

**WESTERN KENTUCKY UNIVERSITY  
REPORT ON AUDIT OF INSTITUTION  
OF HIGHER EDUCATION  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
June 30, 2007 and 2006**

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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, 2007 and 2006, 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 2% of the assets and 9% and 8% of revenues of Western Kentucky University's business-type activities for the years ended June 30, 2007 and 2006, 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, 2007 and 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2007 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 71 through 89 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 15 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
Crowe Chizek and Company LLC

Louisville, Kentucky  
October 8, 2007

**WESTERN KENTUCKY UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2007

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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, 2007 and 2006. 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, 2007 and 2006, 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 2007 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 2006</u></b>	<b><u>Fall 2005</u></b>	<b><u>Fall 2004</u></b>
Undergraduate applications	10,407	9,700	8,907
Undergraduate enrollment (including returning students)	16,067	15,978	15,843
First-time freshmen	3,171	3,150	3,056
Total graduate enrollment	2,597	2,667	2,670
Total enrollment	18,664	18,645	18,513

The following data, with a comparison between 2006/2007 and 2004/2005, is provided to help assess the financial viability of the University:

<u>WKU Foundation</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Endowments	\$ 97.1 million	\$ 46.3 million	\$39.0 million
Total cash receipts	\$ 17.6 million	\$ 8.8 million	\$ 6.3 million
 <u>State Appropriations</u>			
General nonoperating revenue	\$ 77,053,200	\$ 74,836,800	\$ 66,859,000
Retirement of debt obligations	<u>3,171,000</u>	<u>3,202,000</u>	<u>3,181,400</u>
Total	<u>\$ 80,224,200</u>	<u>\$ 78,038,800</u>	<u>\$ 70,040,400</u>
State budget reduction	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(2,381,600)</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, 2007, 2006 and 2005, are as follows:

***Condensed Statements of Net Assets (in Thousands)***

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>			
Current assets	\$ 70,705	\$ 57,266	\$ 41,566
Capital assets, net	224,142	196,332	184,169
Other noncurrent assets	<u>71,825</u>	<u>32,139</u>	<u>42,293</u>
Total assets	<u>\$ 366,672</u>	<u>\$ 285,737</u>	<u>\$ 268,028</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 30,721	\$ 27,220	\$ 25,865
Noncurrent liabilities	<u>105,526</u>	<u>59,421</u>	<u>64,201</u>
Total liabilities	<u>\$ 136,247</u>	<u>\$ 86,641</u>	<u>\$ 90,066</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 113,217	\$ 129,922	\$ 115,839
Restricted			
Nonexpendable	13,219	12,611	11,867
Expendable	58,264	22,704	21,500
Unrestricted	<u>45,725</u>	<u>33,859</u>	<u>28,756</u>
Total net assets	<u>\$ 230,425</u>	<u>\$ 199,096</u>	<u>\$ 177,962</u>

Liabilities include pledges payable to the City of Bowling Green ("City") in the amount of \$31,785,000 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$79,640,000 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 \$(85,262,325), \$(90,620,608), and \$(82,019,925) for fiscal years 2007, 2006 and 2005, respectively.

A summary of the University's revenues, expenses and changes in net assets for the years ended June 30, 2007, 2006 and 2005, is as follows:

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Operating revenues</b>			
Net tuition and fees	\$ 78,819	\$ 68,682	\$ 58,013
Grants and contracts	29,910	28,285	27,554
Sales and services of educational departments	12,537	8,586	11,335
Auxiliary enterprises	18,894	16,632	15,208
Other	<u>8,985</u>	<u>8,924</u>	<u>7,991</u>
Total operating revenues	<u>149,145</u>	<u>131,109</u>	<u>120,101</u>
<b>Operating expenses</b>	<u>234,408</u>	<u>221,730</u>	<u>202,121</u>
<b>Operating loss</b>	<u>(85,263)</u>	<u>(90,621)</u>	<u>(82,020)</u>
<b>Nonoperating revenues (expenses)</b>			
State appropriations	80,224	78,039	67,659
Grants and contracts	31,058	31,563	26,402
Investment income	3,985	2,621	1,555
Interest on capital asset-related debt	(2,724)	(2,462)	(2,160)
Other	<u>33</u>	<u>10</u>	<u>(38)</u>
Net nonoperating revenues	<u>112,576</u>	<u>109,771</u>	<u>93,418</u>
<b>Income before other revenues, expenses, gains or losses</b>	<u>27,313</u>	<u>19,150</u>	<u>11,398</u>
State capital appropriations	<u>4,016</u>	<u>1,984</u>	<u>5,113</u>
<b>Increase in net assets</b>	31,329	21,134	16,511
<b>Net assets, beginning of year</b>	<u>199,096</u>	<u>177,962</u>	<u>161,451</u>
<b>Net assets, end of year</b>	<u>\$ 230,425</u>	<u>\$ 199,096</u>	<u>\$ 177,962</u>

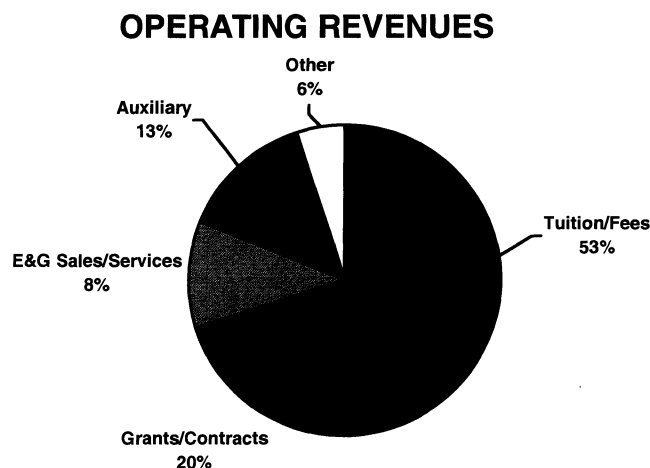
## Operating Revenues

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 0.1% and 0.7% between fall 2005 and 2006, and fall 2004 and 2005, respectively. As of fall 2006, approximately 81% of students enrolled at the University were Kentucky residents. An additional 8% of the student population came from Tennessee with many coming to the University through a state reciprocity agreement, *i.e.*, enrolled at instate rates or in the Tuition Incentive Program.

Tuition and fees revenue is recorded in the financial statements net of scholarship allowances, gift scholarships and institutional aid. A scholarship allowance is the difference between the stated charges for goods and services provided by the institution and the amount that is billed to students and third parties making payments on behalf of students. 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, 2007 and 2006, were 69.5% and 68.4%, respectively, of the gross tuition and fees with approximately \$34.6 million and \$31.7 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.

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 2007, 2006 and 2005 fiscal years.

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

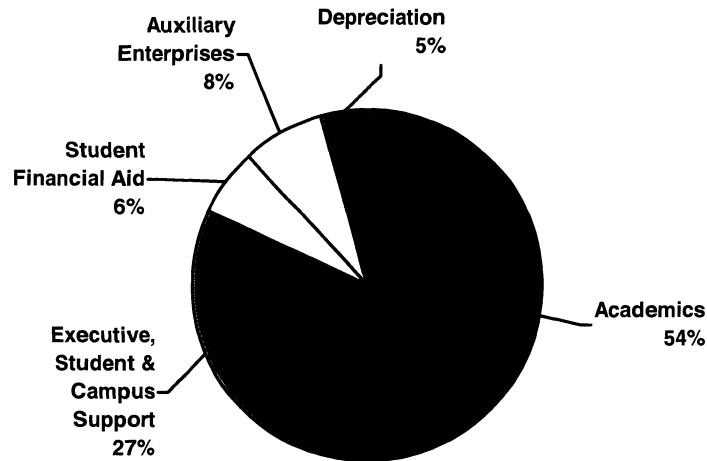
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Federal	\$ 13,995,511	\$ 21,086,472	\$ 23,301,951
State	4,249,923	8,493,719	2,607,111
Other	<u>6,026,188</u>	<u>2,315,675</u>	<u>1,964,342</u>
Total	<u>\$ 24,271,622</u>	<u>\$ 31,895,866</u>	<u>\$ 27,873,404</u>

***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.

Nonoperating revenues are all revenues that are primarily non-exchange in nature. The most

## OPERATING EXPENSES



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, 2007, 2006 and 2005 is comprised of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Investment income	\$ 3,214,703	\$ 1,811,221	\$ 979,784
Net change for the year in the fair value of investments	<u>769,696</u>	<u>809,447</u>	<u>574,850</u>
	<u>\$ 3,984,399</u>	<u>\$ 2,620,668</u>	<u>\$1,554,634</u>

State appropriations were \$80,224,200 for 2007 in comparison to \$78,038,800 and \$67,658,800 for 2006 and 2005, respectively. The University's state appropriation, based on the enacted 2006-2007 Biennial Budget, was increased by \$2,185,400 or 2.8% in recognition of the University's enrollment growth.

