

**WESTERN KENTUCKY UNIVERSITY  
REPORT ON AUDIT OF INSTITUTION  
OF HIGHER EDUCATION  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
June 30, 2006 and 2005**

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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  
and  
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 years ended June 30, 2006 and 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 audits. We did not audit the financial statements of Western Kentucky University Research Foundation, Inc., which represents 2% and 3% of the assets and 8% and 5% of revenues of Western Kentucky University's business-type activities for the years ended June 30, 2006 and 2005, respectively. 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.

We conducted our audits 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. The financial statements of Western Kentucky University Research Foundation, Inc. and the discretely presented component units were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a

test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component units of Western Kentucky University as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows, as applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11, the WKU Student Life Foundation, Inc. changed its method of accounting for asset retirement obligations in 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2006 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 *Government 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 basic financial statements of Western Kentucky University taken as a whole. The accompanying schedule of expenditures of federal awards on pages 69 through 86 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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  
September 29, 2006

**WESTERN KENTUCKY UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2006

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*Overview*

Management's Discussion and Analysis (MD&A) of Western Kentucky University's (the "University") financial statements is intended to provide an overview of the financial position, changes in financial position and cash flows of the University as of and for the fiscal years ended June 30, 2006 and 2005. 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, 2006 and 2005, 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 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 sheets) and Statements of Activities (income statements). These statements are prepared in accordance with the appropriate Financial Accounting Standards Board (FASB) pronouncements.

### *Fiscal 2006 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:

<b><u>Enrollment Base (Headcount)</u></b>	<b><u>Fall 2005</u></b>	<b><u>Fall 2004</u></b>	<b><u>Fall 2003</u></b>
Undergraduate applications	9,700	8,907	8,510
Undergraduate enrollment (including returning students)	15,978	15,843	15,234
First-time freshmen	3,150	3,056	3,175
Total graduate enrollment	2,667	2,670	2,593
Total enrollment	18,645	18,513	17,827

The following data, with a comparison between 2005/2006 and 2003/2004, is provided to help assess the financial viability of the University:

<u>WKU Foundation</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Endowments	\$ 46.3 million	\$39.0 million	\$ 35.2 million
Total cash receipts	\$ 8.8 million	\$ 6.3 million	\$ 4.3 million
 <b><u>State Appropriations</u></b>			
General nonoperating revenue	\$ 74,836,800	\$ 66,859,000	\$ 65,697,000
Retirement of debt obligations	<u>3,202,000</u>	<u>3,181,400</u>	<u>2,946,700</u>
Total	<u>\$ 78,038,800</u>	<u>\$ 70,040,400</u>	<u>\$ 68,643,700</u>
State budget reduction	\$ <u>          -</u>	\$ <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, 2006, 2005 and 2004, are as follows:

*Condensed Statements of Net Assets (in Thousands)*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>			
Current assets	\$ 57,266	\$ 41,566	\$ 41,357
Capital assets, net	196,332	184,169	160,699
Other noncurrent assets	<u>32,139</u>	<u>42,293</u>	<u>55,956</u>
Total assets	<u>\$ 285,737</u>	<u>\$ 268,028</u>	<u>\$ 258,012</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 27,220	\$ 25,865	\$ 27,856
Noncurrent liabilities	<u>59,421</u>	<u>64,201</u>	<u>68,705</u>
Total liabilities	<u>\$ 86,641</u>	<u>\$ 90,066</u>	<u>\$ 96,561</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 129,922	\$ 115,839	\$ 87,972
Restricted			
Nonexpendable	12,611	11,867	11,503
Expendable	22,704	21,500	35,258
Unrestricted	<u>33,859</u>	<u>28,756</u>	<u>26,718</u>
Total net assets	<u>\$ 199,096</u>	<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 \$29,965,744 with final payments on the bonds scheduled for 2024.

*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 \$(90,620,608), \$(82,019,925) and \$(82,887,979) for fiscal years 2006, 2005 and 2004, respectively.

A summary of the University's revenues, expenses and changes in net assets for the years ended June 30, 2006, 2005 and 2004, is as follows:

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Operating revenues</b>			
Net tuition and fees	\$ 68,682	\$ 58,013	\$ 48,064
Grants and contracts	28,285	27,554	25,985
Sales and services of educational departments	8,586	11,335	12,028
Auxiliary enterprises	16,632	15,208	14,754
Other	<u>8,924</u>	<u>7,991</u>	<u>5,571</u>
Total operating revenues	<u>131,109</u>	<u>120,101</u>	<u>106,402</u>
<b>Operating expenses</b>	<u>221,730</u>	<u>202,121</u>	<u>189,290</u>
<b>Operating loss</b>	<u>(90,621)</u>	<u>(82,020)</u>	<u>(82,888)</u>
<b>Nonoperating revenues (expenses)</b>			
State appropriations	78,039	67,659	68,644
Grants and contracts	31,563	26,402	28,097
Investment income	2,621	1,555	561
Interest on capital asset-related debt	(2,462)	(2,160)	(2,211)
Other	<u>10</u>	<u>(38)</u>	<u>73</u>
Net nonoperating revenues	<u>109,771</u>	<u>93,418</u>	<u>95,164</u>
<b>Income before other revenues, expenses, gains or losses</b>	<u>19,150</u>	<u>11,398</u>	<u>12,276</u>
State capital appropriations	1,984	5,113	10,697
Additions to permanent endowment (state endowment match)	<u>-</u>	<u>-</u>	<u>4,759</u>
	<u>1,984</u>	<u>5,113</u>	<u>15,456</u>
<b>Increase in net assets</b>	21,134	16,511	27,732
<b>Net assets, beginning of year</b>	<u>177,962</u>	<u>161,451</u>	<u>133,719</u>
<b>Net assets, end of year</b>	<u>\$ 199,096</u>	<u>\$ 177,962</u>	<u>\$ 161,451</u>

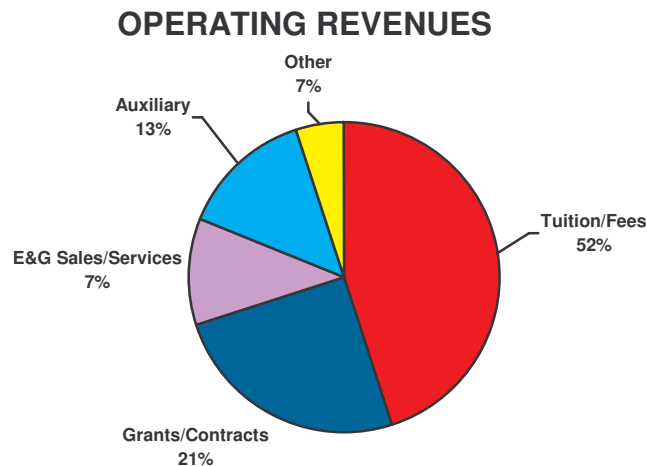
## Operating Revenues

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 0.7% and 6.2% between fall 2004 and 2005, and fall 2003 and 2004, respectively. As of fall 2005, approximately 81% of students enrolled at the University were Kentucky residents. An additional 8.8% 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, 2006 and 2005, were 68.4% and 67.6%, respectively, of the gross tuition and fees with approximately \$31.7 million and \$27.9 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 \$31,895,866 for 2005-06.

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 three-year comparison of total grants and contracts awarded (not received/recorded) during the 2006, 2005 and 2004 fiscal years.

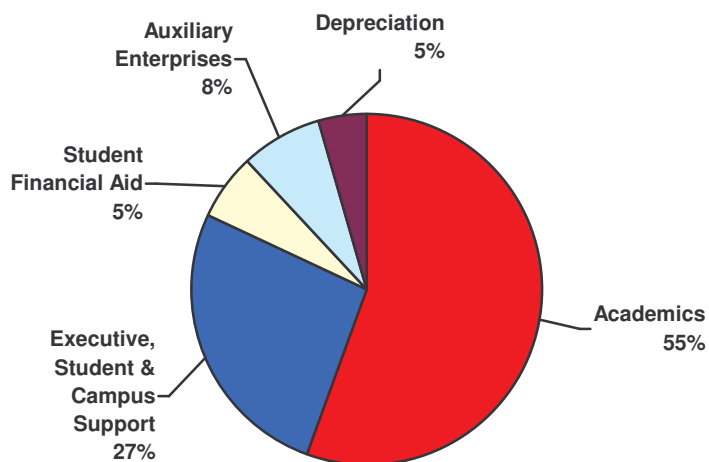
*Grants and Contracts Awards (Excluding Financial Aid)*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Federal	\$ 21,086,472	\$ 23,301,951	\$ 22,592,218
State	8,493,719	2,607,111	4,549,430
Other	<u>2,315,675</u>	<u>1,964,342</u>	<u>1,917,923</u>
Total	<u>\$ 31,895,866</u>	<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 the plant.

## OPERATING EXPENSES



### *Nonoperating Revenues (Expenses)*

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

The University's investments consist primarily of collateralized mortgage obligations and its equity in Commonwealth of Kentucky pooled investment funds. Investment income for the years ended June 30, 2006, 2005 and 2004 is comprised of the following:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Investment income	\$ 1,811,221	\$ 979,784	\$ 618,004
Net change for the year in the fair value of investments	<u>809,447</u>	<u>574,850</u>	<u>(57,216)</u>
	<u>\$ 2,620,668</u>	<u>\$ 1,554,634</u>	<u>\$ 560,788</u>

State appropriations were \$78,038,800 for 2006 in comparison to \$66,859,000 for 2004 and 2005. The University's state appropriation, based on the enacted 2005-2006 Biennial Budget, was increased by \$7,998,400 or 11.9% in recognition of the University's enrollment growth.

### *Change in Net Assets*

For the years ended June 30, 2006 and 2005, the University's net assets increased \$21,133,985 and \$16,510,973, respectively. The year-end net assets for June 30, 2006 and 2005 were \$199,095,832 and \$177,961,847, respectively.

### *Statements of Cash Flows*

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

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

The major sources of cash received for operating activities are tuition and fees of \$68,945,391, auxiliary enterprises of \$16,631,800 and grants and contracts of \$29,772,847. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$137,794,722 and to suppliers and contractors of \$74,863,949. 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 \$3,202,000 was allocated for debt payments of the University. Investing activities recognize the cash flows from proceeds from sales and maturities of investments, purchases of investments and interest receipts.

The Statements of Cash Flows are summarized as follows:

*Condensed Statements of Cash Flows (in thousands)*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Cash Provided By (Used In)</b>			
Operating activities	\$ (79,422)	\$ (74,182)	\$ (80,255)
Noncapital financing activities	109,420	93,961	96,501
Capital and related financing activities	(27,098)	(37,213)	(13,296)
Investing activities	<u>351</u>	<u>251</u>	<u>(1,495)</u>
Net increase (decrease) in cash and cash equivalents	3,251	(17,183)	1,455
<b>Cash and cash equivalents, beginning of year</b>	<u>43,176</u>	<u>60,359</u>	<u>58,904</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 46,427</u>	<u>\$ 43,176</u>	<u>\$ 60,359</u>

*Capital Asset and Debt Administration*

Capital Assets

As of June 30, 2006, 2005 and 2004, the University had \$196.3 million, \$184.2 million and \$160.7 million invested in capital assets, net of accumulated depreciation of \$136.3 million, \$124.9 million and \$115.6 million, respectively. Capital assets at June 30, 2006, 2005 and 2004 are summarized below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 7,269,630	\$ 5,946,131	\$ 5,327,474
Buildings and improvements	229,276,452	205,533,480	181,429,689
Infrastructure	18,207,372	16,723,324	10,829,942
Furniture, fixtures and equipment	34,548,484	30,961,153	27,050,300
Library materials	33,891,225	32,018,208	30,301,507
Construction in progress	<u>9,413,926</u>	<u>17,868,692</u>	<u>21,292,739</u>
Total capital assets	332,607,089	309,050,988	276,231,651
Less accumulated depreciation	<u>(136,275,229)</u>	<u>(124,882,358)</u>	<u>(115,532,727)</u>
Capital assets	<u>\$ 196,331,860</u>	<u>\$ 184,168,630</u>	<u>\$ 160,698,924</u>

As of June 30, 2006 and 2005, the major construction project in progress consisted of the Pedestrian Mall, Math and Science Academy, Academic/Athletic Complex #2 (Smith Stadium), and Science Complex renovation.

