 31, 2003. During the year ended December 31, 2004 and the six months ended December 31, 2003, the Foundation made payments/reimbursements on behalf of the University of \$3,563,887 and \$2,415,860 respectively, from restricted sources. Accounts receivable from the Foundation and accounts payable to the Foundation as of the University's fiscal year ended June 30, 2005 and 2004 were insignificant. Complete financial statements for the Foundation can be obtained from the WKU Foundation Office, Alumni House, 1906 College Heights Blvd., 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 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.

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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 9 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. -
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Investments held at December 31, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Common Equity Fund	\$ 8,669,483	\$ 17,079,560
Common Fixed Income Fund	11,937,809	8,138,010
Mutual Funds	4,114,248	3,904,537
Stock Funds	12,896,759	-
Stock	45,452	-
Taxable Bonds	718,240	-
Growth Index	1,036,864	-
Certificates of Deposit	<u>600,000</u>	<u>-</u>
Total investments	40,018,855	29,122,107
Investments held for the University included above	<u>(10,524,875)</u>	<u>(9,566,796)</u>
	<u>\$ 29,493,980</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, 2004 the fair value of all of the assets of these funds was more than the level required by donor stipulation or law.

Contributions Receivable

Contributions receivable at December 31, 2004 and 2003, consisted of the following unconditional promises to give:

	<u>2004</u>	<u>2003</u>
Due in less than one year	\$ 3,083,164	\$ 1,612,876
Due in one to five years	5,981,893	6,833,377
Due in more than five years	<u>4,691,663</u>	<u>5,594,993</u>
	13,756,720	14,041,246
Less		
Allowance for doubtful accounts	100,000	100,000
Unamortized discount	<u>3,105,057</u>	<u>3,623,083</u>
	<u>\$ 10,551,663</u>	<u>\$ 10,318,163</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 9 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. -
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Discount rates ranged from 4.33 to 7.00% for 2004 and 2003, respectively.

Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2004 and 2003, are available for the following purposes:

	<u>2004</u>	<u>2003</u>
Scholarships	\$ 398,245	\$ 524,166
Other program support	<u>9,935,953</u>	<u>8,049,078</u>
	<u>\$ 10,334,198</u>	<u>\$ 8,573,244</u>

Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2004 and 2003, are restricted to:

	<u>2004</u>	<u>2003</u>
Scholarships	\$ 8,136,047	\$ 6,942,661
Other program support	<u>13,022,404</u>	<u>12,636,560</u>
	<u>\$ 21,158,451</u>	<u>\$ 19,579,221</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**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 operates on a calendar year ending December 31. College Heights has a board of directors separate from that of the University. The president of the University is also a board member of College Heights. Although the University does not control the timing or amount of receipts from College Heights, the use of a majority of the resources, or income thereon, which College Heights holds and invests is restricted by the donors to the activities of the University. Because these restricted resources held by College Heights can only be used by, or for the benefit of, the University, College Heights is considered a component unit of the University and is discretely presented in the University's financial statements. A substantial portion of the donations received consists of endowment gifts from which the corpus is not available to be distributed.

Contributions and Nature of Restrictions: Unrestricted revenues and net assets result from receiving nondonor-restricted contributions, earnings on investments and the release of restricted assets, less program and administrative expenses incurred. Temporarily restricted revenues and net assets result from contributions and other inflows of assets whose use by College Heights is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of College Heights pursuant to those stipulations; and from reclassifications to/from other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of College Heights pursuant to those stipulations. Permanently restricted revenues and net assets result from contributions and other inflows of assets whose use by College Heights is permanently restricted by donor-imposed stipulations.

Cash Equivalents: The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2004 and 2003, cash equivalents consisted primarily of money market accounts held at brokerage houses.

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 10 - COLLEGE HEIGHTS FOUNDATION, INC. -
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Investments at December 31, 2004 and 2003, consisted of the following:

	<u>2004</u>	<u>2003</u>
Short-term investments		
Government agency securities	\$ 397,349	\$ 514,006
Mortgage-backed securities	1,641,321	398,156
Corporate bonds	1,348,675	388,083
Certificates of deposit	<u>644,107</u>	<u>399,084</u>
	<u>\$ 4,031,452</u>	<u>\$ 1,699,329</u>
Long-term investments		
Equity securities	\$ 13,927,233	\$ 12,429,443
U. S. Treasury securities	274,374	271,358
Government agency securities	134,734	315,339
Mortgage-backed securities	1,777,137	2,125,587
Corporate bonds	6,044,881	6,765,060
Certificates of deposit	1,014,020	1,144,499
Real estate	<u>78,150</u>	<u>78,150</u>
	<u>\$ 23,250,529</u>	<u>\$ 23,129,436</u>

Related Party Transactions: During the fiscal years ended December 31, 2004 and 2003, College Heights made scholarship payments of \$1,203,334 and \$1,113,411, respectively, on behalf of students attending the University. The University currently makes annual payments of \$26,000 to College Heights under a capital lease agreement for the President's home. The present value of future minimum lease payments of \$156,295 is included in the University's capital leases payable, disclosed in Note 7. Accounts receivable from College Heights and accounts payable to College Heights as of the University's fiscal years-ended June 30, 2005 and 2004 were insignificant. Complete financial statement for College Heights can be obtained from the College Heights Foundation Office, Alumni House, 1906 College Heights Blvd., Bowling Green, Kentucky, 42101.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 11 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION-
ACCOUNTING POLICIES AND DISCLOSURES**

Nature of Operations: Western Kentucky University Student Life Foundation, Inc. (Student Life) is a Kentucky nonprofit corporation formed to facilitate the re-capitalization and renovation of the student residential facilities of the University. Student Life is a legally separate, tax-exempt component unit of the University that manages renovations of the student residential facilities 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 of living space to students of the University.

Cash and Cash Equivalents: Student Life considers all liquid investments with original maturities of three months or less, not included in assets limited as to use, to be cash equivalents. At June 30, 2005 and 2004, cash equivalents consisted primarily of money market funds.