### *Change in Net Assets*

For the years ended June 30, 2007 and 2006, the University's net assets increased \$31,329,512 and \$21,133,985, respectively. The year-end net assets for June 30, 2007 and 2006 were \$230,425,344 and \$199,095,832, 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 \$78,760,247, auxiliary enterprises of \$18,818,772 and grants and contracts of \$28,310,651. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$146,798,604 and to suppliers and contractors of \$76,143,101. 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 \$3,171,000 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>2007</u>	<u>2006</u>	<u>2005</u>
<b>Cash Provided By (Used In)</b>			
Operating activities	\$ (75,365)	\$ (79,422)	\$ (74,182)
Noncapital financing activities	111,594	109,420	93,961
Capital and related financing activities	11,868	(27,098)	(37,213)
Investing activities	<u>(2,091)</u>	<u>351</u>	<u>251</u>
Net increase (decrease) in cash and cash equivalents	46,006	3,251	(17,183)
<b>Cash and cash equivalents, beginning of year</b>	<u>46,427</u>	<u>43,176</u>	<u>60,359</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 92,433</u>	<u>\$ 46,427</u>	<u>\$ 43,176</u>

***Capital Asset and Debt Administration***

**Capital Assets**

As of June 30, 2007, 2006 and 2005, the University had \$224.1 million, \$196.3 million and \$184.2 million invested in capital assets, net of accumulated depreciation of \$148.0 million, \$136.3 million and \$124.9 million, respectively. Capital assets at June 30, 2007, 2006 and 2005 are summarized below:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 7,341,917	\$ 7,269,630	\$ 5,946,131
Buildings and improvements	235,092,409	229,276,452	205,533,480
Infrastructure	22,593,433	18,207,372	16,723,324
Furniture, fixtures and equipment	36,256,901	34,548,484	30,961,153
Library materials	35,995,333	33,891,225	32,018,208
Construction in progress	<u>34,891,920</u>	<u>9,413,926</u>	<u>17,868,692</u>
Total capital assets	372,171,913	332,607,089	309,050,988
Less accumulated depreciation	<u>(148,029,407)</u>	<u>(136,275,229)</u>	<u>(124,882,358)</u>
Capital assets	<u>\$ 224,142,506</u>	<u>\$ 196,331,860</u>	<u>\$ 184,168,630</u>

As of June 30, 2007 and 2006, the major construction projects 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, 2007, 2006 and 2005, the University had \$114.7 million, \$67.1 million and \$69.1 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>2007</u>	<u>2006</u>	<u>2005</u>
Pledges to the City	\$ 31,505,265	\$ 31,620,543	\$ 31,620,543
Consolidated Educational Buildings Revenue Bonds	26,101,911	29,965,744	33,714,577
General Receipts Bonds	52,485,003	-	-
Capital leases	924,311	1,288,555	1,846,850
Other long-term debt	<u>3,684,967</u>	<u>4,244,591</u>	<u>1,869,739</u>
Total	<u>\$114,701,457</u>	<u>\$ 67,119,433</u>	<u>\$ 69,051,709</u>

## *Economic Factors Impacting Future Periods*

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

- The Council on Postsecondary Education has released a plan called “Double the Numbers” which sets forth the number of baccalaureate degree recipients Kentucky will need by 2020 in order to be economically competitive. For WKU, the agreed upon enrollment target, that aligns with degrees conferred projections, for the next five years is 20,000 students by fall 2011 and 30,698 by fall 2020. The fall 2011 target represents a 7.2 percent growth in enrollment over fall 2006. Thus, it is important to note that enrollment growth and improved student retention and graduation are institutional priorities which will have an impact on the financial profile of WKU.
- The University’s Board of Regents, at its spring 2007 meeting, approved tuition rates for fiscal year 2008. The rates approved for fiscal year 2008 reflect a commitment to return to more modest rate increases (i.e., under 10 percent for resident undergraduate students). The Council on Postsecondary Education (CPE) has the statutory responsibility to approve tuition rates. Significant emphasis is being given to setting rates that will not impede economic access to postsecondary education. Tuition rates for fiscal year 2009 will be set early in 2008.

- The last state budget cut was implemented in FY 2004. Since FY 2004, state funding has increased by approximately 26 percent. The 2008 General Assembly will meet to consider proposed legislation and to approve the 2008-10 biennial budget for the Commonwealth. Although it is premature to make projections on the next budget, it is noted that Kentucky's economy, in terms of employment and personal income, appears to be improving. The Budget Reserve Trust Fund is currently at about \$231 million.

In a February 2007 Executive Order, the Governor created a Blue Ribbon Commission on Employee Retirement Systems to study the retirement plan unfunded pension liability and present a strategy for addressing the liability projections. WKU participates in both retirement systems – Kentucky Teachers Retirement System (KTRS) and Kentucky Employees Retirement System (KERS). It is anticipated that the Commonwealth will need to make significant funding changes, especially to KERS. This could have an impact on state funding for operating purposes and for bonding of capital projects.

- Under its self-funded 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 2007-2008 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-funded insurance program continues to be operationally and financially sound and no funding changes will be proposed for calendar year 2008.
- Western Kentucky University terminated participation in the State Workers' Compensation 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 second 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.
- During fiscal year 2007, the University adopted a new General Receipts Trust Agreement whereby future capital projects are 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.



WKU has plans to issue additional debt over the next two years to include the following projects at these estimated construction costs: North Campus Parking (\$4.6 million), Van Meter Hall Renovation (\$16 million), Ivan Wilson Fine Arts Center Expansion (\$8.0 million), Preston Center Expansion (\$10.0 million), and University Centers Renovation (\$46 million). Each project has a designated revenue stream or existing budget dedicated to the debt service payments.

- The University recently unveiled a new \$200 million comprehensive capital campaign entitled “New Century of Spirit”. The five year campaign has a goal of significantly increasing endowment funds and increasing annual cash flow from gifts and associated revenues. During the quiet phase of the campaign that preceded the public announcement, over \$91 million in new gifts and pledges was raised.

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF NET ASSETS  
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 55,315,347	\$ 42,964,998
Accounts receivable, net of allowance of \$517,597 and \$606,463, respectively	4,203,118	3,777,418
Interest receivable	281,500	2,694
Federal and state grants receivable	7,967,949	7,720,210
Inventories	1,890,906	1,730,858
Loans to students, net	683,863	705,253
Prepaid expenses	<u>362,125</u>	<u>364,459</u>
Total current assets	70,704,808	57,265,890
Noncurrent assets		
Restricted cash and cash equivalents	37,117,581	3,462,585
Long-term investments	5,430,641	5,093,230
Loans to students, net of allowance of \$510,564 and \$520,208, respectively	4,576,621	4,719,773
Assets held in trust	23,621,757	18,159,595
Capital assets	372,171,913	332,607,089
Accumulated depreciation on capital assets	(148,029,407)	(136,275,229)
Deferred bond issuance costs, net of accumulated amortization of \$216,258 and \$139,570, respectively	<u>1,078,269</u>	<u>703,651</u>
Total noncurrent assets	<u>295,967,375</u>	<u>228,470,694</u>
Total assets	<u>\$ 366,672,183</u>	<u>\$ 285,736,584</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 7,915,687	\$ 5,383,893
Self-insured health liability	621,263	719,037
Self-insured workers' compensation liability	71,961	65,950
Accrued payroll and withholdings	1,420,242	1,479,685
Accrued compensated absences	2,572,910	2,431,360
Accrued interest	743,415	316,183
Deferred revenue	7,659,762	8,805,815
Long-term obligations - current portion	9,175,627	7,698,614
Deposits held in custody for others	490,142	319,396
Other current liabilities	<u>50,000</u>	<u>-</u>
Total current liabilities	30,721,009	27,219,933
Long-term obligations	<u>105,525,830</u>	<u>59,420,819</u>
Total liabilities	<u>136,246,839</u>	<u>86,640,752</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF NET ASSETS  
June 30, 2007 and 2006

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	<u>2007</u>	<u>2006</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 113,217,373	\$ 129,921,966
Restricted for		
Nonexpendable - endowments	13,219,034	12,611,316
Expendable		
Loans	6,033,442	6,098,804
Capital projects	46,786,861	11,383,216
Debt service	5,444,116	5,221,843
Unrestricted	<u>45,724,518</u>	<u>33,858,687</u>
Total net assets	<u>\$ 230,425,344</u>	<u>\$ 199,095,832</u>

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See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
 WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 December 31, 2006 and 2005

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	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,866,789	\$ 4,548,428
Investments	35,792,716	31,998,542
Accounts receivable	395,181	58,526
Contributions receivable, net of allowance of \$194,000 and \$100,000 for 2006 and 2005, respectively	10,113,811	8,977,669
Beneficial interest in charitable remainder trusts	2,708,894	2,568,752
Prepaid expenses and other assets	2,682	2,682
Investments held for Western Kentucky University	15,633,018	11,210,458
Assets held for others	<u>2,064,348</u>	<u>1,717,671</u>
Total assets	<u>\$ 74,577,439</u>	<u>\$ 61,082,728</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 153,776	\$ 185,024
Notes payable	897,945	873,277
Annuities payable	2,382,892	2,332,610
Assets held for others	<u>17,697,366</u>	<u>12,928,129</u>
Total liabilities	21,131,979	16,319,040
<b>NET ASSETS</b>		
Unrestricted	13,087,737	8,229,017
Temporarily restricted	11,170,677	10,548,007
Permanently restricted	<u>29,187,046</u>	<u>25,986,664</u>
Total net assets	<u>53,445,460</u>	<u>44,763,688</u>
Total liabilities and net assets	<u>\$ 74,577,439</u>	<u>\$ 61,082,728</u>

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See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
WKU STUDENT LIFE FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2007 and 2006