## Debt

As of June 30, 2006, 2005 and 2004, the University had \$67.1 million, \$69.1 million and \$73.2 million, 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>2006</u>	<u>2005</u>	<u>2004</u>
Pledges to the City	\$ 31,620,543	\$ 31,620,543	\$ 31,620,543
Consolidated Educational Buildings Revenue Bonds	29,965,744	33,714,577	37,353,409
Capital leases	1,288,555	1,846,850	2,410,942
Other long-term debt	<u>4,244,591</u>	<u>1,869,739</u>	<u>1,835,505</u>
Total	<u>\$ 67,119,433</u>	<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 2006 meeting, approved tuition rates for fiscal year 2007. The rates approved for fiscal year 2007 reflect a commitment to return to more modest rate increases (i.e., under 10 percent for resident undergraduate students). The Council on Postsecondary Education has the statutory responsibility to approve tuition rates. Preliminary calculations show that tuition rate increases will be approximately the same for fiscal year 2008. The driving factor in setting rates is economic access to postsecondary education.
- 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 2006-2007 operating budget includes an institutional contribution for each full-time employee at a rate of \$405 per month. As a result of the University benefits committee's oversight, the self-insurance program continues to be operationally and financially sound and no funding changes will be proposed for calendar year 2007.

- 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. As with the university's self-insured health plan, claims exceeding certain predetermined amounts are reinsured through a third party insurer in order to mitigate large loss claims. After the initial year of plan operations, the University's self-insured workers' compensation plan is financially sound and has operated at a significantly lower cost than the previous fully-insured plan.
- The 2006 Kentucky General Assembly enacted a budget that was very favorable for higher education. The biennial budget increases in State appropriations, for operating purposes, are 3.0 percent and 10.5 percent for fiscal year 2007 and 2008, respectively. This commitment to postsecondary education by the 2006 General Assembly, along with the aforementioned scheduled tuition increases, assisted Western Kentucky University in approving a 2006-2007 operating budget totaling \$293,754,000.
- The University is currently considering adoption of a General Receipts Trust Agreement whereby future capital projects would be funded through the issuance of General Receipts Obligations. This action reflects changes in the University, financing standards, market expectations and financing techniques since the adoption of the prior Consolidated Educational Building Revenue (CEBR) indenture on August 15, 1960. It is believed that the new General Receipts Trust Agreement will provide greater flexibility in financing and investing and improved cash management, while providing the lowest cost of capital and greatest debt capacity for future capital projects.



WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF NET ASSETS  
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 42,964,998	\$ 27,498,455
Accounts receivable, net of allowance of \$606,463 and \$564,339, respectively	3,777,418	3,714,123
Interest receivable	2,694	198,185
Federal and state grants receivable	7,720,210	7,701,289
Inventories	1,730,858	1,545,207
Loans to students, net	705,253	760,816
Prepaid expenses	<u>364,459</u>	<u>148,338</u>
Total current assets	57,265,890	41,566,413
Noncurrent assets		
Restricted cash and cash equivalents	3,462,585	15,677,725
Long-term investments	5,093,230	5,184,328
Loans to students, net of allowance of \$520,208 and \$561,192, respectively	4,719,773	5,091,611
Assets held in trust	18,159,595	15,617,262
Capital assets	332,607,089	309,050,988
Accumulated depreciation on capital assets	(136,275,229)	(124,882,358)
Deferred bond issuance costs, net of accumulated amortization of \$139,570 and \$91,255, respectively	<u>703,651</u>	<u>721,966</u>
Total noncurrent assets	<u>228,470,694</u>	<u>226,461,522</u>
Total assets	<u>\$ 285,736,584</u>	<u>\$ 268,027,935</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 5,383,893	\$ 6,607,179
Self-insured health liability	719,037	976,360
Self-insured workers' compensation liability	65,950	-
Accrued payroll and withholdings	1,479,685	1,194,508
Accrued compensated absences	2,431,360	2,284,334
Accrued interest	316,183	335,485
Deferred revenue	8,805,815	8,979,445
Long-term obligations - current portion	7,698,614	4,850,930
Deposits held in custody for others	<u>319,396</u>	<u>637,068</u>
Total current liabilities	27,219,933	25,865,309
Long-term obligations	<u>59,420,819</u>	<u>64,200,779</u>
Total liabilities	<u>86,640,752</u>	<u>90,066,088</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF NET ASSETS  
June 30, 2006 and 2005

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	<u>2006</u>	<u>2005</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 129,921,966	\$ 115,838,662
Restricted for		
Nonexpendable - endowments	12,611,316	11,866,588
Expendable		
Loans	6,098,804	6,069,986
Capital projects	11,383,216	10,282,854
Debt service	5,221,843	5,147,563
Unrestricted	<u>33,858,687</u>	<u>28,756,194</u>
 Total net assets	 <u>\$ 199,095,832</u>	 <u>\$ 177,961,847</u>

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See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2005 and 2004

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	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,548,428	\$ 1,838,298
Investments	31,998,542	29,078,716
Accounts receivable	58,526	58,798
Contributions receivable, net of allowance of \$194,000 and \$100,000 for 2005 and 2004, respectively	8,977,669	10,551,663
Beneficial interest in charitable remainder trusts	2,568,752	2,669,886
Prepaid expenses and other assets	2,682	2,682
Investments held for Western Kentucky University	11,210,458	10,524,875
Assets held for others	<u>1,717,671</u>	<u>2,096,908</u>
Total assets	<u>\$ 61,082,728</u>	<u>\$ 56,821,826</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 185,024	\$ 325,995
Notes payable	873,277	994,106
Annuities payable	2,332,610	2,282,767
Assets held for others	<u>12,928,129</u>	<u>12,621,783</u>
Total liabilities	16,319,040	16,224,651
<b>NET ASSETS</b>		
Unrestricted	8,229,017	9,104,526
Temporarily restricted	10,548,007	10,334,198
Permanently restricted	<u>25,986,664</u>	<u>21,158,451</u>
Total net assets	<u>44,763,688</u>	<u>40,597,175</u>
Total liabilities and net assets	<u>\$ 61,082,728</u>	<u>\$ 56,821,826</u>

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See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
 WKU STUDENT LIFE FOUNDATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2006 and 2005

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	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,627,403	\$ 2,405,597
Loans and accounts receivable	1,709,468	2,207,417
Accrued interest receivable	95,324	79,362
Prepaid expenses	361,687	368,733
Assets limited as to use	10,060,387	8,719,691
Assets held for others – student deposits	602,775	667,657
Property and equipment, net	64,309,683	65,595,271
Other assets	<u>704,860</u>	<u>624,472</u>
Total assets	<u>\$ 80,471,587</u>	<u>\$ 80,668,200</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Line of credit	\$ -	\$ 4,466,700
Accounts payable	741,554	1,422,515
Accrued expenses	225,972	149,523
Student deposits	602,775	667,657
Interest rate collar and swap agreements, at fair value	4,806,293	9,719,610
Asset retirement obligation	1,030,178	-
Long-term debt, net of unamortized discounts of \$221,703 and \$230,972 for 2006 and 2005, respectively	<u>67,043,139</u>	<u>63,712,381</u>
Total liabilities	74,449,911	80,138,386
Net assets - unrestricted	<u>6,021,676</u>	<u>529,814</u>
Total liabilities and net assets	<u>\$ 80,471,587</u>	<u>\$ 80,668,200</u>

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See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
COLLEGE HEIGHTS FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,476,149	\$ 763,273
Notes receivable	26,000	26,000
Interest and dividends receivable	135,351	134,146
Short-term investments	2,825,236	4,031,452
Contributions receivable	<u>203,072</u>	<u>94,134</u>
Total current assets	4,665,808	5,049,005
Investments and long-term receivables		
Long-term investments	26,277,745	23,250,529
Assets held in trust	1,267,190	1,365,543
Investments held for Western Kentucky University	1,681,414	1,669,924
Note receivable	104,295	130,295
Contributions receivable	<u>133,143</u>	<u>249,308</u>
Total investments and long-term receivables	29,463,787	26,665,599
Other assets		
	<u>94,697</u>	<u>94,697</u>
Total assets	<u>\$ 34,224,292</u>	<u>\$ 31,809,301</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 24,305	\$ 29,764
Current portion of long-term debt	87,535	69,536
Current portion of refundable advances and gift annuity liabilities	<u>336,596</u>	<u>322,921</u>
Total current liabilities	448,436	422,221
Long-term liabilities		
Notes payable	996,775	834,309
Refundable advances and gift annuity liabilities	1,526,672	1,659,227
Assets held for Western Kentucky University	<u>1,681,414</u>	<u>1,669,924</u>
Total long-term liabilities	<u>4,204,861</u>	<u>4,163,460</u>
Total liabilities	<u>4,653,297</u>	<u>4,585,681</u>
Net assets		
Donor restricted		
Permanently	23,751,154	21,736,110
Temporarily	<u>2,614,312</u>	<u>2,606,141</u>
Total donor restricted	26,365,466	24,342,251
Unrestricted		
Designated by board for perpetual scholarship fund	<u>3,205,529</u>	<u>2,881,369</u>
Total net assets	<u>29,570,995</u>	<u>27,223,620</u>
Total liabilities and net assets	<u>\$ 34,224,292</u>	<u>\$ 31,809,301</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>REVENUES</b>		
Operating revenues		
Tuition and fees, net of discounts and allowances of \$31,718,625 and \$27,863,157 for 2006 and 2005, respectively	\$ 68,682,426	\$ 58,013,215
Federal grants and contracts	14,078,886	14,553,794
State grants and contracts	14,206,641	12,995,867
Local and private grants and contracts	-	4,316
Sales and services of educational activities	8,585,740	11,334,805
Auxiliary enterprise revenues, net of discounts and allowances of \$813,298 and \$714,440 for 2006 and 2005, respectively	16,631,800	15,207,744
Other operating revenues	8,923,959	7,991,435
Total operating revenues	131,109,452	120,101,176
 <b>EXPENSES</b>		
Operating expenses		
Education and general		
Instruction	79,925,206	74,964,643
Research	10,840,688	8,153,649
Public service	16,589,903	15,168,380
Libraries	4,649,685	4,123,438
Academic support	9,831,842	8,759,062
Student services	19,692,430	16,441,795
Institutional support	21,590,197	19,306,970
Operation and maintenance of plant	18,223,071	17,127,611
Student financial aid	12,082,442	12,576,228
Depreciation	11,578,776	9,894,594
Auxiliary enterprises	16,725,820	15,604,731
Total operating expenses	221,730,060	202,121,101
 <b>Operating loss</b>	 (90,620,608)	 (82,019,925)

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 Years ended June 30, 2006 and 2005

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	<u>2006</u>	<u>2005</u>
Nonoperating revenues (expenses)		
Gross state appropriations	\$ 78,038,800	\$ 70,040,400
Less: state budget reduction	-	(2,381,600)
Federal grants and contracts	22,986,158	20,860,383
State grants and contracts	4,442,269	3,586,552
Local and private grants and contracts	4,134,939	1,955,114
Investment income	2,620,668	1,554,634
Interest on capital asset-related debt	(2,462,429)	(2,159,743)
Gain (loss) on disposal of capital assets	(11,315)	73,157
Loss on sale of investments	(9,442)	(6,445)
Other nonoperating revenue (expenses)	<u>31,219</u>	<u>(104,481)</u>
Net nonoperating revenues	<u>109,770,867</u>	<u>93,417,971</u>
<b>Income before other revenue expenses, gains or losses</b>	19,150,259	11,398,046
State capital appropriations	<u>1,983,726</u>	<u>5,112,927</u>
<b>Increase in net assets</b>	21,133,985	16,510,973
<b>Net assets, beginning of year</b>	<u>177,961,847</u>	<u>161,450,874</u>
<b>Net assets, end of year</b>	<u>\$ 199,095,832</u>	<u>\$ 177,961,847</u>