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

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

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

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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 11 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION-
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Capital asset activity for the year ended June 30, 2005, was:

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Cost				
Land	\$ 1,200,000	\$ -	\$ -	\$ 1,200,000
Land improvements	485,269	-	-	485,269
Buildings and improvements	64,199,019	3,446,098	-	67,645,117
Furniture, fixtures and equipment	3,057,666	536,622	-	3,594,288
Construction-in-progress	<u>3,032,021</u>	<u>372,837</u>	<u>(3,302,218)</u>	<u>102,640</u>
	<u>71,973,975</u>	<u>4,355,557</u>	<u>(3,302,218)</u>	<u>73,027,314</u>
Less accumulated depreciation				
Land improvements	14,154	12,132	-	26,286
Building and improvements	4,313,468	1,914,827	-	6,228,295
Furniture, fixtures and equipment	<u>663,735</u>	<u>513,727</u>	<u>-</u>	<u>1,177,462</u>
	<u>4,991,357</u>	<u>2,440,686</u>	<u>-</u>	<u>7,432,043</u>
Net capital assets	<u>\$ 66,982,618</u>	<u>\$ 1,914,871</u>	<u>\$ (3,302,218)</u>	<u>\$ 65,595,271</u>

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>-</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>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 11 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION-
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Line of Credit

Student Life has a \$5,000,000 line of credit with a bank, which expires on June 15, 2006, is due on demand and bears interest at LIBOR (3.30% as of June 30, 2005), plus 1.75%. The line of credit is collateralized by a secondary lien on all real estate. As of June 30, 2005, the outstanding balance of this line of credit was \$4,466,700.

The line of credit was used to perform additional upgrades and renovations for Student Life facilities.

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, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 64,685,000	\$ -	\$ (1,175,000)	\$ 63,510,000	\$ 1,500,000
Less: unamortized discount	(240,241)	-	9,269	(230,972)	-
Note payable, swap agreement	<u>512,349</u>	<u>-</u>	<u>(78,996)</u>	<u>433,353</u>	<u>78,090</u>
	<u>\$ 64,957,108</u>	<u>\$ -</u>	<u>\$ (1,244,727)</u>	<u>\$ 63,712,381</u>	<u>\$ 1,578,090</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
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>\$ -</u>	<u>\$ (822,612)</u>	<u>\$ 64,957,108</u>	<u>\$ 1,247,765</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 11 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION-
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Bonds payable as of June 30, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
County of Warren, Kentucky		
Variable rate revenue bonds dated May 25, 2000, with an interest rate at 2.32% at June 30, 2005. Final principal payment date May 1, 2030.	\$ 63,510,000	\$ 64,685,000
Less unamortized discount	<u>(230,972)</u>	<u>(240,241)</u>
	<u>\$ 63,279,028</u>	<u>\$ 64,444,759</u>

The debt service requirements for the bonds payable as of June 30, 2005, are as follows:

Year ending June 30	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
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	1,932,455	1,310,000	622,455
2011-2015	11,116,108	8,245,000	2,871,108
2016-2020	12,940,448	10,565,000	2,375,448
2021-2025	15,300,649	13,560,000	1,740,649
2026-2030	<u>24,595,977</u>	<u>23,670,000</u>	<u>925,977</u>
	<u>\$ 74,701,789</u>	<u>\$ 63,510,000</u>	<u>\$ 11,191,789</u>

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 11 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION-
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

The debt service requirements for the note payable swap agreement as of June 30, 2005, are as follows:

Year ending June 30	Total to be Paid	Principal	Interest
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>195,098</u>	<u>87,566</u>	<u>107,532</u>
	<u>\$ 999,741</u>	<u>\$ 433,353</u>	<u>\$ 566,388</u>

Related Party Transactions: During Student Life's fiscal years ended June 30, 2005 and 2004, Student Life received rental revenues of \$12,606,644 and \$10,097,273, respectively. Additionally, during fiscal years ended June 30, 2005 and 2004, Student Life received payments of \$231,518 and \$148,474, respectively from the University as repayment of the fiscal year 2005 debt payments related to Downing University Center (DUC) and Garrett Conference Center (GCC). Accounts receivable from the University totaled \$1,971,452 and \$2,208,076 at June 30, 2005 and 2004 respectively (which includes the amount owned by the University related to DUC and GCC noted above). Likewise, accounts payable to the University totaled \$1,084,961 and \$612,225 at June 30, 2005 and 2004, respectively.

Student Life has no employees of its own and its board of trustees serves on a voluntary, noncompensatory basis. The University has designated certain employees to work exclusively or partially for Student Life. Salaries, benefits and related expenses on the Student Life statements of activities represent amounts reimbursed to the University for these individuals.

The University provides certain direct and indirect support to the Foundation and the Foundation provides certain direct and indirect support to the University. Both organizations have no objective basis for determining the value of these activities. However, as a part of the management agreement, Student Life does provide an annual amount to the University to help offset such related costs. The management fee was \$69,135 and \$129,635 for 2005 and 2004, respectively.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 11 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION-
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Derivative Instruments

All derivatives are recognized in the statement of financial position at their fair value. Changes in the fair values of derivatives are recognized in the statement of activities as nonoperating income or expense.

Simultaneously with the issuance of bonds payable of \$65,455,000, Student Life also entered into an interest rate swap agreement and a collar agreement with a bank. Under the swap agreement, Student Life received \$750,000 from the counterparty at the inception of the swap agreement, which was recorded as a note payable. Student Life receives interest from the counterparty at 0.00001% and pays interest to the counterparty at 0.18751% of the initial notional amount of \$65,455,000, which is reduced periodically over the term of the swap. The collar agreement is based on the 30-day U. S. LIBOR rate on a notional amount equal to 67% of the outstanding amount of bonds payable and established a maximum (cap) annual interest rate of 5.75% and a minimum (floor) annual rate of 4.67%.

Student Life entered into these agreements to limit its exposure to changes in cash flows resulting from changes in the interest rate on its variable rate bonds.

At both June 30, 2005 and 2004, the variable interest rate paid to the bondholders was significantly below the floor rate.