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	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,312,269	\$ 2,627,403
Loans and accounts receivable	1,317,196	1,709,468
Accrued interest receivable	102,051	95,324
Prepaid expenses	364,678	361,687
Assets limited as to use	9,501,428	10,060,387
Assets held for others – student deposits	599,100	602,775
Property and equipment, net	65,033,424	64,309,683
Other assets	<u>675,486</u>	<u>704,860</u>
 Total assets	 <u>\$ 82,905,632</u>	 <u>\$ 80,471,587</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 1,781,542	\$ 741,554
Accrued expenses	266,577	225,972
Student deposits	599,100	602,775
Interest rate collar and swap agreements, at fair value	4,385,596	4,806,293
Asset retirement obligation	1,080,623	1,030,178
Long-term debt, net of unamortized discounts of \$212,433 and \$221,703 for 2007 and 2006, respectively	<u>65,926,562</u>	<u>67,043,139</u>
Total liabilities	74,040,000	74,449,911
 Net assets - unrestricted	 <u>8,865,632</u>	 <u>6,021,676</u>
 Total liabilities and net assets	 <u>\$ 82,905,632</u>	 <u>\$ 80,471,587</u>

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See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
COLLEGE HEIGHTS FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,000,334	\$ 1,476,149
Notes receivable	26,000	26,000
Interest and dividends receivable	137,128	135,351
Short-term investments	3,279,643	2,825,236
Contributions receivable	<u>60,860</u>	<u>203,072</u>
Total current assets	4,503,965	4,665,808
Investments and long-term receivables		
Long-term investments	30,616,609	26,277,745
Assets held in trust	2,185,195	1,267,190
Investments held for Western Kentucky University	2,439,471	1,681,414
Note receivable	78,295	104,295
Contributions receivable	<u>56,146</u>	<u>133,143</u>
Total investments and long-term receivables	35,375,716	29,463,787
Other assets	<u>94,697</u>	<u>94,697</u>
Total assets	<u>\$ 39,974,378</u>	<u>\$ 34,224,292</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ -	\$ 24,305
Current portion of long-term debt	782,777	87,535
Current portion of refundable advances and gift annuity liabilities	<u>443,092</u>	<u>336,596</u>
Total current liabilities	1,225,869	448,436
Long-term liabilities		
Notes payable	214,000	996,775
Refundable advances and gift annuity liabilities	2,313,256	1,526,672
Assets held for Western Kentucky University	<u>2,439,471</u>	<u>1,681,414</u>
Total long-term liabilities	4,966,727	4,204,861
Total liabilities	<u>6,192,596</u>	<u>4,653,297</u>
Net assets		
Donor restricted		
Permanently	26,867,884	23,751,154
Temporarily	<u>3,494,407</u>	<u>2,614,312</u>
Total donor restricted	30,362,291	26,365,466
Unrestricted		
Designated by board for perpetual scholarship fund	<u>3,419,491</u>	<u>3,205,529</u>
Total net assets	<u>33,781,782</u>	<u>29,570,995</u>
Total liabilities and net assets	<u>\$ 39,974,378</u>	<u>\$ 34,224,292</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>REVENUES</b>		
Operating revenues		
Tuition and fees, net of discounts and allowances of \$34,618,714 and \$31,718,625 for 2007 and 2006, respectively	\$ 78,819,388	\$ 68,682,426
Federal grants and contracts	14,414,364	14,078,886
State grants and contracts	15,495,245	14,206,641
Sales and services of educational activities	12,537,572	8,585,740
Auxiliary enterprise revenues, net of discounts and allowances of \$887,659 and \$813,298 for 2007 and 2006, respectively	18,893,772	16,631,800
Other operating revenues	<u>8,984,896</u>	<u>8,923,959</u>
Total operating revenues	<u>149,145,237</u>	<u>131,109,452</u>
<b>EXPENSES</b>		
Operating expenses		
Education and general		
Instruction	82,222,361	79,925,206
Research	13,310,041	10,840,688
Public service	14,213,552	16,589,903
Libraries	4,723,535	4,649,685
Academic support	12,597,147	9,831,842
Student services	21,327,119	19,692,430
Institutional support	23,528,407	21,590,197
Operation and maintenance of plant	18,966,447	18,223,071
Student financial aid	13,159,145	12,082,442
Depreciation	12,295,816	11,578,776
Auxiliary enterprises	<u>18,063,992</u>	<u>16,725,820</u>
Total operating expenses	<u>234,407,562</u>	<u>221,730,060</u>
<b>Operating loss</b>	(85,262,325)	(90,620,608)

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Years ended June 30, 2007 and 2006

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	<u>2007</u>	<u>2006</u>
Nonoperating revenues (expenses)		
State appropriations	\$ 80,224,200	\$ 78,038,800
Federal grants and contracts	22,060,117	22,986,158
State grants and contracts	4,390,124	4,442,269
Local and private grants and contracts	4,608,124	4,134,939
Investment income	3,984,399	2,620,668
Interest on capital asset-related debt	(2,724,090)	(2,462,429)
Gain (loss) on disposal of capital assets	15,267	(11,315)
Gain (loss) on sale of investments	28,666	(9,442)
Other nonoperating revenue (expenses)	<u>(10,896)</u>	<u>31,219</u>
Net nonoperating revenues	<u>112,575,911</u>	<u>109,770,867</u>
 <b>Income before other revenue expenses, gains or losses</b>	 27,313,586	 19,150,259
 State capital appropriations	 <u>4,015,926</u>	 <u>1,983,726</u>
 <b>Increase in net assets</b>	 31,329,512	 21,133,985
 <b>Net assets, beginning of year</b>	 <u>199,095,832</u>	 <u>177,961,847</u>
 <b>Net assets, end of year</b>	 <u><u>\$ 230,425,344</u></u>	 <u><u>\$ 199,095,832</u></u>

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See accompanying notes.



WESTERN KENTUCKY UNIVERSITY  
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended December 31, 2006 and 2005

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	<u>2006</u>	<u>2005</u>
<b>Changes in unrestricted net assets</b>		
Unrestricted revenues, gains and other support		
Contributions	\$ 2,627,408	\$ 272,462
Investment return	3,766,462	168,076
Net assets released from restrictions	<u>3,384,930</u>	<u>3,782,304</u>
Total unrestricted revenues, gains and other support	<u>9,778,800</u>	<u>4,222,842</u>
Expenses		
Payments made on behalf of Western Kentucky University - Programs	3,988,234	4,125,700
Management and general	859,014	919,638
Fundraising	<u>72,832</u>	<u>53,013</u>
Total expenses	<u>4,920,080</u>	<u>5,098,351</u>
<b>Changes in unrestricted net assets</b>	<u>4,858,720</u>	<u>(875,509)</u>
<b>Changes in temporarily restricted net assets</b>		
Contributions	3,503,017	3,889,443
Investment return	228,366	(12,764)
Miscellaneous income	276,217	119,434
Net assets released from restrictions	<u>(3,384,930)</u>	<u>(3,782,304)</u>
<b>Changes in temporarily restricted net assets</b>	<u>622,670</u>	<u>213,809</u>
<b>Changes in permanently restricted net assets</b>		
Contributions	<u>3,200,382</u>	<u>4,828,213</u>
<b>Increase in net assets</b>	8,681,772	4,166,513
<b>Net assets, beginning of period</b>	<u>44,763,688</u>	<u>40,597,175</u>
<b>Net assets, end of period</b>	<u>\$ 53,445,460</u>	<u>\$ 44,763,688</u>

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See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
WKU STUDENT LIFE FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>Operating revenues</b>		
Rent	\$ 15,221,018	\$ 13,864,488
Other	<u>896,167</u>	<u>1,006,722</u>
Total operating revenues	<u>16,117,185</u>	<u>14,871,210</u>
<b>Operating expenses</b>		
Salaries, benefits and related expenses	3,965,717	3,853,622
Utilities	2,212,580	2,253,947
Repairs, maintenance and supplies	990,793	710,608
Management fee	-	42,109
Professional fees	56,560	57,307
Insurance	780,398	779,589
Depreciation and amortization	2,708,785	2,633,781
Bad debt expense (recovery)	(158,010)	126,526
Other	<u>501,627</u>	<u>385,713</u>
Total operating expenses	<u>11,058,450</u>	<u>10,843,202</u>
<b>Changes in net assets from operations</b>	<u>5,058,735</u>	<u>4,028,008</u>
<b>Nonoperating revenues (expenses)</b>		
Interest income	943,980	743,703
Interest expense and fees	(2,862,143)	(2,591,576)
Change in fair value of interest rate collar and swap agreements, net of settlement payments of \$717,313 and \$1,188,381 for 2007 and 2006, respectively	<u>(296,616)</u>	<u>3,724,936</u>
Total nonoperating revenues (expenses)	<u>(2,214,779)</u>	<u>1,877,063</u>
<b>Changes in unrestricted net assets before cumulative effective of change in accounting principle</b>	2,843,956	5,905,071
Cumulative effect of change in accounting principle	<u>-</u>	<u>(413,209)</u>
<b>Changes in unrestricted net assets</b>	2,843,956	5,491,862
<b>Unrestricted net assets, beginning of year</b>	<u>6,021,676</u>	<u>529,814</u>
<b>Unrestricted net assets, end of year</b>	<u>\$ 8,865,632</u>	<u>\$ 6,021,676</u>
Proforma amounts assuming retroactive application of accounting change		
Changes in unrestricted net assets	\$ -	\$ 5,905,071