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See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Changes in unrestricted net assets</b>		
Unrestricted revenues, gains and other support		
Contributions	\$ 272,462	\$ 4,815,361
Investment return	168,076	(2,536,741)
Net assets released from restrictions	<u>3,782,304</u>	<u>2,986,930</u>
Total unrestricted revenues, gains and other support	<u>4,222,842</u>	<u>5,265,550</u>
Expenses		
Payments made on behalf of Western Kentucky University - Programs	4,125,700	3,518,918
Management and general	919,638	592,471
Fundraising	<u>53,013</u>	<u>42,734</u>
Total expenses	<u>5,098,351</u>	<u>4,154,123</u>
<b>Changes in unrestricted net assets</b>	<u>(875,509)</u>	<u>1,111,427</u>
<b>Changes in temporarily restricted net assets</b>		
Contributions	3,889,443	2,079,697
Investment return	(12,764)	2,376,749
Miscellaneous income	119,434	291,438
Net assets released from restrictions	<u>(3,782,304)</u>	<u>(2,986,930)</u>
<b>Changes in temporarily restricted net assets</b>	<u>213,809</u>	<u>1,760,954</u>
<b>Changes in permanently restricted net assets</b>		
Contributions	<u>4,828,213</u>	<u>1,579,230</u>
<b>Increase in net assets</b>	4,166,513	4,451,611
<b>Net assets, beginning of period</b>	<u>40,597,175</u>	<u>36,145,564</u>
<b>Net assets, end of period</b>	<u>\$ 44,763,688</u>	<u>\$ 40,597,175</u>

See accompanying notes.



WESTERN KENTUCKY UNIVERSITY  
 WKU STUDENT LIFE FOUNDATION, INC.  
 STATEMENTS OF ACTIVITIES  
 Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Operating revenues</b>		
Rent	\$ 13,864,488	\$ 12,606,644
Other	<u>1,006,722</u>	<u>728,760</u>
Total operating revenues	<u>14,871,210</u>	<u>13,335,404</u>
<b>Operating expenses</b>		
Salaries, benefits and related expenses	3,853,622	3,557,185
Utilities	2,253,947	1,961,817
Repairs, maintenance and supplies	710,608	679,796
Management fee	42,109	69,135
Professional fees	57,307	52,770
Insurance	779,589	810,624
Depreciation and amortization	2,633,781	2,488,642
Bad debt expense	126,526	123,451
Other	<u>385,713</u>	<u>240,811</u>
Total operating expenses	<u>10,843,202</u>	<u>9,984,231</u>
<b>Changes in net assets from operations</b>	<u>4,028,008</u>	<u>3,351,173</u>
<b>Nonoperating revenues (expenses)</b>		
Interest income	743,703	568,372
Interest expense and fees	(2,591,576)	(1,806,573)
Change in fair value of interest rate collar and swap agreements	<u>3,724,936</u>	<u>(2,937,912)</u>
Total nonoperating revenues (expenses)	<u>1,877,063</u>	<u>(4,176,113)</u>
<b>Changes in unrestricted net assets before cumulative effective of change in accounting principle</b>	5,905,071	(824,940)
Cumulative effect of change in accounting principle	<u>(413,209)</u>	<u>-</u>
<b>Changes in unrestricted net assets</b>	5,491,862	(824,940)
<b>Unrestricted net assets, beginning of year</b>	<u>529,814</u>	<u>1,354,754</u>
<b>Unrestricted net assets, end of year</b>	<u>\$ 6,021,676</u>	<u>\$ 529,814</u>
Proforma amounts assuming retroactive application of accounting change		
Changes in unrestricted net assets	\$ 5,905,071	\$ (901,460)

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
COLLEGE HEIGHTS FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Changes in unrestricted net assets</b>		
Unrestricted revenues, gains and other support		
Investment income	\$ 68,533	\$ 69,244
Net realized and unrealized gains on investments	92,190	223,657
Net assets released from restrictions:		
Satisfaction of program restrictions	<u>3,085,943</u>	<u>1,282,867</u>
Total unrestricted revenues, gains and other support	<u>3,246,666</u>	<u>1,575,768</u>
 Expenses		
Program		
Scholarships and awards	2,033,156	1,203,334
Other	<u>491,923</u>	<u>272,096</u>
	<u>2,525,079</u>	<u>1,475,430</u>
 Management and general		
Salaries and benefits	293,700	281,909
Interest expense	52,306	31,244
Other	<u>51,421</u>	<u>47,421</u>
	<u>397,427</u>	<u>360,574</u>
Total expenses	<u>2,922,506</u>	<u>1,836,004</u>
 <b>Changes in unrestricted net assets</b>	<u>324,160</u>	<u>(260,236)</u>
 <b>Changes in temporarily restricted net assets</b>		
Contributions	1,630,507	308,496
Investment income	766,520	576,450
Net realized and unrealized gains on investments	607,278	1,342,570
Net realized gain on sale of real estate	52,000	-
Net change in value of split interest agreements	37,809	185,452
Net assets released from restrictions	<u>(3,085,943)</u>	<u>(1,282,867)</u>
	<u>8,171</u>	<u>1,130,101</u>
 <b>Changes in permanently restricted net assets</b>		
Contributions	<u>2,015,044</u>	<u>886,243</u>
 <b>Increase in net assets</b>	2,347,375	1,756,108
 <b>Net assets, beginning of year</b>	<u>27,223,620</u>	<u>25,467,512</u>
 <b>Net assets, end of year</b>	<u>\$ 29,570,995</u>	<u>\$ 27,223,620</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
 STATEMENTS OF CASH FLOWS  
 Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 68,945,391	\$ 58,232,915
Grants and contracts	29,722,847	25,686,335
Payments to employees	(131,703,130)	(120,907,945)
Payments to suppliers	(64,038,714)	(55,282,675)
Loans issued to students	(454,862)	(873,930)
Collection of loans issued to students	882,263	756,817
Sales and services of educational departments	8,585,740	11,334,805
Other operating revenues	8,923,959	7,431,700
Auxiliary enterprise revenues	16,631,800	15,207,744
Auxiliary enterprise payments		
Payments to employees	(6,091,592)	(5,609,801)
Payments to suppliers	(10,825,235)	(10,157,851)
Net cash used in operating activities	<u>(79,421,533)</u>	<u>(74,181,886)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	78,038,800	67,658,800
Grants and contracts receipts	31,563,366	26,402,049
Student organization agency disbursements - net	(317,671)	(99,845)
Other non-operating receipts	135,700	-
Net cash from noncapital financing activities	<u>109,420,195</u>	<u>93,961,004</u>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from issuance	2,803,750	-
Proceeds from sale of capital assets	17,368	155,338
Purchases of capital assets	(22,554,752)	(30,636,457)
Principal paid on capital debt and leases	(4,882,532)	(4,555,370)
Interest paid on capital debt and leases	(2,481,731)	(2,176,647)
Net cash flows used in capital and related financing activities	<u>(27,097,897)</u>	<u>(37,213,136)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	5,040,560	2,745,130
Purchase of investments	(6,614,598)	(3,571,012)
Investment income	1,924,676	1,076,894
Net cash flows from investing activities	<u>350,638</u>	<u>251,012</u>
<b>Net change in cash and cash equivalents</b>	3,251,403	(17,183,006)
<b>Cash and cash equivalents, beginning of year</b>	<u>43,176,180</u>	<u>60,359,186</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 46,427,583</u>	<u>\$ 43,176,180</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 STATEMENTS OF CASH FLOWS  
 Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Reconciliation of cash and cash equivalents to the statement of net assets</b>		
Cash and cash equivalents	\$ 42,964,998	\$ 27,498,455
Restricted cash and cash equivalents	<u>3,462,585</u>	<u>15,677,725</u>
Total cash and cash equivalents	<u>\$ 46,427,583</u>	<u>\$ 43,176,180</u>
<b>Reconciliation of net operating loss to net cash used in operating activities</b>		
Operating loss	\$ (90,620,608)	\$ (82,019,925)
Depreciation expense	11,578,776	9,894,594
Capital assets contributed by foundations	-	(158,568)
Changes in operating assets and liabilities		
Accounts receivable, net	(63,295)	(132,902)
Federal and state grants receivable	(18,921)	(1,626,679)
Assets held in trust	4,844	(395,569)
Inventories	(185,651)	(161,935)
Loans to students, net	427,401	(117,113)
Prepaid expenses	(216,121)	(46,130)
Accounts payable	(2,378,884)	117,881
Health insurance liability	(191,373)	192,015
Accrued payroll and payroll withholdings	285,177	(131,697)
Accrued compensated absences	147,026	223,696
Deferred revenue	<u>1,810,096</u>	<u>180,446</u>
Net cash used in operating activities	<u>\$ (79,421,533)</u>	<u>\$ (74,181,886)</u>
<b>Supplemental cash flows information</b>		
Capital leases incurred for capital assets	\$ 60,339	\$ 64,761
WKU Real Estate Corporation debt assumed in exchange for capital asset	-	265,752
Construction in process included in accounts payable	1,155,598	2,320,943

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**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 18,600 and 18,500 in 2006 and 2005, 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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

Governmental Accounting Standards Board (“GASB”) Statement No. 39, *Determining Whether Certain Organizations are Component Units* requires certain organizations be reported as component units of a primary government based on the nature and significance of that organization’s relationship to the primary government. Western Kentucky University Foundation, Inc., College Heights Foundation, Inc. and Western Kentucky University Student Life Foundation, Inc. (the “Foundations”) are discretely presented component units of the University. The Foundations are private nonprofit organizations that report under Financial Accounting Standards Board (FASB) 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 and for the years ended December 31, 2005 and 2004. The Student Life Foundation, Inc. operates on a fiscal year beginning July, 1 and extending through June 30; likewise the information contained herein is as of and for the years ended June 30, 2006 and 2005.

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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**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 which approximates the interest 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 year's depreciation taken during the year of purchase or donation. Library materials are capitalized in total for the year with one-half year's depreciation taken during the year of purchase or donation. Construction in 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

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006 and 2005

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**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>2006</u>	<u>2005</u>
Total interest expense incurred on borrowings for project	\$ 407,923	\$ 833,117
Interest income from investment of proceeds of borrowings for project	<u>121,491</u>	<u>607,031</u>
Net interest cost capitalized	<u>286,432</u>	<u>226,086</u>
Interest capitalized	286,432	226,086
Interest charged to expense	<u>2,462,429</u>	<u>2,159,743</u>
Total interest incurred	<u>\$ 2,748,861</u>	<u>\$ 2,385,829</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 which are 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**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 Statements 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**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 2005 amounts have been reclassified to conform with the 2006 financial statement presentation. These items included a reclassification between categories of operating expenses on the University's Statements of Revenue, Expenses and Changes in Net Assets, as well as certain revenue reclassifications on the separately reported financial statements of Western Kentucky University Foundation, Inc. and Western Kentucky University Student Life Foundation, Inc. These reclassifications had no effect on the change in net assets.

**NOTE 2 - ASSETS HELD IN TRUST**

Assets held in trust consisted of:

	<u>2006</u>	<u>2005</u>
Cash equivalents	\$ 1,637,525	\$ 3,750,675
Common equity, common fixed income and mutual funds	<u>16,522,070</u>	<u>11,866,587</u>
Fair value of assets held in trust	<u>\$ 18,159,595</u>	<u>\$ 15,617,262</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**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 \$46,427,583 at June 30, 2006, while the bank balances were \$42,734,742. 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, 2006 was \$138,910. 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**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, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>Greater than Ten Years</u>
U.S. Treasury Notes	\$ 4,892,150	\$ 4,892,150	\$ -	\$ -	\$ -
457(f) Incentive Plan	<u>201,080</u>	<u>201,080</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,093,230</u>	<u>\$ 5,093,230</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, 2006, 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, 2006.