The estimated fair value of these derivative arrangements at June 30, 2005, was:

<u>Type</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Underlying Index</u>	<u>Fair Value June 30, 2005</u>	<u>Fair Value June 30, 2004</u>
Floor	May 25, 2000	June 1, 2015	LIBOR	\$ (9,235,080)	\$ (8,437,204)
Cap	May 25, 2000	June 1, 2010	LIBOR	30,345	220,470
Swap	May 25, 2000	July 1, 2010	LIBOR	<u>(514,875)</u>	<u>(649,622)</u>
Net liabilities				<u>\$ (9,719,610)</u>	<u>\$ (8,866,356)</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 11 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION-
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

The statement of activities reflects the change in fair value, net of cash received and paid, of these agreements which consisted on the following components:

	<u>2005</u>	<u>2004</u>
Net cash payments made under the collar agreement	\$ (2,032,446)	\$ (2,606,307)
Net cash payment made under the interest rate swap agreement	(52,212)	(50,621)
Change in fair value of the derivative agreements	<u>(853,254)</u>	<u>5,418,338</u>
	<u>\$ (2,937,912)</u>	<u>\$ 2,761,410</u>

Functional Allocation of Expense

Costs have been allocated among the student housing program and management and general as of June 30, as follows:

	<u>2005</u>	<u>2004</u>
Student housing program	\$ 9,169,720	\$ 8,138,439
Management and general	<u>814,511</u>	<u>909,012</u>
	<u>\$ 9,984,231</u>	<u>\$ 9,047,451</u>

Litigation

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

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, 2005, 2004 and 2003, were \$5,758,263, \$5,351,098, and \$5,095,068, respectively, which equaled the required contributions for each year.

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

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, 2005, 2004 and 2003, were \$1,201,190, \$1,125,771 and \$1,127,453, respectively, which equal the required contributions for each year.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 12 - PENSION PLANS (Continued)

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 2005 expressed as a percentage of covered payrolls were 6.16% and 14.82%, respectively. Of the University's 14.82% contribution, 6.61% 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, 2005, 2004 and 2003, were \$1,978,391, \$1,904,083 and \$1,923,156, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2005, 2004 and 2003, were \$1,486,697, \$1,428,615 and \$1,280,230, respectively.

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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 14 - RISK MANAGEMENT (Continued)

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.

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

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 784,345	\$ 1,445,236
Claims and changes in estimates	6,626,644	7,386,717
Claims payments	(7,676,046)	(7,034,186)
Administration costs and stop loss insurance	<u>(711,303)</u>	<u>(1,013,422)</u>
Balance, end of year	<u>\$ 976,360</u>	<u>\$ 784,345</u>

NOTE 15 - REGIONAL UNIVERSITY EXCELLENCE TRUST FUND (RUETF)

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 15 - REGIONAL UNIVERSITY EXCELLENCE TRUST FUND (RUETF) (Continued)

The University, under Kentucky House Bill 502, enacted by the 2000 General Assembly, included the provisions that "the proceeds of the endowment program authorized under Part X, Section 1 of this Act shall be deposited in the Regional University Excellence Trust Fund Account and invested at the direction of the CPE. Upon receipt of certification, the Council shall transfer the endowment funds from the account to the respective universities for management and investment by the university foundations if the foundations have been previously created to manage and invest private gifts and donations on behalf of the universities over time, otherwise by the university itself."

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

Following is a summary of the funding for the RUETF as of June 30, 2005:

	<u>CPE Funding Received</u>	<u>External Matched Pledges Received</u>	<u>Pledge</u>
Balance, July 1, 2004	\$ 11,772,209	\$ 7,541,442	\$ 4,348,456
Current year collections	<u>-</u>	<u>1,268,451</u>	<u>(1,268,451)</u>
Balance, June 30, 2005	<u>\$ 11,772,209</u>	<u>\$ 8,809,893</u>	<u>\$ 3,080,005</u>

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

	<u>CPE Funding Received</u>	<u>External Matched Pledges Received</u>	<u>Pledge</u>
Balance, July 1, 2003	\$ 7,013,209	\$ 5,380,960	\$ 1,632,249
Current year additions	<u>4,759,000</u>	<u>2,160,482</u>	<u>2,716,207</u>
Balance, June 30, 2004	<u>\$ 11,772,209</u>	<u>\$ 7,541,442</u>	<u>\$ 4,348,456</u>

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 16 - NATURAL AND FUNCTIONAL CLASSIFICATIONS OF
OPERATING EXPENSES**

The University's operating expenses by functional classification on June 30, 2005, were as follows:

<u>Functional Classification</u>	<u>Compensation and Benefits</u>	<u>Supplies Contractual Services and Other</u>	<u>Utilities</u>	<u>Non Capitalized Property</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 66,018,031	\$ 6,972,609	\$ 120,769	\$ 1,853,234	\$ 710,909	\$ -	\$ 75,675,552
Research	4,118,143	3,682,627	3,932	348,947	169,879	-	8,323,528
Public service	7,903,964	7,113,171	43,276	107,969	343,637	-	15,512,017
Libraries	3,740,279	343,035	326	39,798	-	-	4,123,438
Academic support	6,206,537	2,094,950	50,011	407,564	20,688	-	8,779,750
Student services	9,954,610	6,272,571	11,088	203,526	940,551	-	17,382,346
Institutional support	14,868,008	4,224,505	8,772	205,685	4,666	-	19,311,636
Operation and maintenance of plant	8,124,780	3,773,033	4,805,065	424,733	-	-	17,127,611
Student financial aid	65,592	1,058,273	-	67,131	9,193,917	-	10,384,913
Depreciation	-	-	-	-	-	9,894,594	9,894,594
Auxiliary enterprise	5,609,800	7,672,181	2,011,846	310,904	985	-	15,605,716
Total operating expenses	<u>\$ 126,609,744</u>	<u>\$ 43,206,955</u>	<u>\$ 7,055,085</u>	<u>\$ 3,969,491</u>	<u>\$ 11,385,232</u>	<u>\$ 9,894,594</u>	<u>\$ 202,121,101</u>

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

<u>Functional Classification</u>	<u>Compensation and Benefits</u>	<u>Supplies Contractual Services and Other</u>	<u>Utilities</u>	<u>Non Capitalized Property</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 60,635,926	\$ 6,160,190	\$ 71,265	\$ 2,508,410	\$ 771,623	\$ -	\$ 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	10,420	-	7,939,136
Student services	9,271,159	6,303,703	53,299	420,034	901,785	-	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 enterprise	5,050,128	7,042,213	1,833,529	57,198	1,632	-	13,984,700
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>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 17 - FUTURE CHANGES IN ACCOUNTING PRINCIPLES

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 provisions 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.