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
COLLEGE HEIGHTS FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Changes in unrestricted net assets</b>		
Unrestricted revenues, gains and other support		
Investment income	\$ 107,377	\$ 68,533
Net realized and unrealized gains on investments	260,159	92,190
Net assets released from restrictions:		
Satisfaction of program restrictions	<u>3,680,696</u>	<u>3,085,943</u>
Total unrestricted revenues, gain and other support		
Total unrestricted revenues, gains and other support	<u>4,048,232</u>	<u>3,246,666</u>
Expenses		
Program		
Scholarships and awards	2,967,002	2,033,156
Other	<u>439,232</u>	<u>491,923</u>
	<u>3,406,234</u>	<u>2,525,079</u>
Management and general		
Salaries and benefits	316,370	293,700
Interest expense	74,026	52,306
Other	<u>37,640</u>	<u>51,421</u>
	<u>428,036</u>	<u>397,427</u>
Total expenses	<u>3,834,270</u>	<u>2,922,506</u>
<b>Changes in unrestricted net assets</b>	<u>213,962</u>	<u>324,160</u>
<b>Changes in temporarily restricted net assets</b>		
Contributions	1,634,642	1,630,507
Investment income	624,362	766,520
Net realized and unrealized gains on investments	1,895,260	607,278
Net realized gain on sale of real estate	-	52,000
Net change in value of split interest agreements	406,527	37,809
Net assets released from restrictions	<u>(3,680,696)</u>	<u>(3,085,943)</u>
	<u>880,095</u>	<u>8,171</u>
<b>Changes in permanently restricted net assets</b>		
Contributions	<u>3,116,730</u>	<u>2,015,044</u>
<b>Increase in net assets</b>	4,210,787	2,347,375
<b>Net assets, beginning of year</b>	<u>29,570,995</u>	<u>27,223,620</u>
<b>Net assets, end of year</b>	<u>\$ 33,781,782</u>	<u>\$ 29,570,995</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 78,760,247	\$ 68,945,391
Grants and contracts	28,310,651	29,722,847
Payments to employees	(140,585,201)	(131,703,130)
Payments to suppliers	(64,182,464)	(64,038,714)
Loans issued to students	(784,998)	(454,862)
Collection of loans issued to students	949,540	882,263
Sales and services of educational departments	12,537,572	8,585,740
Other operating revenues	8,984,896	8,923,959
Auxiliary enterprise revenues	18,818,772	16,631,800
Auxiliary enterprise payments		
Payments to employees	(6,213,403)	(6,091,592)
Payments to suppliers	<u>(11,960,637)</u>	<u>(10,825,235)</u>
Net cash used in operating activities	<u>(75,365,025)</u>	<u>(79,421,533)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	80,224,200	78,038,800
Grants and contracts receipts	31,058,365	31,563,366
Student organization agency receipts (disbursements) - net	170,746	(317,671)
Other non-operating receipts	<u>140,449</u>	<u>135,700</u>
Net cash from noncapital financing activities	<u>111,593,760</u>	<u>109,420,195</u>
<b>Cash flows from capital and related financing activities</b>		
State capital appropriations	3,750,000	-
Proceeds from issuance of debt	52,481,236	2,803,750
Proceeds from sale of capital assets	26,648	17,368
Purchases of capital assets	(36,703,699)	(22,554,752)
Principal paid on capital debt and leases	(4,918,018)	(4,882,532)
Interest paid on capital debt and leases	(2,296,858)	(2,481,731)
Bond issuance costs	<u>(471,770)</u>	<u>-</u>
Net cash flows provided by (used in) capital and related financing activities	<u>11,867,539</u>	<u>(27,097,897)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	5,016,439	5,040,560
Purchase of investments	(9,883,382)	(6,614,598)
Investment income	<u>2,776,014</u>	<u>1,924,676</u>
Net cash flows from investing activities	<u>(2,090,929)</u>	<u>350,638</u>
<b>Net change in cash and cash equivalents</b>	46,005,345	3,251,403
<b>Cash and cash equivalents, beginning of year</b>	<u>46,427,583</u>	<u>43,176,180</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 92,432,928</u>	<u>\$ 46,427,583</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>Reconciliation of cash and cash equivalents to the statement of net assets</b>		
Cash and cash equivalents	\$ 55,315,347	\$ 42,964,998
Restricted cash and cash equivalents	<u>37,117,581</u>	<u>3,462,585</u>
Total cash and cash equivalents	<u>\$ 92,432,928</u>	<u>\$ 46,427,583</u>
<b>Reconciliation of net operating loss to net cash used in operating activities</b>		
Operating loss	\$ (85,262,325)	\$ (90,620,608)
Depreciation expense	12,295,816	11,578,776
Changes in operating assets and liabilities		
Accounts receivable, net	(425,700)	(63,295)
Federal and state grants receivable	(247,739)	(18,921)
Assets held in trust	25,615	4,844
Inventories	(160,048)	(185,651)
Loans to students, net	164,542	427,401
Prepaid expenses	22,797	(216,121)
Accounts payable and other current liabilities	(888,200)	(2,378,884)
Health insurance liability	(91,763)	(191,373)
Accrued payroll and payroll withholdings	(59,443)	285,177
Accrued compensated absences	141,550	147,026
Deferred revenue	<u>(880,127)</u>	<u>1,810,096</u>
Net cash used in operating activities	<u>\$ (75,365,025)</u>	<u>\$ (79,421,533)</u>
<b>Supplemental cash flows information</b>		
Capital leases incurred for capital assets	\$ 19,150	\$ 60,339
Construction in process included in accounts payable	3,394,994	1,155,598

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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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 in 2007 and 2006, 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, 2007 and 2006

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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, 2006 and 2005. 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, 2007 and 2006.

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, 2007 and 2006

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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, 2007 and 2006

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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, 2007 and 2006

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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>2007</u>	<u>2006</u>
Total interest expense incurred on borrowings for project	\$ 625,392	\$ 407,923
Interest income from investment of proceeds of borrowings for project	<u>391,235</u>	<u>121,491</u>
Net interest cost capitalized	<u>234,157</u>	<u>286,432</u>
 Interest capitalized	 234,157	 286,432
Interest charged to expense	<u>2,724,090</u>	<u>2,462,429</u>
 Total interest incurred	 <u>\$ 2,958,247</u>	 <u>\$ 2,748,861</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, 2007 and 2006

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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, 2007 and 2006

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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.

**NOTE 2 - ASSETS HELD IN TRUST**

Assets held in trust consisted of:

	<u>2007</u>	<u>2006</u>
Cash equivalents	\$ 6,122,374	\$ 1,637,525
Common equity, common fixed income and mutual funds	<u>17,499,383</u>	<u>16,522,070</u>
Fair value of assets held in trust	<u>\$ 23,621,757</u>	<u>\$ 18,159,595</u>

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 12.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 3 - DEPOSITS AND INVESTMENTS**

**Cash**

The carrying amount of cash and cash equivalents was \$92,432,929 at June 30, 2007, while the bank balances were \$74,063,882. 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, 2007 was \$163,277. The investments in this plan, by plan agreement, may be liquidated at any time and, as such, have been classified with maturities of less than one year.

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the University's investments at June 30, 2007:

<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	\$ 5,238,503	\$ 5,238,503	\$ -	\$ -	\$ -
457(f) Incentive Plan	<u>192,138</u>	<u>192,138</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,430,641</u>	<u>\$ 5,430,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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

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

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

University investments in debt securities, at June 30, 2007, 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 pledged securities shall equal or exceed the portion of the deposit requiring collateralization. The University is fully collateralized as of June 30, 2007.

Of the University's cash and investment balance as of June 30, 2007, \$200,000 is secured by FDIC insurance, and \$50,960,390 is secured by U.S. Treasury Notes held in the University's name, collateralized by the pledging institution. Additionally, \$41,272,538 is held within various accounts with the Commonwealth of Kentucky.

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

The University is not exposed to foreign currency risk as of June 30, 2007.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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

**Investment Income**

Investment income for the year ended June 30, 2007 and 2006 consisted of:

	<u>2007</u>	<u>2006</u>
Interest income, including interest earned on cash equivalents	\$ 3,214,703	\$ 1,811,221
Net increase in fair value of investments	<u>769,696</u>	<u>809,447</u>
	<u>\$ 3,984,399</u>	<u>\$ 2,620,668</u>

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following as of June 30:

	<u>2007</u>	<u>2006</u>
Tuition, fees, sales and services	\$ 3,987,340	\$ 3,854,531
Credit memos	406,760	376,987
Miscellaneous, other	<u>326,615</u>	<u>152,363</u>
	4,720,715	4,383,881
Less allowance for doubtful accounts	<u>(517,597)</u>	<u>(606,463)</u>
Accounts receivable, net	<u>\$ 4,203,118</u>	<u>\$ 3,777,418</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 5 - CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2007, are summarized as follows:

	Balance July 1, <u>2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance June 30, <u>2007</u>
Cost					
Land	\$ 7,269,630	72,287	-	-	7,341,917
Buildings and improvements	229,276,452	-	-	5,815,957	235,092,409
Infrastructure	18,207,372	20,165	-	4,365,896	22,593,433
Furniture, fixtures and equipment	34,548,484	2,243,416	(534,999)	-	36,256,901
Library materials	33,891,225	2,122,128	(18,020)	-	35,995,333
Construction in progress	<u>9,413,926</u>	<u>35,659,847</u>	<u>-</u>	<u>(10,181,853)</u>	<u>34,891,920</u>
	<u>332,607,089</u>	<u>40,117,843</u>	<u>(553,019)</u>	<u>-</u>	<u>372,171,913</u>
Accumulated depreciation					
Buildings and improvements	83,724,026	6,893,229	-	-	90,617,255
Infrastructure	5,847,204	750,710	-	-	6,597,914
Furniture, fixtures, and equipment	21,566,151	2,960,640	(523,618)	-	24,003,173
Library materials	<u>25,137,848</u>	<u>1,691,237</u>	<u>(18,020)</u>	<u>-</u>	<u>26,811,065</u>
	<u>136,275,229</u>	<u>12,295,816</u>	<u>(541,638)</u>	<u>-</u>	<u>148,029,407</u>
Net capital assets	<u>\$ 196,331,860</u>	<u>\$ 27,822,027</u>	<u>\$ (11,381)</u>	<u>\$ -</u>	<u>\$ 224,142,506</u>

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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

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	<u>17,868,692</u>	<u>16,772,254</u>	<u>-</u>	<u>(25,227,020)</u>	<u>9,413,926</u>
	<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	<u>23,586,669</u>	<u>1,626,385</u>	<u>(75,206)</u>	<u>-</u>	<u>25,137,848</u>
	<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, 2007 and 2006

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

A summary of construction in progress at June 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Transportation Center	\$ -	\$ 539,507
Health Services Building	3,343,579	-
Pedestrian Mall	-	1,457,618
Math and Science Academy	9,638,532	1,050,096
Science Campus, Phase II	2,953,684	910,555
South Campus Expansion	3,074,379	712,683
Academic/Athletic #2, Smith Stadium	9,660,401	1,622,946
South Campus Parking	-	592,798
College of Education Building	1,626,007	-
Publications Building	668,855	-
IT Infrastructure	969,970	-
Renovation – Carol Knicely Center	574,875	-
Others under \$500,000	<u>2,381,638</u>	<u>2,527,723</u>
	<u>\$ 34,891,920</u>	<u>\$ 9,413,926</u>

Contractual commitments in connection with all projects totaled \$65,299,801 and \$15,258,704 at June 30, 2007 and 2006, 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 was recorded and any such repairs were recorded as improvements and depreciated over a twenty-year period. Likewise, any and all insurance proceeds received related to this incident were recorded as revenue or gain in the period in which they were received.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 6 - DEFERRED REVENUES**

Deferred revenues as of June 30 consisted of:

	<u>2007</u>	<u>2006</u>
Unexpended state capital appropriations	\$ 713,260	\$ 979,186
Summer school tuition and fees	3,545,365	3,178,806
Grants and contracts	3,009,918	4,361,137
Advance sale of football tickets	128,997	84,715
University master plan	91,500	81,450
Miscellaneous	<u>170,722</u>	<u>120,521</u>
Total deferred revenues	<u>\$ 7,659,762</u>	<u>\$ 8,805,815</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, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Capital lease obligations	\$ 1,288,555	\$ 19,150	\$ (383,394)	\$ 924,311	\$ 366,707
Bonds payable, net of discounts and deferred loss on refinancing	29,965,744	-	(3,863,833)	26,101,911	3,018,832
General receipts bonds payable, net of discounts	-	52,485,003	-	52,485,003	2,250,062
Other long-term debt	4,244,591	-	(559,624)	3,684,967	3,250,999
Pledges payable, net of discount	<u>31,620,543</u>	<u>-</u>	<u>(115,278)</u>	<u>31,505,265</u>	<u>270,277</u>
Total bonds, pledges and capital leases	<u>\$ 67,119,433</u>	<u>\$ 52,504,153</u>	<u>\$ (4,922,129)</u>	<u>\$114,701,457</u>	<u>\$ 9,156,877</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

**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, 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>

**Bonds Payable**

Bonds payable as of June 30, 2007, are composed of Consolidated Educational Buildings Revenue Bonds, Series M, N, O, P and Q and General Receipts Bonds, Series 2006A and 2007A. The bonds mature in varying amounts through September 1, 2026, with interest payable at annual rates ranging from 1.50% to 5.00%. Buildings and revenues from student registration fees are pledged as collateral against the Consolidated Educational Buildings Revenue Bond payable, whereas general receipts of the University are pledged as collateral against the General Receipts Bonds payable.

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

	<u>2007</u>	<u>2006</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
Series N Bonds, dated September 1, 2002, with interest rates from 2.00% to 3.375%. Final principal payment date May 1, 2012	2,760,000	3,485,000
Series O Bonds, dated July 1, 2003, with interest rates from 2.00% to 2.85%. Final principal payment date May 1, 2010	4,295,417	5,648,889

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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

	<u>2007</u>	<u>2006</u>
Series P Bonds, dated September 1, 2003, with interest rates from 2.00% to 4.75%. Final principal payment date May 1, 2023	\$ 9,400,498	\$ 9,820,580
Series Q Bonds, dated December 1, 2003, with interest rates from 1.50% to 4.25%. Final principal payment date May 1, 2023	9,645,996	10,091,275
General Receipts Bonds, Series 2006A, dated December 19, 2006, with interest rates from 3.625% to 3.80%. Final principal payment date September 1, 2026	9,959,964	-
General Receipts Bonds, Series 2007A, dated May 30, 2007, with interest rates from 4.00% to 4.20%. Final principal payment date September 1, 2026	<u>42,525,039</u>	<u>-</u>
Total bonds payable	<u>\$ 78,586,914</u>	<u>\$ 29,965,744</u>

The debt service requirements for the bonds payable as of June 30, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 5,360,000	\$ 2,621,279	\$ 7,981,279
2009	4,810,000	2,885,083	7,695,083
2010	4,985,000	2,728,486	7,713,486
2011	3,595,000	2,557,308	6,152,308
2012	3,740,000	2,420,292	6,160,292
2013-2017	17,525,000	10,023,598	27,548,598
2018-2022	21,020,000	6,190,802	27,210,802
2023	<u>18,605,000</u>	<u>1,862,681</u>	<u>20,467,681</u>
	79,640,000	31,289,529	110,929,529
Less: unamortized discounts, net of premium on CEBR Series O	(916,066)	-	(916,066)
Less: deferred loss on defeasance of CEBR Series L	<u>(137,020)</u>	<u>-</u>	<u>(137,020)</u>
	<u>\$ 78,586,914</u>	<u>\$ 31,289,529</u>	<u>\$ 109,876,443</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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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.

On December 19, 2006, the University issued Western Kentucky University General Receipts Bonds, Series 2006A. The \$10,000,000 proceeds generated from the bond issue are being used for a portion of the renovation/expansion of Academic Athletic Complex #2, South Campus Parking and Dining, Math and Science Academy, Student Health Services Center and for Information Technology Infrastructure improvements.

On May 30, 2007, the University issued Western Kentucky University General Receipts Bonds, Series 2007A. The \$43,180,000 proceeds generated from the bond issue are being used to fund a portion of the renovation/expansion of Academic Athletic Complex #2, South Campus Parking and Dining, Math and Science Academy, Student Health Services Center and for Information Technology Infrastructure improvements.

**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 \$2,301,608 and \$3,659,696, net of accumulated depreciation of \$542,047 and \$1,404,062 at June 30, 2007 and 2006, 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, 2007:

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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

Year ending June 30	Total to <u>be Paid</u>	Present Value of Future Minimum Lease <u>Payments</u>	Interest <u>Portion</u>
2008	\$ 397,423	\$ 366,707	\$ 30,716
2009	315,668	298,322	17,346
2010	229,882	222,218	7,664
2011	30,751	29,830	921
2012	<u>8,001</u>	<u>7,234</u>	<u>767</u>
	<u>\$ 981,725</u>	<u>\$ 924,311</u>	<u>\$ 57,414</u>

**Other Long-Term Debt**

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

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 Receipts Bonds. Re-payment will be made with the proceeds of the aforementioned General Receipts Bonds.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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

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 is being amortized over a thirty-six month period, commencing on October 1, 2005 and ending September 30, 2008. As of June 30, 2007, the remaining unamortized balance was \$93,750, which will be payable to Aramark if the University's food service operating contract with Aramark is terminated.

Debt service requirements on the other long-term debt at June 30, 2007, were as follows:

Year ending June 30	Total to <u>be Paid</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 3,282,660	\$ 3,250,999	\$ 31,661
2009	229,710	215,542	14,168
2010	24,000	13,383	10,617
2011	24,000	14,067	9,933
2012	24,000	14,787	9,213
2013-2017	120,000	86,087	33,913
2018-2022	<u>100,000</u>	<u>90,102</u>	<u>9,898</u>
	<u>\$ 3,804,370</u>	<u>\$ 3,684,967</u>	<u>\$ 119,403</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.