*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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

The University is not exposed to foreign currency risk as of June 30, 2006.

**Investment Income**

Investment income for the year ended June 30, 2006 and 2005 consisted of:

	<u>2006</u>	<u>2005</u>
Interest income, including interest earned on cash equivalents	\$ 1,811,221	\$ 979,784
Net increase in fair value of investments	<u>809,447</u>	<u>574,850</u>
	<u>\$ 2,620,668</u>	<u>\$ 1,554,634</u>

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following as of June 30:

	<u>2006</u>	<u>2005</u>
Tuition, fees, sales and services	\$ 3,854,531	\$ 3,802,385
Credit memos	376,987	308,603
Miscellaneous, other	<u>152,363</u>	<u>167,474</u>
	4,383,881	4,278,462
Less allowance for doubtful accounts	<u>(606,463)</u>	<u>(564,339)</u>
Accounts receivable, net	<u>\$ 3,777,418</u>	<u>\$ 3,714,123</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

**NOTE 5 - CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2006, are summarized as follows:

	Balance July 1, <u>2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance June 30, <u>2006</u>
Cost					
Land	\$ 5,946,131	\$ 1,323,499	\$ -	\$ -	\$ 7,269,630
Buildings and improvements	205,533,480	-	-	23,742,972	229,276,452
Infrastructure	16,723,324	-	-	1,484,048	18,207,372
Furniture, fixtures and equipment	30,961,153	3,726,712	(139,381)	-	34,548,484
Library materials	32,018,208	1,948,223	(75,206)	-	33,891,225
Construction in progress	17,868,692	16,772,254	-	(25,227,020)	9,413,926
	<u>309,050,988</u>	<u>23,770,688</u>	<u>(214,587)</u>	<u>-</u>	<u>332,607,089</u>
Accumulated depreciation					
Buildings and improvements	77,157,218	6,566,808	-	-	83,724,026
Infrastructure	5,224,639	622,565	-	-	5,847,204
Furniture, fixtures, and equipment	18,913,832	2,763,018	(110,699)	-	21,566,151
Library materials	23,586,669	1,626,385	(75,206)	-	25,137,848
	<u>124,882,358</u>	<u>11,578,776</u>	<u>(185,905)</u>	<u>-</u>	<u>136,275,229</u>
Net capital assets	<u>\$ 184,168,630</u>	<u>\$ 12,191,912</u>	<u>\$ (28,682)</u>	<u>\$ -</u>	<u>\$ 196,331,860</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

**NOTE 5 - CAPITAL ASSETS (Continued)**

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, 2006 and 2005

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**NOTE 5 - CAPITAL ASSETS (Continued)**

A summary of construction in progress at June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Transportation Center	\$ 539,507	\$ -
Parking Structure	-	8,544,691
Pedestrian Mall	1,457,618	-
Math and Science Academy	1,050,096	-
Science Campus, Phase II	910,555	-
South Campus Expansion	712,683	-
Academic/Athletic #2, Smith Stadium	1,622,946	-
South Campus Parking	592,798	-
Downing University Center, Phase II	-	4,230,686
Combustion Lab	-	2,786,747
Others under \$500,000	<u>2,527,723</u>	<u>2,306,568</u>
	<u>\$ 9,413,926</u>	<u>\$ 17,868,692</u>

Contractual commitments in connection with all projects totaled \$15,258,704 and \$6,814,609 at June 30, 2006 and 2005, respectively.

During fiscal year ended June 30, 2006, Cherry Hall (an academic complex) was damaged by fire. The damaged structure had been fully depreciated at the time of the incident and total damages to the structure were approximately \$900,000, of which \$691,000 in repairs had been completed as of June 30, 2006. Insurance reimbursements totaling \$498,500 had been received as of June 30, 2006. Considering the structure had no depreciable book value as of the date of the incident, no impairment will be recorded and any such repairs will be recorded as improvements and depreciated over a twenty-year period. Likewise, any and all insurance proceeds received related to this incident will be recorded as revenue or gain in the period in which they are received.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**NOTE 6 - DEFERRED REVENUES**

Deferred revenues as of June 30 consisted of:

	<u>2006</u>	<u>2005</u>
Unexpended state capital appropriations	\$ 979,186	\$ 2,962,912
Summer school tuition and fees	3,178,806	2,852,545
Grants and contracts	4,361,137	2,904,896
Advance sale of football tickets	84,715	76,587
University master plan	81,450	78,825
ATM rental	29,650	24,250
Miscellaneous	<u>90,871</u>	<u>79,430</u>
 Total deferred revenues	 <u>\$ 8,805,815</u>	 <u>\$ 8,979,445</u>

**NOTE 7 - LONG-TERM OBLIGATIONS**

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Capital lease obligations	\$ 1,846,850	\$ 60,339	\$ (618,634)	\$ 1,288,555	\$ 386,406
Bonds payable, net of discounts and deferred loss on refinancing	33,714,577	-	(3,748,833)	29,965,744	3,863,834
Other long-term debt	1,869,739	2,833,750	(458,898)	4,244,591	3,318,374
Pledges payable, net of discount	<u>31,620,543</u>	<u>-</u>	<u>-</u>	<u>31,620,543</u>	<u>130,000</u>
 Total bonds, pledges and capital leases	 <u>\$ 69,051,709</u>	 <u>\$ 2,894,089</u>	 <u>\$ (4,826,365)</u>	 <u>\$ 67,119,433</u>	 <u>\$ 7,698,614</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

**NOTE 7 - LONG-TERM OBLIGATIONS (Continued)**

The following is a summary of long-term obligation transactions for the University 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>
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>

**Bonds Payable**

Bonds payable as of June 30, 2006, 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.

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

	<u>2006</u>	<u>2005</u>
Series M Bonds, dated March 1, 1997, with interest rates from 4.70% to 4.90%. Final principal payment date May 1, 2007	\$ 920,000	\$ 1,790,000
Series N Bonds, dated September 1, 2002, with interest rates from 2.00% to 3.375%. Final principal payment date May 1, 2012	3,485,000	4,195,000
Series O Bonds, dated July 1, 2003, with interest rates from 2.00% to 2.85%. Final principal payment date May 1, 2010	5,648,889	6,962,362

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**NOTE 7 - LONG-TERM OBLIGATIONS (Continued)**

	<u>2006</u>	<u>2005</u>
Series P Bonds, dated September 1, 2003, with interest rates from 2.00% to 4.75%. Final principal payment date May 1, 2023	\$ 9,820,580	\$ 10,235,663
Series Q Bonds, dated December 1, 2003, with interest rates from 1.50% to 4.25%. Final principal payment date May 1, 2023	<u>10,091,275</u>	<u>10,531,552</u>
Total bonds payable	<u>\$ 29,965,744</u>	<u>\$ 33,714,577</u>

The debt service requirements for the bonds payable as of June 30, 2006 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,500,000	730,910	2,230,910
2012-2016	6,085,000	2,903,263	8,988,263
2017-2021	6,795,000	1,629,970	8,424,970
2022-2023	<u>3,155,000</u>	<u>214,218</u>	<u>3,369,218</u>
	30,380,000	9,282,419	39,662,419
Less: unamortized discounts, net of premium on CEBR Series O	(231,563)	-	(231,563)
Less: deferred loss on defeasance of CEBR Series L	<u>(182,693)</u>	<u>-</u>	<u>(182,693)</u>
	<u>\$ 29,965,744</u>	<u>\$ 9,282,419</u>	<u>\$ 39,248,163</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006 and 2005

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**NOTE 7 - LONG-TERM OBLIGATIONS (Continued)**

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.

**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 \$3,659,696 and \$3,800,622, net of accumulated depreciation of \$1,404,062 and \$1,312,207 at June 30, 2006 and 2005, 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, 2006:

Year ending June 30	<u>Total to be Paid</u>	Present Value of Future Minimum Lease <u>Payments</u>	Interest <u>Portion</u>
2007	\$ 431,615	\$ 386,406	\$ 45,209
2008	392,672	362,877	29,795
2009	310,918	294,492	16,426
2010	225,130	218,387	6,743
2011	26,000	26,000	-
2012-2015	<u>393</u>	<u>393</u>	<u>-</u>
	<u>\$ 1,386,728</u>	<u>\$ 1,288,555</u>	<u>\$ 98,173</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**NOTE 7 - LONG-TERM OBLIGATIONS (Continued)**

**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%.

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.

During fiscal year-ended June 30, 2006, the University entered into an intermediate financing agreement with the Kentucky Asset/Liability Commission (ALCO) through the Finance and Administration Cabinet of the Commonwealth of Kentucky for \$2,665,000 to cover capital project costs incurred prior to the issuance of General Revenue Bonds. Interest payments are due monthly and are computed weekly based upon the Bond Market Association (BMA) Municipal Swap Index plus 45 basis points, which was 4.42% as of June 30, 2006. Final principal payment will be made with the issuance of the aforementioned General Revenue Bonds in fiscal year 2007.

On July 28, 2005, the University entered into a capital investments contract with Aramark for the renovation and expansion of two campus Subway locations. The University received a \$225,000 advance from Aramark, which shall be amortized over a thirty-six month period, commencing on October 1, 2005 and ending September 30, 2008. As of June 30, 2006, the remaining unamortized balance was \$168,750, which will be payable to Aramark if the University's food service operating contract with Aramark is terminated.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006 and 2005

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**NOTE 7 - LONG-TERM OBLIGATIONS (Continued)**

Debt service requirements on the other long-term debt at June 30, 2006, were as follows:

Year ending June 30	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 3,377,823	\$ 3,318,374	\$ 59,449
2008	542,040	510,379	31,661
2009	211,580	197,412	14,168
2010	24,000	13,383	10,617
2011	24,000	14,067	9,933
2012-2016	120,000	81,897	38,103
2017-2021	120,000	105,104	14,896
2022-2026	<u>4,000</u>	<u>3,975</u>	<u>25</u>
	<u>\$ 4,423,443</u>	<u>\$ 4,244,591</u>	<u>\$ 178,852</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 (the "HAF") and the University. Under this agreement the University and the HAF have agreed to pledge certain future revenues in exchange for the renovation of E. A. Diddle Arena, financed by General Obligation and Special Revenues Bonds Series 2002B and 2002C issued by the City. These bonds constitute general obligations of the City and the full faith, credit and taxing power of the City.

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

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**NOTE 7 - LONG-TERM OBLIGATIONS (Continued)**

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>
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	2,274,025	755,000	40,000	1,370,075	108,950
2012-2016	12,999,238	5,925,000	325,000	6,249,725	499,513
2017-2021	15,224,800	9,670,000	575,000	4,605,000	374,800
2022-2026	<u>15,207,150</u>	<u>12,355,000</u>	<u>790,000</u>	<u>1,902,250</u>	<u>159,900</u>
	53,283,877	30,115,000	1,800,000	19,777,576	1,591,301
Less unamortized discount	<u>(294,457)</u>	<u>(286,219)</u>	<u>(8,238)</u>	-	-
Total pledges payable	<u>\$ 52,989,420</u>	<u>\$ 29,828,781</u>	<u>\$ 1,791,762</u>	<u>\$ 19,777,576</u>	<u>\$ 1,591,301</u>

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**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, 2006, were:

2007	\$ 317,035
2008	325,726
2009	300,074
2010	181,560
2011	179,571
Thereafter	<u>820,328</u>
	<u>\$ 2,124,294</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. Complete financial statements for the Foundation can be obtained from the WKU Foundation Office, Alumni House, 1906 College Heights Blvd., Bowling Green, Kentucky, 42101.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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

Cash Equivalents: The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2005 and 2004, the Foundation's cash accounts exceeded federally insured limits by approximately \$3,480,000 and \$1,740,000, respectively.