In June 2004, the GASB issued Statement 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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Student Financial Aid Cluster				
U. S. Department of Education				
Direct Programs				
Federal Family Education Loan Program		84.032		\$ 43,778,217
Federal Perkins Loan Program		84.038	P038A041615	6,402,148
On Campus Work Study		84.033	P033A041615	610,857
Off Campus Work Study - Federal		84.033	P033A041615	73,221
America Reads		84.033	P033A041615	55,884
SEOG		84.007	P0007A02615	412,665
PELL Grants		84.063	P063P0120657	<u>14,342,714</u>
				<u>65,675,706</u>
 Department of Health and Human Resources				
Direct Programs				
WKU Advanced Nursing Trainees - 05		93.358	2A10HP00189-05-00	<u>39,727</u>
Total Student Financial Assistance				<u>65,715,433</u>

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Research and Development Cluster				
Direct Programs				
U.S. Department of Agriculture				
Poultry Waste Management (Proj 1)		10.001	5864061017	\$ 224,651
Poultry Waste Management (Proj 2)		10.001	5864061017	116,617
Poultry Waste Management (Proj 3)		10.001	5864061017	65,089
Poultry Waste Management (Proj 4)		10.001	58-6406-1-017	48,454
Poultry Waste Management Yr 3 Proj 5		10.001	58-6404-1-017	1,421
PWMS Yr 3 Greenhouse		10.001	58-6406-1-017	25,387
PWMS Yr 3 Adm		10.001	58-6406-1-017	17,646
PWMS-4-Eval Comb/Chicken/Coal		10.001	SCA 58-6406-1-017-AM4	112,226
PWMS Yr 4-BMP-Animal Waste		10.001	SCA 58-6406-1-017-AM4	31,336
PWMS Yr 4-Animal Waste/Karst Quality		10.001	SCA 58-6406-1-017-AM4	63,196
Support-Ag Research-Mutual Interest		10.001	58-6401-5-035	10,015
Conservation Practices Task 1		10.902	69-5C16-4-220	56,822
Conservation Practices Task 2		10.902	69-5C16-4-220	79,677
Conservation Practices Task 3 & 5		10.902	69-5C16-4-220	18,996
				<u>871,533</u>
Department of Commerce				
Impacts of Land Use Change		11.432	NEEF4000-4-00364	1,439
Development of GeoProfiles for NWA		11.432	NEEF4000-4-00364	1,559
				<u>2,998</u>

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Department of the Interior				
Fish Population		15.608	H5530010071 MOD 3	\$ 6,962
Long-term Ecological Program		15.608	H5530030002MOD1	1,904
Interactions - Cave Shrimp & Trout		15.608	H5530030048	6,431
Mammoth Cave Learning Center		15.916	H5530030051 MOD 1	10,501
Water Lab Consolidation		15.916	H553004009 MOD 1	2,000
Native American Graves-NAGPRA		15.916	H5530020075 MOD 3	9,079
Water Quality Analysis		15.916	H50000050800/J211305503	1,849
Impact/Lock & Dam #6		15.921	H5530010104	12,618
Mercury in Mammoth Cave NP Phase II		15.921	H5530030029	7,744
Yellow Orchid Project		15.921	H550030054	36,733
Survey of DNA Extracted from Cave		15.923	H2360020009 to 02-01 MOD1	28,875
Graduate-level Training		15.923	H2360020009 T002-02	2,339
				<u>127,035</u>
National Aeronautics and Space Administration				
KY Space Grant Consortium Yr 10		43.001	NGT5-40105	43,608
KY Space Consortium Yr 11		43.001	NGT5-40105	65,885
KY Space Grant Consortium Yr 12		43.001	NGT5-40105	38,805
KY Space Grant Consortium Yr 13		43.001	NGT5-40105 (SUPPL 6 & 7)	318,342
Starbase Network		43.001	NAG5-08762	24,568
KY NASA/EPSCoR Program Yr 8-10		43.001	NCC5-571	721,563
Monitor and Assess Human Health		43.001	NCC5-571 SUB 516140	6,346
Optical Photo Monitoring - Sub 516140		43.001	NCC5-571 SUB516140	12,543
Controlled Assembly - Films 516107		43.001	WKU 516107-04-11	432

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
National Aeronautics and Space Administration (Continued)				
Search for Stars sub to 516108		43.001	NGT5-40105 SUB 516108-05-12	\$ 3,986
Revealing Nature sub to 516108		43.001	NGT5-40105 SUB 516108-05-13	3,999
Photovoltaic Devices - Sub 516108		43.001	NGT5-40105 SUB 516108-05-10	3,625
KY Space Grant Consortium Yr 14		43.001	NNG05GH07H	5,357
Wind-Collision Effects		43.001	NAS5-32985-D088	<u>4,640</u>
				<u>1,253,699</u>
National Science Foundation				
MRI/RUI: Manufacturing Systems		47.041	DM1-0116515	10,462
Catalysis of Diverted Orth-Metal		47.049	CHE-0101435	14,488
Surfactant Immobilized Sorbent Mat		47.049	CHE-0132181	73,171
Virtual Synthesis of 3 D Nano...		47.049	DMR-0340613	129,539
Acquisition of Instrumentation		47.049	CHE-0421228	115,273
REU: Summer Research		47.050	EAR-0353651	73,062
RUI: Molecular Phylogenetics		47.074	DEB-0236166	58,277
Survey-Ghana-Spider & Dung Beetles		47.074	DEB-0430132	23,396
Lifespan Psychology		47.075	SES-0097491	<u>25,501</u>
				<u>523,169</u>
Environmental Protection Agency				
Task 2B Groundwater Sensitivity Map		66.606	X-97418901-0	2,025
Wastewater Administration and Management		66.606	X-97418901-0	2,724
Wastewater Database		66.606	X-97418901-0	3,296
Technical Asst. Ctr/Water Quality		66.606	X-83123601-0,1	512,443
Archeological Site Mod 2		66.606	H5530020075	18,884
Assessment-Atrazine-Ag Watershed		66.716	X8-96414404-0	<u>14,369</u>
				<u>553,741</u>