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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

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

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

Pledge payments for principal on Series 2002B will be used to pay principal payment when due, while pledge payments on Series 2002C Term Bonds will be set aside in a debt service reserve account held in trust with the City until date of term requires payment of principal. Series 2002C bonds are due June 1, 2018 and June 1, 2026 in amounts of \$630,000 and \$1,170,000, respectively. The following is a schedule, by year, of future minimum pledge payments under the signed Memorandum of Agreement reimbursing the City for renovation costs:

Year Ending <u>June 30</u>	Total to <u>be Paid</u>	Principal <u>2002B</u>	Principal <u>2002C</u>	Interest <u>2002B</u>	Interest <u>2002C</u>
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	2,124,387	590,000	30,000	1,393,675	110,712
2011	2,274,025	755,000	40,000	1,370,075	108,950
2012	2,436,475	940,000	50,000	1,339,875	106,600
2013-2017	13,426,519	6,585,000	365,000	5,996,100	480,419
2018-2022	15,540,144	10,435,000	630,000	4,136,500	338,644
2023-2026	<u>12,028,050</u>	<u>9,990,000</u>	<u>645,000</u>	<u>1,284,500</u>	<u>108,550</u>
	51,615,626	29,995,000	1,790,000	18,352,388	1,478,238
Less unamortized discount	<u>(279,735)</u>	<u>(271,909)</u>	<u>(7,826)</u>	<u>-</u>	<u>-</u>
Total pledges payable	<u>\$ 51,335,891</u>	<u>\$ 29,723,091</u>	<u>\$ 1,782,174</u>	<u>\$ 18,352,388</u>	<u>\$ 1,478,238</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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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, 2007, were:

2008	\$ 634,963
2009	596,867
2010	467,316
2011	458,916
2012	458,916
Thereafter	<u>2,604,574</u>
	<u>\$ 5,221,552</u>

**NOTE 9 - 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, 2007, 2006 and 2005, were \$6,585,829, \$6,341,899 and \$5,758,263, respectively, which equaled the required contributions for each year.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 9 - PENSION PLANS (Continued)**

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 7.75% 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 22.00% 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, 2007, 2006 and 2005, were \$1,780,151, \$1,305,743 and \$1,201,190, respectively, which equal the required contributions for each year.

Optional Retirement Plan: University faculty and administrative staff hired after July 1, 1996, have the option of participating in the Optional Retirement Program, a defined contribution pension plan. The plan is administered by one of three providers chosen by the employee. The plan provides retirement benefits to plan members. Benefit provisions are contained in the plan document and were established and may be amended by action of the Commonwealth of Kentucky. Contribution rates for plan members and the University for 2007 expressed as a percentage of covered payrolls were 6.16% and 16.07%, respectively. Of the University's 16.07% contribution, 9.43% 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, 2007, 2006 and 2005, were \$1,938,705, \$1,733,834 and \$1,978,391, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2007, 2006 and 2005, were \$1,798,557, \$1,608,325 and \$1,486,697, respectively.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

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

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

**NOTE 11 - RISK MANAGEMENT**

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, employee health and certain natural disasters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Commonwealth of Kentucky self insures workers' compensation benefits for all state employees, including University employees. Risk Management Services Corporation administers workers' compensation claims.

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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 11 - RISK MANAGEMENT (Continued)**

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

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 719,037	\$ 976,360
Claims and changes in estimates	10,837,953	8,838,870
Claims payments	(9,894,746)	(8,568,864)
Administrative costs and stop-loss insurance	<u>(1,040,981)</u>	<u>(527,329)</u>
Balance, end of year	<u>\$ 621,263</u>	<u>\$ 719,037</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>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 65,950	-
Claims and changes in estimates	246,432	133,490
Claims payments	(114,083)	-
Administrative costs and stop-loss insurance	<u>(126,338)</u>	<u>(67,540)</u>
Balance, end of year	<u>\$ 71,961</u>	<u>\$ 65,950</u>

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

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

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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

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

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

Following is a summary of the funding for the RUETF as of June 30, 2007:

	CPE Funding <u>Received</u>	<u>External Matched Pledges</u> <u>Received</u>	<u>Pledge</u>
Balance, July 1, 2006	\$ 11,772,209	\$ 10,577,429	\$ 1,312,469
Current year collections	<u>-</u>	<u>725,185</u>	<u>(725,185)</u>
Balance, June 30, 2007	<u>\$ 11,772,209</u>	<u>\$ 11,302,614</u>	<u>\$ 587,284</u>

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>

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

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

**NOTE 13 - NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES**

The University's operating expenses by functional classification on June 30, 2007, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	\$ 73,249,404	\$ 8,183,922	\$ 24,082	\$ 764,953	\$ -	\$ -	\$ 82,222,361
Research	6,148,578	6,761,367	9,724	390,372	-	-	13,310,041
Public service	7,664,568	6,298,290	32,468	218,226	-	-	14,213,552
Libraries	4,220,248	467,591	201	35,495	-	-	4,723,535
Academic support	9,305,562	2,594,795	17,797	678,993	-	-	12,597,147
Student services	12,476,331	7,687,641	2,290	1,160,857	-	-	21,327,119
Institutional support	18,100,222	5,240,339	3,689	184,157	-	-	23,528,407
Operation and maintenance of plant	9,438,294	2,922,277	5,910,748	695,128	-	-	18,966,447
Student financial aid	64,101	985,877	-	67,331	12,041,836	-	13,159,145
Depreciation	-	-	-	-	-	12,295,816	12,295,816
Auxiliary enterprise	<u>6,213,403</u>	<u>9,139,397</u>	<u>2,285,664</u>	<u>425,528</u>	<u>-</u>	<u>-</u>	<u>18,063,992</u>
Total operating expenses	<u>\$ 146,880,711</u>	<u>\$ 50,281,496</u>	<u>\$ 8,286,663</u>	<u>\$ 4,621,040</u>	<u>\$ 12,041,836</u>	<u>\$ 12,295,816</u>	<u>\$ 234,407,562</u>

The University's operating expenses by functional classification on June 30, 2006, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
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, 2007 and 2006

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**NOTE 14 - 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.

In June, 2007, the Governmental Accounting Standards Board issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51). GASB 51 will require that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. The Statement is effective for periods beginning after June 15, 2009, with earlier application encouraged. Management has not determined how the implementation of GASB 51 will impact the financial statements of the University.

**NOTE 15 - 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, 2007 and 2006

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**NOTE 15 - 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, 2006 and 2005, the Foundation's cash accounts exceeded federally insured limits by approximately \$4,259,000 and \$3,480,000, 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, 2007 and 2006

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**NOTE 15 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Related Party Transactions: During the year ended December 31, 2006 and 2005, the Foundation made payments/reimbursements on behalf of the University of \$3,988,234 and \$4,125,700, 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, 2007 and 2006 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, 2007 and 2006

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**NOTE 15 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Investments held at December 31, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Common Equity Fund	\$ 15,903,559	\$ 13,534,248
Common Fixed Income Fund	15,156,931	12,862,773
Mutual Funds	1,369,248	1,100,409
Stock Funds	15,939,713	13,268,872
Stock	143,973	43,795
Taxable Bonds	656,379	704,944
Growth Index	2,306,538	1,366,855
Certificates of Deposit	<u>1,150,533</u>	<u>700,000</u>
Total investments	52,626,874	43,581,896
 Beneficial interest in trusts	 (1,165,216)	 -
Investments held for the University included above	 (14,594,822)	 (10,710,456)
Investments held for WKU Research Foundation included above	 (575,207)	 (500,000)
Investments held for HAF and AA included above	 <u>(498,913)</u>	 <u>(372,898)</u>
	 <u>\$ 35,792,716</u>	 <u>\$ 31,998,542</u>

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors. At December 31, 2006 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, 2007 and 2006

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**NOTE 15 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Contributions Receivable

Contributions receivable at December 31, 2006 and 2005, consisted of the following unconditional promises to give:

	<u>2006</u>	<u>2005</u>
Due in less than one year	\$ 2,518,543	\$ 2,303,960
Due in one to five years	5,787,175	4,616,817
Due in more than five years	<u>5,431,828</u>	<u>4,544,482</u>
	13,737,546	11,465,259
Less		
Allowance for doubtful accounts	710,123	194,000
Unamortized discount	<u>2,913,612</u>	<u>2,293,590</u>
	<u>\$ 10,113,811</u>	<u>\$ 8,977,669</u>

Discount rates ranged from 4.33% to 7.00% for 2006 and 2005, respectively.

Net Assets

*Temporarily Restricted Net Assets*

Temporarily restricted net assets at December 31, 2006 and 2005, are available for the following purposes:

	<u>2006</u>	<u>2005</u>
Scholarships	\$ 498,291	\$ 534,525
University program support	<u>10,672,386</u>	<u>10,013,482</u>
	<u>\$ 11,170,677</u>	<u>\$ 10,548,007</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 15 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

*Permanently Restricted Net Assets*

Permanently restricted net assets at December 31, 2006 and 2005, are restricted to:

	<u>2006</u>	<u>2005</u>
Scholarships	\$ 10,730,263	\$ 10,523,786
University program support	<u>18,456,783</u>	<u>15,462,878</u>
	<u>\$ 29,187,046</u>	<u>\$ 25,986,664</u>

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

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

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

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 16 - 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, 2006 and 2005, 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, 2006 and 2005, consisted of the following:

	<u>2006</u>	<u>2005</u>
Short-term investments		
Government agency securities	\$ 97,567	\$ 112,769
Mortgage-backed securities	827,286	529,127
Corporate bonds	1,918,779	1,447,435
Certificates of deposit	<u>436,011</u>	<u>735,905</u>
	<u>\$ 3,279,643</u>	<u>\$ 2,825,236</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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

	<u>2006</u>	<u>2005</u>
Long-term investments		
Equity securities	\$ 20,280,420	\$ 16,252,064
U. S. Treasury securities	262,953	273,484
Government agency securities	999,729	620,757
Mortgage-backed securities	2,915,647	2,927,128
Corporate bonds	4,775,217	5,083,882
Certificates of deposit	1,172,493	1,050,280
Real estate	<u>210,150</u>	<u>70,150</u>
	<u>\$ 30,616,609</u>	<u>\$ 26,277,745</u>

Related Party Transactions: During the fiscal years ended December 31, 2006 and 2005, College Heights made scholarship payments of \$2,967,002 and \$2,033,156, 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 \$104,395 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, 2007 and 2006 were insignificant.