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

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

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

Spending Policy: The annual distribution goal of the Foundation is 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 is 4.50% of the beginning market value of the endowment asset. The annual distribution goal for the second and third years of an individual endowment is based on the average market value of the endowment asset for the preceding four calendar quarters and eight calendar quarters, respectively.

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

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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

Related Party Transactions: During the year ended December 31, 2005 and 2004, the Foundation made payments/reimbursements on behalf of the University of \$4,125,700 and \$3,518,918, 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, 2006 and 2005 were insignificant.

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 dividends, 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006 and 2005

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

Investments held at December 31, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Common Equity Fund	\$ 13,534,248	\$ 8,669,483
Common Fixed Income Fund	12,862,773	11,937,809
Mutual Funds	1,100,409	4,114,248
Stock Funds	13,268,872	12,896,759
Stock	43,795	45,452
Taxable Bonds	704,944	718,240
Growth Index	1,366,855	1,036,864
Certificates of Deposit	<u>700,000</u>	<u>600,000</u>
Total investments	43,581,896	40,018,855
Investments held for the University included above	(10,710,456)	(10,524,875)
Investments held for WKU Research Foundation included above	(500,000)	-
Investments held for HAF and AA included above	<u>(372,898)</u>	<u>(415,264)</u>
	<u>\$ 31,998,542</u>	<u>\$ 29,078,716</u>

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors. At December 31, 2005 the fair value of all of the assets of these funds was more than the level required by donor stipulation or law.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006 and 2005

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

Contributions Receivable

Contributions receivable at December 31, 2005 and 2004, consisted of the following unconditional promises to give:

	<u>2005</u>	<u>2004</u>
Due in less than one year	\$ 2,303,960	\$ 3,083,164
Due in one to five years	4,616,817	5,981,893
Due in more than five years	<u>4,544,482</u>	<u>4,691,663</u>
	11,465,259	13,756,720
Less		
Allowance for doubtful accounts	194,000	100,000
Unamortized discount	<u>2,293,590</u>	<u>3,105,057</u>
	<u>\$ 8,977,669</u>	<u>\$ 10,551,663</u>

Discount rates ranged from 4.33% to 7.00% for 2005 and 2004, respectively.

Net Assets

*Temporarily Restricted Net Assets*

Temporarily restricted net assets at December 31, 2005 and 2004, are available for the following purposes:

	<u>2005</u>	<u>2004</u>
Scholarships	\$ 534,525	\$ 398,245
University program support	<u>10,013,482</u>	<u>9,935,953</u>
	<u>\$ 10,548,007</u>	<u>\$ 10,334,198</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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

*Permanently Restricted Net Assets*

Permanently restricted net assets at December 31, 2005 and 2004, are restricted to:

	<u>2005</u>	<u>2004</u>
Scholarships	\$ 10,523,786	\$ 8,136,047
University program support	<u>15,462,878</u>	<u>13,022,404</u>
	<u>\$ 25,986,664</u>	<u>\$ 21,158,451</u>

**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.

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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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

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

Cash Equivalents: The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2005 and 2004, 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.

Investments at December 31, 2005 and 2004, consisted of the following:

	<u>2005</u>	<u>2004</u>
Short-term investments		
Government agency securities	\$ 112,769	\$ 397,349
Mortgage-backed securities	529,127	1,641,321
Corporate bonds	1,447,435	1,348,675
Certificates of deposit	<u>735,905</u>	<u>644,107</u>
	<u>\$ 2,825,236</u>	<u>\$ 4,031,452</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006 and 2005

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

	<u>2005</u>	<u>2004</u>
Long-term investments		
Equity securities	\$ 16,252,064	\$ 13,927,233
U. S. Treasury securities	273,484	274,374
Government agency securities	620,757	134,734
Mortgage-backed securities	2,927,128	1,777,137
Corporate bonds	5,083,882	6,044,881
Certificates of deposit	1,050,280	1,014,020
Real estate	<u>70,150</u>	<u>78,150</u>
	<u>\$ 26,277,745</u>	<u>\$ 23,250,529</u>

Related Party Transactions: During the fiscal years ended December 31, 2005 and 2004, College Heights made scholarship payments of \$2,033,156 and \$1,203,334, 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 \$130,395 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, 2006 and 2005 were insignificant.

**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 (15 residence halls and 4,950 beds on the main campus) on behalf of the University. Student Life has a board of directors separate from that of the University; however, the chair and other members of the Western Kentucky University Foundation's board of trustees are also board members of Student Life. Because Student Life and the Foundation have common boards of trustees, and as the purpose of Student Life is to operate exclusively in support of the Foundation, which is a component unit created to benefit the University as described above, Student life is considered a component unit of the University and is discretely presented in the University's financial statement package. Student Life's revenues and other support are derived principally from rental of living space to students of the University.

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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

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, 2006 and 2005, 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.

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

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

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

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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

Capital asset activity for the year ended June 30, 2006 was:

	Balance <u>July 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2006</u>
Cost				
Land	\$ 1,200,000	\$ -	\$ -	\$ 1,200,000
Land improvements	485,269	-	-	485,269
Buildings and improvements	67,645,117	1,242,129	-	68,887,246
Furniture, fixtures and equipment	3,594,288	48,985	-	3,643,273
Construction-in-progress	<u>102,640</u>	<u>632,917</u>	<u>(566,583)</u>	<u>168,974</u>
	<u>73,027,314</u>	<u>1,924,031</u>	<u>(566,583)</u>	<u>74,384,762</u>
Less accumulated depreciation				
Land improvements	26,286	12,132	-	38,418
Building and improvements	6,228,295	1,989,980	119,320	8,337,595
Furniture, fixtures and equipment	<u>1,177,462</u>	<u>521,604</u>	<u>-</u>	<u>1,699,066</u>
	<u>7,432,043</u>	<u>2,523,716</u>	<u>119,320</u>	<u>10,075,079</u>
Net capital assets	<u>\$ 65,595,271</u>	<u>\$ (599,685)</u>	<u>\$ (685,903)</u>	<u>\$ 64,309,683</u>

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

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2005</u>
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>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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

**Long-Term Debt and Letter of Credit**

The following is a summary of long-term obligation transactions for Student Life for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 63,510,000	\$ 4,900,000	\$ (1,500,000)	\$ 66,910,000	\$ 1,680,000
Less: unamortized discount	(230,972)	-	9,269	(221,703)	-
Note payable, swap agreement	<u>433,353</u>	<u>-</u>	<u>(78,511)</u>	<u>354,842</u>	<u>83,830</u>
	<u>\$ 63,712,381</u>	<u>\$ 4,900,000</u>	<u>\$ (1,569,242)</u>	<u>\$ 67,043,139</u>	<u>\$ 1,763,830</u>

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>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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

Bonds payable as of June 30, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
County of Warren, Kentucky		
Variable rate revenue bonds dated May 25, 2000, with an interest rate at 4.00% at June 30, 2006. Final principal payment date May 1, 2030.	\$ 62,010,000	\$ 63,510,000
County of Warren, Kentucky		
Variable rate revenue bonds dated 2006, with an interest rate of 4.00% at June 30, 2006. Final principal payment date May 1, 2030.	4,900,000	-
Less unamortized discount	<u>(221,703)</u>	<u>(230,972)</u>
	<u>\$ 66,688,297</u>	<u>\$ 63,279,028</u>

The debt service requirements for the bonds payable as of June 30, 2006, are as follows:

	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30			
2007	\$ 4,406,017	\$ 1,680,000	\$ 2,726,017
2008	4,412,571	1,755,000	2,657,571
2009	4,111,069	1,525,000	2,586,069
2010	4,078,939	1,555,000	2,523,939
2011	4,095,585	1,635,000	2,460,585
2012-2016	20,720,295	9,485,000	11,235,295
2017-2021	21,204,624	12,105,000	9,099,624
2022-2026	21,819,829	15,445,000	6,374,829
2027-2030	<u>24,363,219</u>	<u>21,725,000</u>	<u>2,638,219</u>
	<u>\$ 109,212,148</u>	<u>\$ 66,910,000</u>	<u>\$ 42,302,148</u>

Student Life has a \$71,557,782 letter of credit securing all principal and interest payments due on the bonds payable.

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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

The Foundation is required to maintain certain financial ratios and debt reserve and repair and replacement account balances in accordance with the bond agreement. As of June 30, 2006, the Foundation was in compliance with its debt covenants.

The debt service requirements for the note payable swap agreement as of June 30, 2006, are as follows:

Year ending June 30	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 200,098	\$ 83,830	\$ 116,268
2008	202,859	89,555	113,304
2009	206,041	95,833	110,208
2010	<u>193,156</u>	<u>85,624</u>	<u>107,532</u>
	<u>\$ 802,154</u>	<u>\$ 354,842</u>	<u>\$ 447,312</u>

Related Party Transactions: During Student Life's fiscal years ended June 30, 2006 and 2005, Student Life received rental revenues of \$13,864,488 and \$12,606,644, respectively. Additionally, during fiscal years ended June 30, 2006 and 2005, Student Life received payments of \$447,937 and \$231,518, respectively from the University as repayment of the fiscal year 2006 debt payments related to Downing University Center (DUC) and Garrett Conference Center (GCC). Loans and accounts receivable from the University totaled \$1,462,381 and \$1,971,452 at June 30, 2006 and 2005, respectively, (which includes the amount owed by the University related to DUC and GCC noted above). Likewise, accounts payable to the University totaled \$658,004 and \$1,084,961 at June 30, 2006 and 2005, 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 \$42,109 and \$69,135 for 2006 and 2005, respectively.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**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%.

Simultaneously, with the issuance of bonds payable of \$4,900,000, the Foundation also entered into an interest rate swap agreement with a bank. The Foundation receives interest from the counterparty based on 70% of the 30-day U.S. LIBOR rate on notional amounts equal to the outstanding amount of bonds payable and pays interest to the counterparty at 3.69% of the initial notional amount of \$4,900,000, which is reduced periodically over the term of the swap.

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, 2006 and 2005, 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, 2006, was:

<u>Type</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Underlying Index</u>	<u>Fair Value June 30, 2006</u>	<u>Fair Value June 30, 2005</u>
Floor	May 25, 2000	June 1, 2015	LIBOR	\$ (4,494,447)	\$ (9,235,080)
Cap	May 25, 2000	June 1, 2010	LIBOR	22,221	30,345
Swap	May 25, 2000	July 1, 2010	LIBOR	(402,644)	(514,875)
Swap	Feb. 1, 2006	Feb. 1, 2016	LIBOR	68,577	-
Net liabilities				\$ (4,806,293)	\$ (9,719,610)

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**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>2006</u>	<u>2005</u>
Net cash payments made under the collar agreement	\$ (1,140,730)	\$ (2,032,446)
Net cash payments made under the interest rate swap agreement	(47,651)	(52,212)
Change in fair value of the derivative agreements	<u>4,913,317</u>	<u>(853,254)</u>
	<u>\$ 3,724,936</u>	<u>\$ (2,937,912)</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>2006</u>	<u>2005</u>
Student housing program	\$ 9,888,974	\$ 9,169,720
Management and general	<u>954,228</u>	<u>814,511</u>
	<u>\$ 10,843,202</u>	<u>\$ 9,984,231</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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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

**Asset Retirements Obligation**

The Foundation adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), for its fiscal year ended June 30, 2006. FIN 47 requires that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Foundation's conditional AROs primarily relate to asbestos contained in buildings the Foundation owns. Environmental regulations exist in Kentucky requiring the Foundation to handle and dispose of asbestos properly if a building undergoes renovations or is demolished.