WESTERN KENTUCKY UNIVERSITY
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<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Department of Energy Environmental Control Tech Lab Amended Silicates - Mercury Control		81.089 81.089	DE-FC26-03NY41840 SUBCONTRACT 11-22-04	\$ 279,053 <u>93,997</u> 373,050
Department of Health and Human Services Learning & Judgement in Older Adult		93.866	1 R01 AG19155-01-02-03-04	<u>176,296</u> 3,881,521
Pass Through Programs U.S. Department of Agriculture John's Disease Demo Her program	KY Dept. of Ag.	10.025	MLA62104	4,420
Department of Commerce Hydrometeorological Assessment	University of Corporation for Atmospheric Research	11.467	S04-44689	5,701
Department of Defense Support of RSEDS Project	Idaho National Engineering & Environmental Lab	12.800	CONTRACT 000 24617	14,071
Department of the Interior Mercury in Mammoth Cave Fine Sediment Source Areas	University of KY Research Foundation University of KY Research Foundation	15.805 15.805	UKRF4-64694-03-309 UKRF 4-64694-04-332	293 <u>10,141</u> 10,434
National Aeronautics and Space Admin. Cass 2001 Chicago 2005 Mini-Awards	Tennessee State University DePaul University / NASA	43.001 43.001	CONTRACO.WKS PO#DPAUL-0000022752	21,920 <u>3,090</u> 25,010

WESTERN KENTUCKY UNIVERSITY
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June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
National Science Foundation				
Computation of Rope Length of Large	University of NC at Chapel Hill	47.049	2975-03-0194	\$ 9,873
Fluorescence Quenching Studies	KY NSF EPSCoR	47.076	4-65499-03-362	13,278
Experimental and Computational Stud	University of KY Research Foundation	47.076	UKRF 4-65499-03-364	3,247
Ecological Studies of Dung Beetles	University of KY Research Foundation	47.076	UKRF 4-65499-03-363	2,111
Effects/Seed Mixes on Mammals	KY NSF EPSCoR	47.076	UKRF 4-65499-04-345	8,338
Integer Factorization Elliptic	KY NSF EPSCoR	47.076	UKRF 4-65499-04-372	182
				<u>37,029</u>
Environmental Protection Agency				
Non-point Source Public Ed Program	University of Louisville	66.460	ULRF-G03-1016-04-01	11,312
Aresenic Remediation of Water	Hydro Tech Engineering LLC	66.500	LETTER 7-03-03	1,538
				<u>12,850</u>
Department of Energy				
App-Circulating Fluid Bed Process	PARAS/DOE	81.049	RA DATED 7-8-04/DOESC0075041	33,878
Ph 2 Measuring Carbon Balance	PARAS/DOE	81.049	RA-08-06-04	129,636
Northwest Nuclear LLC WO#W03-02	Northwest Nuclear, LLC	81.089	W-03-02	12,378
				<u>175,892</u>
Department of Education				
Personnel Prep Policy & Practice	University of Connecticut	84.324	H325J020002	15,915
Center for PP in EI/EC Special Education	University of Connecticut	84.325	PS 376004	24,552
				<u>40,467</u>

WESTERN KENTUCKY UNIVERSITY
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<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Department of Health and Human Services				
Ctrs. For Ag. Disease Control & Prev.	University of KY Research Foundation	93.262	UKRF 4-67274-05-008	\$ 9,934
Molecular Systematics of Mints	University of Louisville	93.389	Sub to 5P20RR16481-03	2,549
WKU KBRIN Yr 3 of 3	University of Louisville	93.389	Sub to 5P20RR16481-03	4,133
A Butterfly Transposon Mutagenesis	University of Louisville	93.389	ULRF NIH 2P20RR16481-04 MARCUS	102,925
WKU Faculty Recruitment	University of KY Research Foundation	93.389	ULRF NIH 2P20RR16481-04 DAVIS	68,000
Mech./Transcriptional Coordination	University of Louisville	93.389	ULRF NIH 2P20RR16481-04 RICE	99,217
Neural Development-Zebrafish	University of Louisville	93.389	ULRF NIH 2P20RR16481-04	102,004
RNA-Based-Elongation Control	University of Louisville	93.389	2P20RR16484-04	105,566
Predicting Long Term Mobility	University of Alabama at Birmingham	93.866	1 R01 AG021958 SUB	13,070
Visual Processing - 19	University of Alabama at Birmingham	93.866	5R37 AG053739-19	46,493
Predicting Long Term Mobility	University of Alabama at Birmingham	93.866	5R01 AG021958-02	159,155
Pickens Co. Family Life Project	University of Alabama	93.995	UAB 05-003-4APHPA00837-05	8,293
PHC/UAB Pickens Co. Project	University of Alabama	93.995	UAB 05-003-4APHPA000837-05	4,242
				<u>725,581</u>
				<u>1,051,455</u>
Total Research and Development				<u>4,932,976</u>
TRIO Cluster				
Direct Programs				
Student Support Services 02-06		84.042	P042A021170	273,839
Talent Search 03-06		84.044	P044A020280	364,934
Veterans Upward Bound 04-07		84.047	P047A030239	261,858
Upward Bound 99-04		84.047	P047A990886	85,525
Upward Bound 2005-2009		84.047	P047A040249	301,944
EOC - Educational Opportunity Centers		84.066	P066A020229 & 229A	240,428
				<u>1,528,528</u>
Total TRIO Cluster				<u>1,528,528</u>

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Funds for the Improvement of Postsecondary Education				
Direct Programs				
CC Middle School Resource Lab		84.116	P116B01184	\$ 25,275
OGBE Promoting E Commerce		84.116	P116Z010057	21,206
Energizing Resources - WKY & Partners		84.116	P1162020205	193,063
Equip Acquisition for Complex		84.116	P1162030188	269,079
Nursing Accelerated Dev Program		84.116	P1162040026	186,961
Equipment Acquisition (Biology)		84.116	P1162040062	458,266
Equipment Acquisition (Engineering)		84.116	P1162040062	551,784
Total Funds for the Improvement of Postsecondary Education				<u>1,705,634</u>
Headstart Program				
Direct Programs				
Head Start General 20-2004		93.600	04CH0210/20	423,560
Head Start PA 20-2004		93.600	04CH0201/20	24,516
Head Start General 21-2005		93.600	04CH0210121	863,442
Headstart T/TAS 20-2005		93.600	04CH0210/21	13,256
Head Start IIGR/Outdoor World 04-05		93.600	90YD0153/01	100,000
				<u>1,424,774</u>