**NOTE 17 - 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, 2007 and 2006

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**NOTE 17 - 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, 2007 and 2006, 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, 2007 and 2006

**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Capital asset activity for the year ended June 30, 2007 was:

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2007</u>
Cost				
Land	\$ 1,200,000	\$ -	\$ -	\$ 1,200,000
Land improvements	485,269	-	-	485,269
Buildings and improvements	68,887,246	1,426,871	(12,641)	70,301,476
Furniture, fixtures and equipment	3,643,273	25,978	-	3,669,251
Construction-in-progress	<u>168,974</u>	<u>3,308,650</u>	<u>(1,418,078)</u>	<u>2,059,546</u>
	<u>74,384,762</u>	<u>4,761,499</u>	<u>(1,430,719)</u>	<u>77,715,542</u>
Less accumulated depreciation				
Land improvements	38,418	12,131	-	50,549
Building and improvements	8,337,595	2,077,740	(243)	10,415,092
Furniture, fixtures and equipment	<u>1,699,066</u>	<u>517,411</u>	<u>-</u>	<u>2,216,477</u>
	<u>10,075,079</u>	<u>2,607,282</u>	<u>(243)</u>	<u>12,682,118</u>
Net capital assets	<u>\$ 64,309,683</u>	<u>\$ 2,154,217</u>	<u>\$ (1,430,476)</u>	<u>\$ 65,033,424</u>

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>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 17 - 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, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 66,910,000	\$ -	\$ (1,680,000)	\$ 65,230,000	\$ 1,755,000
Less: unamortized discount	(221,703)	-	9,270	(212,433)	-
Note payable, swap agreement	354,842	-	(83,831)	271,011	89,555
Note payable, chiller plant	<u>-</u>	<u>637,984</u>	<u>-</u>	<u>637,984</u>	<u>42,532</u>
	<u>\$ 67,043,139</u>	<u>\$ 637,984</u>	<u>\$ (1,754,561)</u>	<u>\$ 65,926,562</u>	<u>\$ 1,887,087</u>

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>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

Bonds payable as of June 30, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</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.	\$ 60,430,000	\$ 62,010,000
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.	4,800,000	4,900,000
Note payable, swap agreement, payable in monthly payments of \$2,045 to \$10,227, including interest at 10.08% through June 1, 2010; uncollateralized.	271,011	354,842
Note payable, draws may be made up to \$2,700,000 through November 1, 2007, at which point equal principal payments based on a 10-year amortization are due from November 5, 2007, through May 5, 2011. Remaining balance is due at maturity on June 15, 2011. Interest payments are due monthly at the Eurodollar Rate (5.31% at June 30, 2007), and the note is collateralized by certain rents and leases.	<u>637,984</u> 66,138,995	<u>-</u> 67,264,842
Less unamortized discount	<u>(212,433)</u>	<u>(221,703)</u>
	<u>\$ 65,926,562</u>	<u>\$ 67,043,139</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

The debt service requirements for the bonds payable as of June 30, 2007, are as follows:

Year ending June 30	Total to <u>be Paid</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 5,016,500	\$ 1,755,000	\$ 3,261,500
2009	4,698,750	1,525,000	3,173,750
2010	4,652,500	1,555,000	3,097,500
2011	4,654,750	1,635,000	3,019,750
2012	4,653,000	1,715,000	2,938,000
2013-2017	23,274,250	9,960,000	13,314,250
2018-2022	23,272,250	12,710,000	10,562,250
2023-2027	23,271,250	16,220,000	7,051,250
2028-2030	<u>20,306,500</u>	<u>18,155,000</u>	<u>2,151,500</u>
	<u>\$ 113,799,750</u>	<u>\$ 65,230,000</u>	<u>\$ 48,569,750</u>

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

Note payable – chiller plant permits draws up to \$2,700,000 through November 1, 2007, at which point equal principal payments based on a 10-year amortization are due from November 5, 2007, through May 5, 2011. Remaining balance is due at maturity on June 15, 2011. Interest payments are due monthly at the Eurodollar Rate (5.31% at June 30, 2007), and the note is collateralized by certain rents and leases.

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, 2007, the Foundation was in compliance with its debt covenants.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

The debt service requirements for the note payable swap agreement as of June 30, 2007, are as follows:

Year ending June 30	Total to be Paid	Principal	Interest
2008	\$ 202,859	\$ 89,555	\$ 113,304
2009	206,041	95,833	110,208
2010	<u>193,155</u>	<u>85,623</u>	<u>107,532</u>
	<u>\$ 602,055</u>	<u>\$ 271,011</u>	<u>\$ 331,044</u>

Related Party Transactions: During Student Life's fiscal years ended June 30, 2007 and 2006, Student Life received rental revenues from University students of \$15,221,018 and \$13,864,488, respectively. Additionally, during fiscal years ended June 30, 2007 and 2006, Student Life received payments of \$473,102 and \$447,937, respectively, from the University as repayment of the fiscal year 2007 debt payments related to Downing University Center (DUC) and Garrett Conference Center (GCC). Loans and accounts receivable from the University totaled \$1,075,794 and \$1,462,381 at June 30, 2007 and 2006, respectively, (which includes the amount owed by the University related to DUC and GCC noted above). Likewise, accounts payable to the University totaled \$641,584 and \$658,004 at June 30, 2007 and 2006, 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 Student Life and the Student Life provides certain direct and indirect support to the University. Both organizations have no objective basis for determining the value of these activities. However, as a part of the management agreement, Student Life does provide an annual amount to the University to help offset such related costs. The management fee was \$40,000 and \$42,109 for 2007 and 2006, respectively.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 17 - 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 its 2000 bonds payable (\$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% on notional amounts of \$60,430,000 as of June 30, 2007, which is reduced periodically over the term of the swap. The collar agreement is based on 70% of the 30-day U. S. LIBOR rate on a notional amount equal to 67% of the outstanding amount of bonds payable (\$40,488,100 as of June 30, 2007), and established a maximum (cap) annual interest rate of 5.75% and a minimum (floor) annual rate of 4.67%. As of June 30, 2007 and 2006, respectively, the variable interest rate paid to the bondholders was significantly below the floor rate.

Simultaneously, with the issuance of its 2006 bonds payable (\$4,900,000), Student Life also entered into an interest rate swap agreement with a bank. Student Life receives interest from the counterparty based on 70% of the 30-day U.S. LIBOR rate and pays interest to the counterparty at 3.69% on notional amounts of \$4,800,000 as of June 30, 2007, which is reduced periodically over the term of the swap.

Simultaneously, with the issuance of its 2007 notes payable to a maximum of \$2,700,000, the Foundation also entered into an interest rate swap agreement with a bank. The Foundation receives interest from the counterparty based on the 30-day U.S. LIBOR rate on notional amounts equal to the outstanding amount of notes payable and pays interest to the counterparty at 5.23% of the initial notional amount of \$2,700,000, 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, 2007 and 2006, the variable interest rate paid to the bondholders was significantly below the floor rate.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

The estimated fair value of these derivative arrangements at June 30, 2007, was:

<u>Type</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Underlying Index</u>	<u>Fair Value June 30, 2007</u>	<u>Fair Value June 30, 2006</u>
Floor	May 25, 2000	June 1, 2015	LIBOR	\$ (4,129,262)	\$ (4,494,447)
Cap	May 25, 2000	June 1, 2010	LIBOR	1,852	22,221
Swap	May 25, 2000	July 1, 2010	LIBOR	(306,807)	(402,644)
Swap	Feb. 1, 2006	Feb. 1, 2016	LIBOR	39,747	68,577
Swap	May 14, 2007	Oct. 1, 2012	LIBOR	<u>8,874</u>	<u>-</u>
Net liabilities				<u>\$ (4,385,596)</u>	<u>\$ (4,806,293)</u>

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>2007</u>	<u>2006</u>
Net cash payments made under the collar agreement	\$ (687,643)	\$ (1,140,730)
Net cash payments made under the interest rate swap agreements	(29,670)	(47,651)
Change in fair value of the derivative agreements	<u>420,697</u>	<u>4,913,317</u>
	<u>\$ (296,616)</u>	<u>\$ 3,724,936</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>2007</u>	<u>2006</u>
Student housing program	\$ 10,217,801	\$ 9,888,974
Management and general	<u>840,649</u>	<u>954,228</u>
	<u>\$ 11,058,450</u>	<u>\$ 10,843,202</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION -  
ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

**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.

**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, 2006, 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.

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	\$ 1,030,178
Accretion expense	63,086
Liabilities settled	<u>(12,641)</u>
June 30, 2007, balance	<u>\$ 1,080,623</u>