The difference between the amount of net assets at June 30, 2005, and the amount of net assets that would have been reported at that date if the new accounting method had been applied retroactively for all periods that would have been affected is a decrease therein of \$413,209, which is reflected as the cumulative effect of change in accounting principle in the 2006 change in unrestricted net assets. This change decreased the change in unrestricted net assets for 2006 by \$80,029. Proforma amounts disclosing what change in unrestricted net assets would have been in 2006 and 2005, had the new method of accounting for AROs been applied retroactively, are shown on the statements of activities for those periods.

The liability for AROs as of the dates noted below would have been as follows if FIN 47 had been implemented prior to July 1, 2005:

July 1, 2004	\$ 913,405
June 30, 2005	\$ 970,036
June 30, 2006	\$ 1,030,178

A summary of changes in AROs since the date of adoption is included in the table below:

July 1, 2005, balance upon adoption of FIN 47	\$ 970,036
Accretion expense	<u>60,142</u>
June 30, 2006, balance	<u>\$ 1,030,178</u>

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**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, 2006, 2005 and 2004, were \$6,341,899, \$5,758,263 and \$5,351,098, 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, 2006, 2005 and 2004, were \$1,305,743, \$1,201,190 and \$1,125,771, respectively, which equal the required contributions for each year.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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**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 2006 expressed as a percentage of covered payrolls were 6.16% and 14.82%, respectively. Of the University's 14.82% contribution, 8.18% 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, 2006, 2005 and 2004, were \$1,733,834, \$1,978,391 and \$1,904,083, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2006, 2005 and 2004, were \$1,608,325, \$1,486,697 and \$1,428,615, 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006 and 2005

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**NOTE 14 - RISK MANAGEMENT (Continued)**

Prior to 2006, the University had joined together with other Kentucky governmental entities to form a public entity risk pool currently operating as a common risk management and insurance program for its members. The University paid an annual premium to the pool for its workers' compensation insurance coverage. The pool's governing agreement specified that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts. In 2006, the University began self-insuring workers' compensation claims.

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

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

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 976,360	\$ 784,345
Claims and changes in estimates	8,838,870	6,626,644
Claims payments	(8,568,864)	(7,676,046)
Administration costs and stop-loss insurance	<u>(527,329)</u>	<u>(711,303)</u>
Balance, end of year	<u>\$ 719,037</u>	<u>\$ 976,360</u>

Under its self-insured workers' compensation plan, the University accrued the estimated costs of workers' compensation claims based on claims filed subsequent to year end and an additional amount for incurred but not yet reported claims.

Changes in the balance of the self-insured workers' compensation liability are summarized as follows:

	<u>2006</u>
Balance, beginning of year	\$ -
Claims and changes in estimates	1,431
Claims payments	132,059
Administration costs and stop-loss insurance	<u>(67,540)</u>
Balance, end of year	<u>\$ 65,950</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006 and 2005

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**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.

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

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

Following is a summary of the funding for the RUETF as of June 30, 2006:

	CPE Funding <u>Received</u>	<u>External Matched Pledges</u>	
		<u>Received</u>	<u>Pledge</u>
Balance, July 1, 2005	\$ 11,772,209	\$ 8,809,893	\$ 3,080,005
Current year collections	<u>-</u>	<u>1,767,536</u>	<u>(1,767,536)</u>
Balance, June 30, 2006	<u>\$ 11,772,209</u>	<u>\$ 10,577,429</u>	<u>\$ 1,312,469</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

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

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

	<u>CPE Funding Received</u>	<u>External Matched Pledges</u>	
		<u>Received</u>	<u>Pledge</u>
Balance, July 1, 2004	\$ 11,772,209	\$ 7,541,442	\$ 4,348,456
Current year collections	-	<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>

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

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

The University's operating expenses by functional classification on June 30, 2006, 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	\$ 70,817,247	\$ 7,700,247	\$ 25,227	\$ 1,382,485	\$ -	\$ -	\$ 79,925,206
Research	5,068,978	4,674,827	570	1,096,313	-	-	10,840,688
Public service	8,084,957	8,190,816	26,365	287,765	-	-	16,589,903
Libraries	4,081,278	536,973	325	31,109	-	-	4,649,685
Academic support	7,005,177	2,192,687	586	633,392	-	-	9,831,842
Student services	11,560,522	7,342,729	2,508	786,671	-	-	19,692,430
Institutional support	16,542,223	4,762,717	1,648	283,609	-	-	21,590,197
Operation and maintenance of plant	8,931,091	3,660,783	5,747,750	(116,553)	-	-	18,223,071
Student financial aid	43,859	930,388	-	67,470	11,040,725	-	12,082,442
Depreciation	-	-	-	-	-	11,578,776	11,578,776
Auxiliary enterprise	<u>6,091,592</u>	<u>8,118,358</u>	<u>2,356,649</u>	<u>159,221</u>	<u>-</u>	<u>-</u>	<u>16,725,820</u>
Total operating expenses	<u>\$ 138,226,924</u>	<u>\$ 48,110,525</u>	<u>\$ 8,161,628</u>	<u>\$ 4,611,482</u>	<u>\$ 11,040,725</u>	<u>\$11,578,776</u>	<u>\$ 221,730,060</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

**NOTE 16 - NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES (Continued)**

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

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	\$ 66,018,031	\$ 6,972,609	\$ 120,769	\$ 1,853,234	\$ -	\$ -	\$ 74,964,643
Research	4,118,143	3,682,627	3,932	348,947	-	-	8,153,649
Public service	7,903,964	7,113,171	43,276	107,969	-	-	15,168,380
Libraries	3,740,279	343,035	326	39,798	-	-	4,123,438
Academic support	6,206,537	2,094,950	50,011	407,564	-	-	8,759,062
Student services	9,954,610	6,272,571	11,088	203,526	-	-	16,441,795
Institutional support	14,868,008	4,224,505	8,772	205,685	-	-	19,306,970
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	11,385,232	-	12,576,228
Depreciation	-	-	-	-	-	9,894,594	9,894,594
Auxiliary enterprise	5,609,800	7,672,181	2,011,846	310,904	-	-	15,604,731
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>

**NOTE 17 - FUTURE CHANGES IN ACCOUNTING PRINCIPLES**

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**

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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>
<b>Student Financial Aid Cluster</b>				
U. S. Department of Education				
Direct Programs				
Federal Family Education Loan Program		84.032		\$ 53,970,979
Federal Perkins Loan Program		84.038	P038A041615	5,929,136
Off Campus Work Study – Federal		84.033	P033A1615	75,854
On Campus Work Study - Financial America Reads		84.033	P033A1615	621,820
SEOG		84.007	P0007A	42,289
PELL Grants		84.063	P063P012	<u>467,686</u>
				<u>13,846,081</u>
Total Student Financial Assistance				<u>74,953,845</u>
<b>Research and Development Cluster</b>				
Direct Programs				
U.S. Department of Agriculture				
Poultry Waste Management (Proj 1)		10.001	5864061017	303,528
Poultry Waste Management (Proj 2)		10.001	5864061017	146,350
Poultry Waste Management (Proj 3)		10.001	5864061017	70,664
Poultry Waste Management (Proj 4)		10.001	58-6406-1-017	113,051
PWMS Yr 3 Greenhouse		10.001	58-6406-1-017	1,125
PWMS Yr 3 Adm		10.001	58-6406-1-017	43,763
PWMS-4-Eval Comb/Chicken/Coal		10.001	SCA 58-6406-1-017-AM4	358,973
PWMS Yr 4-BMP-Animal Waste		10.001	SCA 58-6406-1-017-AM4	9,985
PWMS Yr 4-Animal Waste/Karst Quality		10.001	SCA 58-6406-1-017-AM4	102,312
PWMS Yr 5		10.001	58-6406-A101-0175	22,420

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<b>Research and Development Cluster (continued)</b>				
U.S. Department of Agriculture (continued)				
Support-Ag Research-Mutual Interest	10.001		58-6401-5-035	\$ 25,430
Conservation Practices Task 1		10.902	69-5C16-4-220	102,591
Conservation Practices Task 2		10.902	69-5C16-4-220	98,296
Conservation Practices Task 3 & 5		10.902	69-5C16-4-220	89,335
Conservation Practices Task 4		10.902	69-5C16-4-220	<u>82,093</u>
				<u>1,569,916</u>
Department of Commerce				
Impacts of Land Use Change		11.432	NEEF4000-4-00364	191
Development of GeoProfiles for NWA		11.432	Email dated 5/12/06	1,170
Flash Flood Climatology		11.432	Email dated 5/12/06	948
WKU Mesonet Project		11.467	NWS-NWS-2006-20000649	<u>1,025</u>
				<u>3,334</u>
Department of the Interior				
Fish Population		15.608	H5530010071 MOD 3	987
Long-term Ecological Program		15.608	H5530030002MOD1	1,207
Interactions – Cave Shrimp & Trout		15.608	H5530030048	7,342
Mammoth Cave Learning Center		15.916	H5530030051 MOD 1	50,276
Water Lab Consolidation		15.916	H553004009 MOD 1	5,073
Native American Graves-NAGPRA		15.916	H5530020075 MOD 3	4,776
Equipment Design and Construction		15.916	P5530050112	10,461
Impact/Lock & Dam #6		15.921	H5530010104	1,745
Mercury in Mammoth Cave NP Phase II		15.921	H5530030029 MOD1	47,227
Yellow Orchid Project		15.921	H550030054	8,524
Survey of DNA Extracted from Cave		15.923	H2360020009 to 02-01 MOD1	62,010
Graduate-level Training		15.923	H2360020009 T002-02	<u>2,873</u>
				<u>202,501</u>

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<b>Research and Development Cluster (continued)</b>				
National Aeronautics and Space Administration				
KY Space Grant Consortium Yr 10		43.001	NGT5-40105	\$ 2,933
KY Space Consortium Yr 11		43.001	NGT5-40105	2,733
KY Space Grant Consortium Yr 12		43.001	NGT5-40105	2,990
KY Space Grant Consortium Yr 13		43.001	NGT5-40105 (SUPPL 6 & 7)	71,365
Starbase Network		43.001	NAG5-08762	56,591
KY NASA/EPSCoR Program Yr 8-10		43.001	NCC5-571	458,007
Monitor and Assess Human Health		43.001	NCC5-571 SUB 516140	77
Optical Photo Monitoring – Sub 516140		43.001	NCC5-571 SUB516140	13,254
Controlled Assembly – Sub 516107		43.001	NNG05GH07H	11,573
Multiwavelength Imaging – Sub 516171		43.001	NNG05GH07H	4,000
Remain Sequence Stars – Sub 516171		43.001	NNG05GH07H	4,000
Case for Neutralinos – Sub 516171		43.001	NNG05GH07H	6,130
Discovering Eclipsing Stars – Sub 516171		43.001	NNG05GH07H – SUB	7,128
Ice Thickness – Sub 516171		43.001	NNG05GH07H – SUB	4,720
Measuring Rotation Rates – Sub 516171		43.001	NNG05GH07H – SUB	9,367
Peculiar Wolf-Rayet Star WR46		43.001	NNG06GD76G	7,447
Detailed X-Ray Monitoring		43.001	NWG06GE73G	3,116
Microwave Ice Detector – Sub 516140		43.001	WKU 516140-060-14	1,812
Multiwavelength – Sub 516171		43.001	NNG05GH07H – SUB 516171	4,683
Search for Planets – Sub to 516171		43.001	NNG05GH07H-SUB	3,637
KY Space Grant Consortium Yr 14		43.001	NNG05GH07H	216,553
Wind-Collision Effects		43.001	NAS5-32985-D088	5,271
				<u>897,387</u>