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Pass Through Programs				
Early Head Start Delegate 2004	Murray Head Start	93.600	04CH2692-001	\$ 31,402
Early Head Start Training 2004	Murray Head Start	93.600	04CH2692-001	2,978
Family Literacy 03-04	National Center for Family Literacy	93.600	90YL001/05	113,973
Early Head Start Delegate 2005	Murray Head Start	93.600	04CH2692-001	151,293
Early Head Start - Train/PA II-2005	Murray Head Start	93.600	04CH2692-001	2,393
Family Literacy Project 04-05	National Center for Family Literacy	93.600	90YL0001/06	<u>210,671</u>
				<u>512,710</u>
Total Headstart Program				<u>1,937,484</u>
U.S. Department of Agriculture				
Direct Programs				
WKYU-TV Rural Public TV		10.855	GA 3-9-04	218,947
Conservation Practices Task 4		10.902	69-5C16-4-220	<u>28,794</u>
				<u>247,741</u>
Pass Through Programs				
Centennial Grove	Kentucky Division of Forestry	10.652	M-04475452	<u>5,290</u>
Total U.S. Department of Agriculture				<u>253,031</u>
Department of Commerce				
Direct Programs				
University Center Program 2005		11.303	04-66-05423	89,400
Small Business Incubator - EDA		11.300	04-01-05213	<u>851,000</u>
Total Department of Commerce				<u>940,400</u>

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Department of Defense				
Direct Programs				
108 th Division Training June 2005		12.113	W912C6-05-W0249, W912C6-05-Q-41	\$ 187,303
Department of the Interior				
Direct Programs				
Data Management System Dev.		15.916	#5000 04 8000	28,022
Karst Groundwater Delineation		15.916	H5000070800-J5560040060	10,300
Water Quality / Appalachian Highland		15.916	H5000 04 0800 - J211604007	60
Cultural Resources Mgmt. Specialist		15.916	H5530050050	1,006
Dev Nat Pk Species Database		15.921	CA553000002	28,301
Rehousing Catalog Specimens		15.921	CA55049007	936
Backlog Cataloging 10,000 items		15.921	1443 CA 5530 00 001	69,019
Preserve Maps, Drawings & Photos		15.921	1443 CA 5530 00 001	4,708
Assess Off-Site Museum Collections		15.921	1443 CA 5530 00 001	2,426
Ecological Monitoring Collection		15.921	H5530010144 MOD 4	26,820
Student Research at Mammoth Cave		15.921	H5530020034	28,093
Oregon Caves National Monument		15.921	CONTRACT R934020005	10,629
				<u>210,320</u>
Pass Through Programs				
Clarks River Nat'l Wildlife / WKU	National Fish & Wildlife Foundation	15.611	2004-0232-009	5,000
Effects of Reservoir Releases	U.S. Geological Survey - UKRF	15.805	UKRF 4-64694-05-386	<u>2,108</u>
				<u>7,108</u>
Total Department of the Interior				<u>217,428</u>

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Department of Justice				
Direct Programs				
WKU Juvenile Delinquency Project		16.541	2002-JP-FX 1001	\$ 1,191,324
Pass Through Programs				
Law Enforcement Block Grant	KY Justice & Public Safety Cabinet	16.592	LLEB-640-04	<u>1,500</u>
Total Department of Justice				<u>1,192,824</u>
Department of State				
Pass Through Programs				
International Journalism Training	Inter News	19.300	LETTER 6-5-01	96,909
International Training - Egypt	Inter News	19.300	1141-002	<u>14,536</u>
Total Department of State				<u>111,445</u>
National Aeronautics and Space Administration				
Direct Programs				
Space Workshop 2002 - Sub 516105		43.001	SUB TO 516105 NGT5-40105	250
Astro/Space Workshop 2003		43.001	NGT5-40105 SUB	150
Astro & Space Workshop 04 s-516107		43.001	WKU 516107-04-19	4,444
Astronomy & Space Sci. Workshop - 05		43.001	NGT5-40105 SUB 516108-05-15	2,357
Engineering Principles / Robotics		43.001	NGT5-40105 SUB 516108-05-14	8,000
Observations/TeV Blazar-Sub 516108		43.001	NGT5-40105 SUB 516108-05-07	4,133
NASA-GSRP		43.001	NGT-1-03012	<u>22,225</u>
				<u>41,559</u>

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Pass Through Programs KY Earth Science	Institute for Global Environmental Strategies	43.001	NAG5-8517	\$ 1,717
How Old Is your Universe? A Workshop	Space Telescope Science Institute	43.001	HST-ED-90251-01-A	8,871
Teaching Astronomy & Space Science in KY	SERCH	43.001	SERCH	5,996
				<u>16,584</u>
Total National Aeronautics and Space Administration				<u>58,143</u>
Department of Transportation				
Pass Through Programs				
5309 FTA Earmark Grant	KY Transportation Cabinet	20.500	5309 ALLOCATION	41,866
US 31 W Corridor Law Enforcement Blitz	Kentucky State Police	20.920	KSP AGREEMENT 10-06-04	<u>1,000</u>
Total Department of Transportation				<u>42,866</u>
National Foundation on the Arts and the Humanities				
Direct Programs				
Forever Free				278
Pass Through Programs				
Robert Penn Warren Centennial	Kentucky Humanities Council	45.129	LETTER DATED 3-14-05	<u>1,200</u>
Total National Foundation on the Arts and the Humanities				<u>1,478</u>

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
National Science Foundation				
Direct Programs				
Web-Based Homework:				
Curric. Reform	NSF - National Science Foundation	47.076	DUE-021353	\$ 42,365
Designing Evaluation	Clemson University	47.076	695-7557-206-2003627	<u>10,563</u>
Total National Science Foundation				<u>52,928</u>
Securities and Exchange Commission				
Pass Through Programs				
Small Business Center FY04	University of KY - Research Foundation	59.037	UKRF-4-67244-04-173	18,501
Small Business Center FY05	University of KY - Research Foundation	59.037	UK-4-68323-05-323	<u>38,355</u>
Total Securities and Exchange Commission				<u>56,856</u>
Environmental Protection Agency				
Direct Programs				
Digital Library		66.606	H553002063	<u>2,826</u>
Pass Through Programs				
Radon Mitigation	KY Cabinet for Health Services	66.032	M-04178495	19,079
River Institute: Building Ed Part	Kentucky Division of Water	66.460	M-02025681 & M-02172347	30,635
KNSE for Landuse Development	Kentucky Division of Water	66.460	M-04184956	5,956
KY Water Education Project	University of Louisville	66.460	ULFRG-03-1016-04	<u>22,159</u>
				<u>77,829</u>
Total for Environmental Protection Agency				<u>80,655</u>

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Department of Energy				
Pass Through Programs				
Field Test Adv. Utility Mercury	Sorbent Technology Corporation/DOE	81.057	Letter dated 4-20-04	\$ 181,837
Department of Education				
Direct Programs				
Perkins 06 Improve Career Thru PD		84.048	M-05132522	260
Fed Trio Training - General 03-05		84.103	P103A020042	76,820
Fed Trio Training - Report 03-05		84.103	P103A020013	47,335
Fed Trio Training - Regulatory 03-05		84.103	P103A020011	51,991
Training on Budget Mgmt 04-06		84.103	D103A040004	389,697
Legislative & Regulatory 04-06		84.103	P103A040010	304,149
Achieving International Motive		84.153	P153A020048	29,964
Quality - New Teachers		84.303	R303K010047	53,347
CCAMPIIS		84.335	P335A010005	66,370
Improving Teacher Quality Year 2		84.336	P336B9900140	17,625
Improving Teacher Quality Yr 3		84.336	P336B990014-01-02	(158)
Improving Teacher Quality 99-04		84.336	P336B990014-01-02	93,020
Improving Teacher Quality YR 5		84.336	P336B990014-03	383,332
				<u>1,513,752</u>
Pass Through Programs				
KYAE-Western KY 04-05	Council of Postsecondary Education	84.002	M-04550767	10,000
Perkins-Agriculture 2004	Kentucky Cabinet for Workforce Development	84.048	LETTER 6-24-03	4,150
Perkins FY-04-Community College	Kentucky Cabinet for Workforce Development	84.048	LETTER 6-24-03	34,767

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Improve T E Programs 2004	Kentucky Cabinet for Workforce Development	84.048	PERKINS 2004	\$ 1,705
Perkins FY 05 - Administrative	Kentucky Cabinet for Workforce Development	84.048	CARL PERKINS 04-05	1,508
Perkins FY 05 - Agriculture	Kentucky Cabinet for Workforce Development	84.048	CARL PERKINS 04-05	14,001
Perkins FY 05 - Dental Hygiene	Kentucky Cabinet for Workforce Development	84.048	CARL PERKINS 04-05	18,675
Perkins FY 05 - Community College	Kentucky Cabinet for Workforce Development	84.048	CARL PERKINS 04-05	70,427
Improving Career & Tech Ed Programs	Kentucky Cabinet for Workforce Development	84.048	LEADERSHIP TE01	21,808
PDTA for Tech Ed Teachers	Kentucky Cabinet for Workforce Development	84.048	PERKINS 1-5-2005	21,250
Academic/Tech Integration Workshop	Kentucky Department of Education	84.048	M-05124526	30,279
Review Asst. Reports - Deptl. WF Invest	Division of Workforce Services	84.048	M-04656391	6,388
Teaching Technical Skills - FFA Watersheds - Science & Math	Kentucky Department of Education	84.048	M-05081377	2,138
Improve Using the Environment: (EIC)	Murray Head Start	84.168	MSU-MOA 6-1-04	31,089
NWP Writing Project	Murray Head Start	84.215	MOA-OSP 2003-013	10,930
WKU Writing Proj. NRI M & LETS	National Writing Project Corporation	84.298	92KY-06	49,098
KY Gear Up Project YR 4	National Writing Project Corporation	84.298	NWP CK 9-20/9-30	2,372
Curriculum Review Sub-543604	Council of Postsecondary Education	84.334	MOA OSP 2004-099	52,179
	Kentucky's Educational Professional Standards Board	84.336	543604-04-12	29,668

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Administrative Support for Title II	Kentucky's Educational Professional Standards Board	84.336	M-03120201	\$ 911,723
Reading First Coach 04-05	Kentucky Department of Education	84.357	M-04114081	93,049
Reading First Coach	Kentucky Department of Education	84.357	M-03207909	10,823
Improve Middle School Math & Lit	Council of Postsecondary Education	84.367	MOA 3-31-04	239,562
Improve Student World Language	Council of Postsecondary Education	84.367	M-05033245	47,558
Biodiversity in Natural & Cultural	Murray State University	84.367	BIODIVERSITY/NAT. & CULT. WORLD	5
				<u>1,715,152</u>
Total Department of Education				<u>3,228,904</u>
Department of Health and Human Services				
Direct Programs				
Industrial Hygiene 04-05		93.263	T02/CCT410463-11	25,670
The Rural Health Initiative 04-06		93.888	1D1ARH03551-01-00	125,599
The Alliance Project		93.888	1D1ARH03550-01-00	157,974
Rural Health Initiative/MHU/RTU02		93.912	2D1ARH 00032-02	19,028
RHP: Empowering the Elderly		93.912	1D1ARH00068-01	79,776
KEMSA Rural Health 03		93.912	2D1ARH00048-02	11,213
Rural Health Initiative		93.912	5D1ARH00032-03	284,068
				<u>703,328</u>

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Pass Through Programs				
Model State Supported AHEC 03-04	University of Louisville	93.107	ULRF SUB 12-19-03	\$ 44,543
MSSA 04-05	University of Louisville	93.107	5U77HP03023-11-00-SUB	27,956
HETC 2004	University of Louisville	93.189	ULRF SUB 12-09-03	21,417
HETC 2005	University of Louisville	93.189	5D39HP00007-15-0-SUB	24,810
KICS 04-05	University of Louisville	93.192	02-0762-04	10,352
Rural Hospital Flexibility Grant	KY Emergency Medical Services Board	93.241	M-02337131	33,179
Rural Health Care 2004	KY Emergency Medical Services Board	93.241	M-03168031	90,000
Bioterrorism Project (Part III)	KY Cabinet for Health Services	93.283	M-04237682	19,886
Child Care Resource & Referral 2005	KACCRRRA	93.575	C-042221824	326,420
MSW Program Development 2005	Eastern Kentucky University	93.658	EKU 05-257	104,260
PCWCP FY 04-05	Eastern Kentucky University	93.658	EKU 05-164	7,642
TRC Title IV 2004	Eastern Kentucky University	93.658	EKU 04-384	(4,770)
TRC Non Title IV 2004	Eastern Kentucky University	93.658	EKU 04-384	84
TRC Title IV 2005	Eastern Kentucky University	93.658	EKU 05-257	145,200
KYNEX: Chafee Indep. Mentoring Prog.	University of KY Research Foundation	93.674	UKRF 4-68136-05-082	1,598
04-WKU PTA HIV/STI Train/Trainer	Kentucky Department of Education	93.938	M-04145447	<u>21,247</u>
				<u>873,824</u>
Total Department of Health and Human Services				<u>1,577,152</u>
Corporation for National and Community Service				
Pass Through Programs				
HP Faculty Curriculums	Wright State University	94.005	RN214619	<u>153</u>
Total Federal Expenditures				<u>\$ 84,003,458</u>



Crowe Chizek and Company LLC
Member Horwath International

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

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

We have audited the financial statements of the business-type activities and the component units of Western Kentucky University as of and for the year ended June 30, 2005, and have issued our report thereon dated October 10, 2005, which report cited reliance on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc. and College Heights Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Western Kentucky 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 an opinion on 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 caused by error or fraud 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.