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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>
<b>Research and Development Cluster (continued)</b>				
National Science Foundation				
Surface Probe Microscopy Instrument		47.049	DMR0520789	\$ 214,594
Catalysis of Diverted Orth-Metal		47.049	CHE-0101435	9,693
Surfactant Immobilized Sorbent Mat		47.049	CHE-0132181	21,385
Virtual Synthesis of 3 D Nano...		47.049	DMR-0340613	140,244
Acquisition of Instrumentation		47.049	CHE-0421228	2,723
REU: Summer Research		47.050	EAR-0353651	73,045
RUI: Molecular Phylogenetics		47.074	DEB-0236166	54,529
Survey-Ghana-Spider & Dung Beetles		47.074	DEB-0430132	180,806
Lifespan Psychology		47.075	SES-0097491	1,935
Analyst Extractions		47.049	OISE-0553369	<u>14,831</u>
				<u>713,785</u>
Environmental Protection Agency				
Kentucky Ctr Waste Water Research – Task 4		66.606	X-97418901-0	37,212
Wastewater Administration and Management		66.606	X-97418901-0	37,197
Kentucky Ctr Waste Water Research – Task 2		66.606	X-97418901-0	12,675
Technical Asst. Ctr/Water Quality		66.606	X-83123601-0, 1	409,439
Archeological Site Mod 2		66.606	H5530020075	10,407
Assessment-Atrazine-Ag Watershed		66.716	X8-96414404-0	29,313
Kentucky Center Waste Water Research – Task 3		66.606	X-97418901-0	27,489
Waters Task		66.606	X-83123601-2	69,093
Waste Management – Task 5		66.606	X-97418901-0	46,254
Waste Management – Task 6		66.606	X-97418901-0	93,092
Waste Management – Task 7		66.606	X-97418901-0	18,118
Waste Management – Task 8		66.606	X-97418901-0	<u>10,881</u>
				<u>801,170</u>

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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>
<b>Research and Development Cluster (continued)</b>				
Tennessee Valley Authority TVA Analyzer Installation and Repair		62.004	P07418AKU-R	\$ <u>10,991</u>
Department of Energy Environmental Control Tech Lab		81.089	DE-FC26-03NY41840	<u>1,076,500</u>
Department of Health and Human Services Learning & Judgement in Older Adult		93.866	1 R01 AG19155-01-02-03-04	<u>202,799</u>
Pass Through Programs				
U.S. Department of Agriculture Johne's Disease Demo Herd Program	KY Dept. of Agriculture	10.025	MOA 6-21-04	<u>13,107</u>
Department of Commerce Hydro Meteorological Assessment	University of Corporation for Atmospheric Research	11.467	S04-44689	<u>1,954</u>
Department of Defense Support of RSEDS Project	Idaho National Engineering & Environmental Lab	12.800	CONTRACT 000 24617	9,790
Support of DTRA Contract	Northwest Nuclear, LLC	12.300	NWN2020-1	<u>57,251</u>
				<u>67,041</u>
Department of the Interior Water Quality Analysis	National Park Service	15.916	H500000508001 J211305503	<u>6,051</u>

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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>
<b>Research and Development Cluster (continued)</b>				
National Aeronautics and Space Admin.				
Cass 2001	Tennessee State University	43.001	CONTRACO.WKS	\$ 1,702
Chicago 2005 Mini-Awards	DePaul University / NASA	43.001	PO#DPAUL-0000022752	1,910
WKU Support SCSU in RCT	South Carolina State University	43.001	05-443660-CNRT-WKU-KY	22,000
Investigating Supernovae	Space Telescope Science Institute	43.001	HST-GO-09728.13-A	10,728
WKU Support of SCSU Participation	South Carolina State University	43.001	06-443660-CNRT-WKU-KY	<u>21,894</u>
				<u>58,234</u>
Department of Justice				
RLEAKS	Department of Homeland Security	16.560	EKU 06-203 WKU-WOMBLE	304,781
Enhancement Mitigation – Chemical Plants	University of Louisville	16.560	ULRF 05-1414	<u>32,695</u>
				<u>337,476</u>
National Science Foundation				
Computation of Rope Length of Large	University of NC at Chapel Hill	47.049	2975-03-0194	5,036
Adapting Thermacaustic Technology	KY NSF EPSCOR	47.076	4-69018-05-487	12,986
Molecular Self-Assembly/ Solar Cells	KY NSF EPSCOR	47.076	4-69018-05-488	13,969
Managing XML Documents	KY NSF EPSCOR	47.076	4-69018-05-489	1,567
Genetic Transformation of Sesbania	KY NSF EPSCOR	47.076	4-69018-05-486	8,642
Development of Nanoscale Sensors	KY NSF EPSCOR	47.076	Email dated 5/4/06	2,556
Agent Framework for Information	KY NSF EPSCOR	47.076	Email dated 5/4/06	<u>6,142</u>
				<u>50,898</u>

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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>
<b>Research and Development Cluster (continued)</b>				
Environmental Protection Agency				
Non-point Source Public Ed Program	University of Louisville	66.460	ULRF-G03-1016-04-01	\$ 52,176
TMDL Development Project	Kentucky Division of Water	66.463	M06147994	
			M-06148343	<u>7,746</u>
				<u>59,922</u>
Department of Energy				
Power Plant Mercury Control	Department of Energy	81.057	DE-FC26-05NT42308	110,879
Ph 2 Measuring Carbon Balance	PARAS/DOE	81.049	RA-08-06-04	143,098
Amended Silicats – Mercury Control	ADA Technologies	81.089	Subcontract 11-22-04	<u>42,303</u>
				<u>296,280</u>
Department of Education				
Personnel Prep Policy & Practice	University of Connecticut	84.324	H325J020002	60,534
Personal Prep in EI FY 06	University of Connecticut	84.325	ID #651006	<u>42,075</u>
				<u>102,609</u>
Department of Transportation				
State Archeology Plan Update	University of Kentucky Research Foundation	20.205	UKRF 468677-06-091	<u>8,000</u>
Department of Health and Human Services				
A Butterfly Transposon 2006	University of Louisville	93.389	INBRE-04-0388A	105,074
Neural Development-Zebrafish 2006	University of Louisville	93.389	INBRE-04-0388A	95,800
RNA-Based-Elongation 2006	University of Louisville	93.389	ULRF-04-0388A	106,293
Mech/Transcript Coordination 2006	University of Louisville	93.389	INBRE-04-0388A	108,059

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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>
<b>Research and Development Cluster (continued)</b>				
Department of Health and Human Services				
INBRE-WKU Faculty Recruit 2006	University of Louisville	93.389	INBRE-04-0388A	\$ 70,903
INBRE-Butterfly 2007	University of Louisville	93.389	ULRF-NIH-P20RR16481-06-MARCUS	26,243
INBRE-Zebrafish 2007	University of Louisville	93.389	ULRF-NIH-P20RR16481-06-SMITH	8,942
INBRE-RNA 2007	University of Louisville	93.389	ULFR-NIH-P20RR16481-06-KING	19,492
INBRE-Mech/Transcript 2007	University of Louisville	93.389	ULFR-NIH-P20RR16481-06-RICE	27,581
INBRE-Faculty Recruit 2007	University of Louisville	93.389	ULRF-NIH-P20RR16481-06-DAVIS	10,196
Action Spectrum	University of Louisville	93.389	ULRF-DHHS/NIH-P20RR16481-06	1,343
A Butterfly Transposon Mutagenesis	University of Louisville	93.389	ULRF NIH 2P20RR16481-04 MARCUS	160
WKU Faculty Recruitment	University of Kentucky Research Foundation	93.389	ULRF NIH 2P20RR16481-04 DAVIS	2,844
Mech/Transcriptional Coordination	University of Louisville	93.389	ULRF NIH 2P20RR16481-04 RICE	7,789
Neural Development-Zebrafish	University of Louisville	93.389	ULRF NIH 2P20RR16481-04	557
RNA-Based-Elongation Control	University of Louisville	93.389	2P20RR16484-04	2,232
Predicting Long Term Mobility 06	University of Alabama at Birmingham	93.866	5R01 AG021958-03	123,867
Predicting Long Term Mobility	University of Alabama at Birmingham	93.866	5R01 AG021958-02	<u>27,475</u>
				<u>744,850</u>
Department of Homeland Security				
MILK Wireless Monitoring System	University of Kentucky Research Foundation	97.077	UKRF 30469625-06-222	<u>32,182</u>
<b>Total Research and Development</b>				<u>7,256,987</u>

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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>
<b>TRIO Cluster</b>				
Direct Programs				
Student Support Services 02-06		84.042	P042A021170	\$ 274,906
Talent Search 03-06		84.044	P044A020280	349,022
Veterans Upward Bound 04-07		84.047	P047A030239	263,175
Upward Bound 2006-2009		84.047	P047A040249	337,802
EOC - Educational Opportunity Centers		84.066	P066A020229 & 229A	<u>204,575</u>
<b>Total TRIO Cluster</b>				<u>1,429,480</u>
<b>Headstart Program</b>				
Direct Programs				
Head Start General 21-2005		93.600	04CH021020	411,410
Head Start General 22-2006		93.600	04CH0201/22	863,116
Head Start T/TAS 20-2005		93.600	04CH021021	3,469
Head Start T/TAS 22-2006		93.600	04CH0201/22	<u>10,450</u>
				<u>1,288,445</u>
Pass Through Programs				
Early Head Start Delegate 2005	Murray Head Start	93.600	04CH2692-001	35,115
Early Head Start Training 2005	Murray Head Start	93.600	04CH2692-001	1,816
Family Literacy 04-05	National Center for Family Literacy	93.600	90Y0001/06	89,329
Early Head Start 2006	Murray Head Start	93.600	04CH2692-001	156,673
Early Head Start - Train/PA II-2006	Murray Head Start	93.600	04CH2692-001	<u>2,122</u>
				<u>285,055</u>
<b>Total Headstart Program</b>				<u>1,573,500</u>

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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>
<b>U.S. Department of Agriculture</b>				
Direct Programs				
WKYU-TV Rural Public TV		10.855	GA 3-9-04	\$ <u>209,796</u>
Pass Through Programs				
Centennial Grove	Kentucky Division of Forestry	10.652	M-04475452	<u>1,000</u>
<b>Total U.S. Department of Agriculture</b>				<u>210,796</u>
<b>Department of Commerce</b>				
Direct Programs				
University Center Program 2005		11.303	04-66-05423	600
University Center Program 2006		11.303	04-66-05606	88,867
WKYU-FM Transmitter Replacement		11.550	21-01-N05021	<u>29,445</u>
<b>Total Department of Commerce</b>				<u>118,912</u>
<b>Department of Defense</b>				
Direct Programs				
108 <sup>th</sup> Division Training June 2006		12.113	W912C6-06-W-0119 & 0120	<u>109,424</u>
<b>Department of the Interior</b>				
Direct Programs				
Water Sampling for MCNP's		15.916	H5530050051	1,566
Karst Groundwater Delineation		15.916	H5000070800-J5560040060	7,360
Cultural Resources Mgmt. Specialist		15.916	H5530050050	30,309
Dev Nat Pk Species Database		15.921	CA553000002	464

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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>
<b>Department of the Interior</b> (continued)				
Backlog Cataloging 10,000 items		15.921	1443 CA 5530 00 001	\$ 73,510
Ecological Monitoring Collection		15.921	H5530010144 MOD 4	15,274
Student Research at Mammoth Cave		15.921	H5530020034	51,139
Oregon Caves National Monument		15.921	CONTRACT R934020005	<u>8,804</u>
				<u>188,426</u>
Pass Through Programs				
Clarks River Nat'l Wildlife / WKU	National Fish & Wildlife Foundation	15.611	2005-0199-003	2,895
Effects of Reservoir Releases	University of KY Research Foundation	15.805	UKRF 4-64694-05-386	<u>10,786</u>
				<u>13,681</u>
<b>Total Department of the Interior</b>				<u>202,107</u>
<b>Department of Justice</b>				
Direct Programs				
WKU Juvenile Delinquency Project		16.541	2002-JP-FX 1001	174,641
WKU Spotlight Youth Project		16.541	2005-JL-FX-0147	504,145
CCTV Project at WKU		16.541	2005-DD-BX-1219	<u>66,978</u>
<b>Total Department of Justice</b>				<u>745,764</u>
<b>Department of State</b>				
Pass Through Programs				
International Journalism & Media				
Training - Support	Inter News	19.300	MOD O5 TO 1141-002	37,277
International Journalism & Media	Inter News	19.300	F1176-WKU-00	<u>279,243</u>
<b>Total Department of State</b>				<u>316,520</u>

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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>
<b>Department of Labor</b>				
Pass through Programs				
Re-engineering for Best Practices	KY Office of Employment Training	17.261	M-05463583	\$ <u>11,969</u>
<b>National Aeronautics and Space Administration</b>				
Direct Programs				
Astronomy & Space Sci. Workshop - 05		43.001	NGTS-40105 SUB 516108-05-15	4,298
NASA-GSRP		43.001	NGT-1-03012	<u>24,328</u>
				<u>28,626</u>
Pass Through Programs				
Astronomy & Space Workshop 2006	NASA	43.001	NNG05GH07H-SUB	7,523
How Old Is Your Universe? A Workshop	Space Telescope Science Institute	43.001	HST-ED-90251-01-A	2,581
11,000 Year History – Mammoth Cave	National Endowment for Humanities	45.162	BI-50037-06	<u>18,945</u>
				<u>29,049</u>
<b>Total National Aeronautics and Space Administration</b>				<u>57,675</u>
<b>Department of Transportation</b>				
Pass Through Programs				
5309 FTA Earmark Grant	KY Transportation Cabinet	20.500	5309 ALLOCATION	1,593,990
Governor’s Highway Safety FY06	Kentucky State Police	20.920	AGREEMENT dated 4/20/06	<u>3,954</u>
<b>Total Department of Transportation</b>				<u>1,597,944</u>

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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>
<b>National Foundation on the Arts and the Humanities</b>				
Pass Through Programs				
The Bluegrass Music Symposium	Kentucky Humanities Council	45.129	2005-012	\$ <u>3,113</u>
<b>National Science Foundation</b>				
Direct Programs				
Web-Based Homework:				
Curric. Reform		47.076	DUE-021353	29,760
REI Site-Development Psychology		47.075	SES-0453454	<u>36,439</u>
				<u>66,199</u>
Pass Through Programs				
Designing Evaluation	Clemson University	47.076	695-7557-206-2004627	<u>816</u>
<b>Total National Science Foundation</b>				<u>67,015</u>
<b>Environmental Protection Agency</b>				
Pass Through Programs				
Radon Mitigation	KY Cabinet for Health Services	66.032	M-05137663	26,228
River Institute: Building Ed Part	Kentucky Division of Water	66.460	M-02025681 & M-02172347	5,459
KNSE for Landuse Development	Kentucky Division of Water	66.460	M-04184956	40,929
KY Water Education Project	University of Louisville	66.460	ULFRG-03-1016-04	<u>7,185</u>
<b>Total for Environmental Protection Agency</b>				<u>79,801</u>
<b>Department of Energy</b>				
Pass Through Programs				
Field Test Adv. Utility Mercury	Sorbent Technology Corporation/DOE	81.057	Letter dated 4-20-04	<u>63,685</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2006

<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>
<b>Department of Education</b>				
Direct Programs				
Curriculum/People's Republic – China		84.021	P021A060076	\$ 24,100
Energizing Resources – WKU & Partners		84.116	P1162020205	17,644
Nursing Accelerated Dev. Program		84.116	P1162040026	21,404
Equipment Acquisition (Biology)		84.116	P1162040062	41,849
Equipment Acquisition (Engineering)		84.116	P1162040062	27,278
Enhancing Number of Teachers		84.215	U215K050347	169,636
Just Think		84.215	U215K050086	1,007,186
Training on Budget Mgmt 04-06		84.103	D103A040004	442,721
Legislative & Regulatory 04-06		84.103	P103A040010	514,194
Advancing International Motive		84.153	P153A050347	76,995
CCAMPIS		84.335	P335A010005	35,374
Improving Teacher Quality Year 2		84.336	P336B9900140	(1,267)
Improving Teacher Quality 99-04		84.336	P336B990014-01-02	15,226
Improving Teacher Quality YR 5		84.336	P336B990014-03	4,956
				<u>2,397,296</u>
Pass Through Programs				
KYAE – Western KY 04-05	Kentucky Council on Postsecondary Education	84.002	M-04550767	20,000
KAED – Western Kentucky 05/06	Council of Postsecondary Education	84.002	M-04550767	40,000
KY Task Force on Recruitment Academic/Tech Integration Workshop	Kentucky Department of Education	84.027	M-05211383	83,431
Perkins Adm. FY 06	Kentucky Department of Education	84.048	M-05124526	2,912
	Kentucky Department of Education	84.048	M-05132522	3,582

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2006

<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>
<b>Department of Education (continued)</b>				
Perkins Dental Hygiene FY 06	Kentucky Department of Education	84.048	M-05132522	\$ 30,920
Perkins – Agriculture FY 06	Kentucky Department of Education	84.048	M-05132522	21,973
Perkins 06 – Community College	Kentucky Cabinet for Workforce			
	Development	84.048	M-05132522	117,670
Workshop – Technical Skills	Kentucky Department of Education	84.048	M-06037196	2,321
Workshop – Math and Geometry	Kentucky Department of Education	84.048	M-06037196	3,343
Teaching Technical Skills – FFA	Kentucky Department of Education	84.048	M-05081377	(8)
PDTA for Technical Ed. Teachers	Kentucky Cabinet for Workforce			
	Development	84.048	M-05132522	23,065
Perkins 06 Improve Career	Kentucky Cabinet for Workforce			
Thru PD	Development	84.048	M-05132522	21,736
Kentucky Tech. Prep. Improvement	Kentucky Department of Education	84.048	M-06082122	8,301
Capacity Building – Education	Murray State University	84.215	OSP 2006-020	7,000
NWP Writing Project	National Writing Project Corporation	84.298	92KY-06	39,959
WKU Writing Project NRI M & LETS	National Writing Project Corporation	84.298	NWP CK 9-20/9-30	638
KY Gear Up Project Yr 4	Kentucky Council on Postsecondary			
	Education	84.334	MOA OSP 2004-099	12,708
Curriculum Review – FY06 -	Education Professional Standards			
Sub 543604	Board	84.336	WKURF 543604-06-48	116,440
Administrative Support for Title II	Educational Professional Standards			
	Board	84.336	M-03120201	1,081,370
Reading First Coach 04-05	Kentucky Department of Education	84.357	M-04114081	5,644
Reading First Coach FY 06	Kentucky Department of Education	84.357	M-05104452	112,108
Improve Middle School Math	Council of Postsecondary			
& Lit.	Education	84.367	MOA 3-31-04	20,305

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2006

<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>
<b>Department of Education (continued)</b>				
Improving Student World Language	Kentucky Council on Postsecondary Education	84.367	M-05033245	\$ 87,969
Improving Student World Language	Kentucky Council on Postsecondary Education	84.367	M-06046944	43,373
Biodiversity in Natural & Cultural Watershed Education	Murray State University Kentucky Council on Postsecondary Education	84.367	Biodiversity/Nat. & Cult. World	20,604
		84.367	OSP 206-122	<u>3,834</u>
				<u>1,931,198</u>
<b>Total Department of Education</b>				<u>4,328,494</u>
<b>Department of Health and Human Services</b>				
Direct Programs				
Industrial Hygiene 05-06		93.262	1T020H008625-01	17,943
The Rural Health Initiative 04-06		93.888	1D1ARH03551-01-00	295,198
The Alliance Project		93.888	1D1ARH03550-01-00	456,630
RHP: Empowering the Elderly		93.912	1D1ARH00068-01	21,846
Rural Health Initiative		93.912	5D1ARH00032-03	9,395
WKU Advanced Nursing Trainees – 06		93.358	2A10HP00189-06-00	<u>42,162</u>
				<u>843,174</u>
Pass Through Programs				
MSSA 05-06	University of Louisville	93.107	Contract dated 12-22-05	23,696
MSSA 04-05	University of Louisville	93.107	5U77HP03023-11-00-SUB	32,044
HETC 2005	University of Louisville	93.189	5039HP00007-15-0-SUB	15,190

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 June 30, 2006

<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>
<b>Department of Health and Human Services (continued)</b>				
HETC 2006	University of Louisville	93.189	Contract dated 12/22/05	\$ 14,621
Rural Hospital Flexibility Grant	KY Emergency Medical Services Board	93.241	M-02337131	2,857
Rural Quality Improvement	University of Kentucky Research Foundation	93.241	UKR F4-68183-05-462	603
Child Care Resource & Referral 2006	KACCRRRA	93.575	UKRF 4-68956-06-049	167,839
MSW Program Development 2006	Eastern Kentucky University	93.658	EKU 06-123	96,538
PCWCP FY 06	Eastern Kentucky University	93.658	EKU 06-166	7,611
TRC 2006	Eastern Kentucky University	93.658	EKU 06-123	123,566
CCRR – Quality Services	University of KY Research Foundation	93.575	UKRF-4-68955-06-039	37,765
KYNEX: Chafee Indep. Mentoring Prog.	University of KY Research Foundation	93.674	UKRF 69096-06-066	2,587
OEL – Quality Initiative	State of Florida	93.575	SR 546	<u>850,000</u>
				<u>1,374,917</u>
<b>Total Department of Health and Human Services</b>				<u>2,218,091</u>
<b>Corporation for National and Community Service</b>				
Pass Through Programs				
HP Faculty Curriculums	Wright State University	94.005	RN214619	<u>50</u>

(Continued)



WESTERN KENTUCKY UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 June 30, 2006

<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>
<b>Small Business Administration</b>				
Small Business Incubator Equipment Pass Through Programs		59.037	SBAHQ-04-I-0051	\$ 98,948
Small Business Center FY 05	University of Kentucky Research Foundation	59.037	UKRF-4-68323-05-323	18,345
Small Business Center FY 06	University of Kentucky Research Foundation	59.037	UKRF-3046970300-06-276	<u>39,195</u>
<b>Total Small Business Administration</b>				<u>156,488</u>
<b>U.S. Department of Veterans Affairs</b>				
Vocational Rehab, Area 2		64.117	V101(93)P-1980	5,585
Digital Library		66.606	H553002063	4,204
Enhancing Environmental Discovery		66.951	NE-96427905-0	25,391
Mercury CEM Op. – Merom Fossil Plant		EPA-contract	EP05C000321	<u>10,000</u>
<b>Total U.S. Department of Veterans Affairs</b>				<u>45,180</u>
<b>Total Federal Expenditures</b>				<u>\$ 95,546,840</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, 2006, and have issued our report thereon dated September 29, 2006, which 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 Research Foundation, Inc. (a blended component unit), and Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc. and College Heights Foundation, Inc. (discretely presented component units) 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 September 29, 2006.

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  
September 29, 2006



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, 2006. 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, 2006. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133. We noted certain matters that we have reported to management of Western Kentucky University in a separate letter dated September 29, 2006.

### **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.

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  
September 29, 2006

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2006

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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 no instances of noncompliance relative to internal control over major federal award programs identified.
4. The auditors' report on compliance for the major federal award programs for Western Kentucky University expresses an unqualified opinion.
5. There were no audit findings relative to the major federal award programs for Western Kentucky University.
6. Major programs include:  
  
Student Financial Assistance Cluster  
Research and Development Cluster  
FTA Earmark Grant, CFDA No. 20.500  
Fund for Improvement of Education, CFDA No. 84.215
7. The threshold for distinguishing Types A and B programs was \$1,069,402.
8. Western Kentucky University was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD AUDIT

None

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2006

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D. CORRECTIVE ACTION PLAN

None

E. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

See individual findings.

WESTERN KENTUCKY UNIVERSITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2006

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

During our testing of 18 borrowers who ceased attendance at the institution during 2005-2006, 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).

**Status:** Corrective action has been taken.

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

During our testing of 35 students that officially and unofficially withdrew from the University and received some type of Title IV funds during the 2005-2006 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.

**Status:** Corrective action has been taken.