Compliance and Other Matters

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

We noted certain other matters that we have reported to management of Western Kentucky University in a separate letter dated October 10, 2005.

This report is intended solely for the information and use of the Board of Regents of Western Kentucky University, the Secretary of Finance and Administration Cabinet of the Commonwealth of Kentucky, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Chizek and Company LLC

Louisville, Kentucky
October 10, 2005



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Western Kentucky University with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Western Kentucky 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 Western Kentucky University's management. Our responsibility is to express an opinion on Western Kentucky University's compliance based on our audit.

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

In our opinion, Western Kentucky University complied, in all material aspects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 05-01 and 05-02.

Internal Control Over Compliance

The management of Western Kentucky University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Western Kentucky 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 the 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 reportable 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 caused by error or fraud 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 considered to be material weaknesses. However, we noted certain matters related to the University's internal control over compliance which are described in the accompanying schedule of findings and questioned costs as items 05-01 and 05-02.

This report is intended solely for the information and use of the Board of Regents of Western Kentucky University, the Secretary of Finance and Administration Cabinet of the Commonwealth of Kentucky, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Louisville, Kentucky
October 10, 2005

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2005

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Western Kentucky University.
2. No instances of noncompliance material to the financial statements of Western Kentucky University were disclosed during the audit.
3. There were reportable conditions relative to internal control over major federal award programs identified as findings 05-01 and 05-02. These findings were not considered to be material weaknesses.
4. The auditors' report on compliance for the major federal award programs for Western Kentucky University expresses an unqualified opinion.
5. There were audit findings relative to the major federal award programs for Western Kentucky University identified as findings 05-01 and 05-02.
6. Major programs include:
 - TRIO Cluster
 - Research and Development Cluster
 - Student Financial Assistance Cluster
 - WKU Juvenile Delinquency Project, CFDA No. 16.541
 - Funds for the Improvement of Postsecondary Education, CFDA. No. 84.116
 - Head Start Program, CFDA No. 93.600
 - Teacher Quality Enhancement Grants, CFDA No. 84.336
7. The threshold for distinguishing Types A and B programs was \$1,014,693.
9. Western Kentucky University was determined to be a low-risk auditee.

(Continued)

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD AUDIT

See findings 05-01 through 05-02.

D. CORRECTIVE ACTION PLAN

See individual findings.

E. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
MAJOR FEDERAL AWARDS
Year Ended June 30, 2005

Finding 05-01 – Federal Family Education Loan Program (CFDA No. 84.032)

Criteria: Under 34 CFR 682.604(g), “an institution must ensure that exit counseling is conducted with each Stafford loan borrower either in person, by audiovisual presentation, or by interactive means shortly before the borrower ceases at least half-time study at the school. If a borrowers withdraws from school without the school’s prior knowledge or fails to complete as exit counseling session as required, the school must ensure that exit counseling is provided through either interactive electronic means or by mailing written counseling materials to the student borrower at the student borrower’s last know address within 30 days after learning that the student borrowers has withdrawn from school or failed to complete the exit counseling as required.”

Condition: During our testing of 18 borrowers who ceased attendance at the institution during 2004-2005, we noted that the required exit counseling information was not provided to all of the students within the required timeframe under 34 CFR 682.604(g).

Effect: The University is not in compliance with the federal regulations which could lead to a decrease in future funding or eligibility to participate in the program.

Cause: The cause of this finding appears to be insufficient management oversight and the assumption that the exit counseling was being performed by an outside source.

Recommendation: The University should review its current procedures and make the necessary changes to ensure all exit counseling information for Stafford borrowers is provided to the student in accordance with the federal regulations.

Management’s Response and Corrective Action Plan: Management is in agreement with this finding. SFA was under the impression that KHEAA sent exit counseling information based on withdrawal data sent from WKU to KHEAA. Recent discovery revealed that exit counseling information is not referenced specifically in the letter generated by KHEAA for students that have withdrawn. SFA corrected this finding by sending exit counseling letters to all students that had withdrawn during the 2004-2005 academic year. This procedure has now been incorporated for the 2005-2006 academic year. Please note that SFA was sending the exit counseling information to students that had graduated for the 2004-2005 academic year.

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

FINDING 05-02- Federal Family Education Loan Program (CFDA No. 84.032), Pell Grant Program (CFDA No. 84.063)

Criteria: The regulations concerning student financial aid and Return to Title IV calculations state that for students who withdrew from the University and received some type of Title IV funds, the institution must prepare a determination of any funds to be returned to the various federal agencies. The regulations go on to state that a school must return the amount of Title IV funds for which it is responsible no later than 30 days after the date the University determines the student withdrew.

Condition: During our testing of 35 students that officially and unofficially withdrew from the University and received some type of Title IV funds during the 2004-2005 academic year, we noted the following: (1) three calculations included an incorrect number of semester days, (2) three included inaccurate institutional charges, (3) nine were prepared past 30 days from the date of determination, (4) one return was not completed, and (5) one in which the incorrect amount of funds were returned to the Department. Several of these situations resulted in an incorrect amount of aid being returned.

Questioned Costs: The following additional funds should have been returned to the Department as a result of the student's withdrawal: Pell \$588.73 and FFELP \$2,035.

Effect: Failure to comply with the federal regulations for monitoring the Return to Title IV procedures could result in future funding being penalized.

Cause: The cause of this finding appears to be insufficient management oversight.

Recommendation: The University should review its current procedures for Return to Title IV calculations and make the necessary changes to ensure that all return calculations are accurately prepared and in accordance with the federal regulations.

Management's Response: Management is in agreement with this finding. Errors were due to manual errors that have now been corrected and monies identified have been returned accordingly. SFA has reviewed its Return to Title IV policy and made the necessary changes for the 2005-2006 academic year.

WESTERN KENTUCKY UNIVERSITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2004

None