## **SUPPLEMENTARY INFORMATION**

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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		\$ 61,144,348
Federal Perkins Loan Program		84.038		5,759,891
Off Campus Work Study - Federal		84.033	P033A1615	72,668
On Campus Work Study - Financial		84.033	P033A1615	612,930
America Reads		84.033	P033A21615	54,365
SEOG		84.007	P0007A	423,984
PELL Grants		84.063	P063P012	14,390,712
SMART Grant		84.376	P3768061508	362,202
ACG		84.375	P375A061508	<u>213,292</u>
Total Student Financial Assistance				<u>83,034,392</u>
<b>Research and Development Cluster</b>				
Direct Programs				
U.S. Department of Agriculture				
Poultry Waste Management (Proj 1)		10.001	5864061017	154,921
Poultry Waste Management (Proj 2)		10.001	5864061017	122,797
Poultry Waste Management (Proj 3)		10.001	5864061017	102,662
Poultry Waste Management (Proj 4)		10.001	58-6406-1-017	52,683
PWMS Yr 3 Greenhouse		10.001	58-6406-1-017	56,778
PWMS Yr 3 Adm		10.001	58-6406-1-017	44,081
PWMS-4-Eval Comb/Chicken/Coal		10.001	SCA 58-6406-1-017-AM4	259,859
PWMS Yr 4-Animal Waste /Karst Quality		10.001	SCA 58-6406-1-017-AM4	63,936
PWMS Yr 5		10.001	58-6406-A101-0175	53,748

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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>				
U.S. Department of Agriculture (continued)				
Support-Ag Research-Mutual Interest				\$
Support-Ag Research FY07		10.001	58-6401-5-035	9,947
Conservation Practices Task 1		10.001	58-6445-7-101	14,805
Conservation Practices Task 2		10.902	69-5C16-4-220-6-23	84,333
Conservation Practices Task 3 & 5		10.902	69-5C16-4-220-6-23	78,523
Conservation Practices Task 4		10.902	69-5C16-4-220-6-23	41,129
				<u>88,679</u>
				<u>1,228,881</u>
<b>Department of the Interior</b>				
Mammoth Cave Learning Center		15.916	H5530030051 MOD 1	48,255
Water Lab Consolidation		15.916	H553004009 MOD 1	4,927
Native American Graves-NAGPRA		15.916	H5530020075 MOD 3	5,099
Impact/Lock & Dam #6		15.921	H5530010104	1,068
Mercury in Mammoth Cave NP Phase II		15.921	H5530030029 MOD1	14,060
Yellow Orchid Project		15.921	H550030054	5,079
Survey of DNA Extracted from Cave		15.923	H2360020009 to 02-01 MOD1	4,158
Graduate-level Training		15.923	H2360020009 T002-02	6,888
Archival Cataloging		15.916	H5530060050	48,211
GIS Assistant FY 07		15.DAV	Order # J2113060008	31,619
Abe Lincoln Birth Place Assessment		15.DAV	Order # JC113060003	<u>34,049</u>
				<u>203,413</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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 Administration				
KY Space Grant Consortium Yr 14		43.001	NNG05GH07H	\$ 595,470
Clumping in Hot Standards		43.001	NNX07AC73G	8,307
Detailed X-Ray Monitoring		43.001	NNX07AH936	4,490
Starbase Network		43.001	NAG5-08762	55,914
KY NASA / EPSCoR Program Yr 8-10		43.001	NCC5-571	786,972
Monitor and Assess Human Health		43.001	NCC5-571 SUB 516140	3,779
Optical Photo Monitoring – Sub 516140		43.001	NCC5-571 SUB516140	7,948
Case for Neutrinos – Sub 516171		43.001	NNG05GH07H	3,548
Discovering Eclipsing Stars – Sub 516171		43.001	NNG05GH07H – SUB	1,189
Ice Thickness – Sub 516171		43.001	NNG05GH07H – SUB	280
Measuring Rotation Rates – Sub 516171		43.001	NNG05GH07H – SUB	369
Peculiar Wolf-Rayet Star WR46		43.001	NNG06GD76G	5,864
Detailed X-Ray Monitoring		43.001	NNG06GE73G	1,191
Microwave Ice Detector – Sub 516140		43.001	WКУ 516140-060-14	12,320
Multiwavelength – Sub 516171		43.001	NNG05GH07H – SUB 516171	2,893
Search for Planets – Sub to 516171		43.001	NNG05GH07H-SUB	363
Investigating Dark Matter – Sub 516171		43.001	516171-07-51	1,516
Ice Detection Using TDR – Sub 516171		43.001	NNG05GH07H 516171-07-53	4,570
Projection Based Learning – Sub 516171		43.001	NNG05GH07H 516171-07-64	2,025
Gamma Ray Bursts – Sub 516171		43.001	NNG05GH07H 516171-07-55	8,635
Extrasolar Planets – Sub 516171		43.001	NNG05GH07H 516171-07-60	2,250
Black Hole in WR148		43.001	NNX06AF34G	7,820
Photometric Monitoring – Sub 516171		43.001	NNG05GH07H 516171-07-51	9,908
Optical Variability – Sub 516171		43.001	NNG05GH07H 516171-07-52	646
				<u>1,528,267</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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	2,063
Surfactant Immobilized Sorbent Mat		47.049	CHE-0132181	15,038
Virtual Synthesis of 3 D Nano...		47.049	DMR-0340613	9,207
Acquisition of Instrumentation		47.049	CHE-0421228	10,230
REU: Summer Research		47.050	EAR-0353651	53,244
RUJ: Hydrocarbon Media		47.074	CHE-0710021	28,586
Survey-Ghana-Spider & Dung Beetles		47.074	DEB-0430132	141,186
Lifespan Psychology		47.075	SES-0097491	9,003
Analyst Extractions		47.049	OISE-0553369	36,249
RUJ: Molecular Phylogenetics		47.049	DEB-0236166	<u>6,162</u>
				<u>310,968</u>
 Environmental Protection Agency				
Kentucky Ctr Waste Water Research – Task 4		66.606	X-97418901-0	27,329
Wastewater Administration and Management		66.606	X-97418901-0	266,333
Kentucky Ctr Waste Water Research – Task 2		66.606	X-97418901-0	12,349
Technical Asst. Ctr/Water Quality		66.606	X-83123601-0, 1	308,418
Archeological Site Mod 2		66.606	H5530020075	5,190
Assessment-Atrazine-Ag Watershed		66.716	X8-96414404-0	17,220
Kentucky Center Waste Water Research – Task 3		66.606	X-97418901-0	19,275
Waters Task		66.606	X-83123601-2	126,865
Waste Management – Task 5		66.606	X-97418901-0	30,538
Waste Management – Task 6		66.606	X-97418901-0	121,938
Waste Management – Task 7		66.606	X-97418901-0	32,170

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WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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				
Waste Management – Task 8		66.606	X-97418901-0	\$ 3,078
Green River Project - Kenworthy		66.436	X7-9643906-0	109,079
Green River Project – Meier		66.436	X7-9643906-0	81,383
Green River Project – Marcus		66.436	X7-9643906-0	6,946
				<u>1,168,111</u>
Tennessee Valley Authority				
TVA Analyzer Installation and Repair		62.004	P07418AKU-R	<u>938</u>
Department of Energy				
Environmental Control Tech Lab		81.089	DE-FC26-03NY41840	<u>262,774</u>
Department of Health and Human Services				
Reaction to Bulky Platinum Complex		93.390	1R15GM0-746630N1	46,258
Mechanical Stress/ Myofibroblast Fxn		93.390	1 R15HL087185-01	16,335
Chlamydomonas Entertainment		93.859	1R15GM076079-0A1	1,772
ID of RNA's in Eroli		93.859	1R15GM79694-01	10,024
Learning a Judgment in Older Adult		93.866	1R01AG19155-01-02-03-04	130,740
				<u>205,129</u>
Pass Through Programs				
U.S. Department of Agriculture				
John's Disease Demo Herd Program	Dept. of Agriculture	10.025	MOA 6-21-04	<u>25</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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>				
Pass Through Programs (continued)				
Department of Commerce				
Flash Flood Climatology	National Climate Data Center	11.432	Emailed dated 5/12/06	\$ 946
Development of Geo Profiles	National Climate Data Center	11.432	Emailed dated 5/12/06	1,828
Erysipelas in Cetaceans	National Climate Data Center	11.439	Letter dated 12/8/06	12,882
WKU Mesonet	National Climate Data Center	11.467	NA06NWS4670010	<u>699,081</u>
				<u>714,737</u>
Department of Defense				
Support of DTRA Contract	Northwest Nuclear, LLC	12.300	NWN2020-1	280,407
Fortitude FY07	EWA, GSI	12.902	EWAGSI-06-SC-0006	<u>175,079</u>
				<u>455,486</u>
National Aeronautics and Space Admin.				
Cass 2001	Tennessee State University	43.001	CONTRACO.WKS	1,069
SHOES - Supernovae Dark Energy	Space Telescope Science Institute	43.001	HST-GO-10802.11-A	43,102
Revisiting the Rate of Supernovae	Space Telescope Science Institute	43.001	HST-AR-10980.03A	628
Investigating Supernovae	Space Telescope Science Institute	43.001	HST-GO-09728.13-A	2,727
WKU Support of SCSU Participation	South Carolina State University	43.001	06-443660-CNRT-WKU-KY	<u>3,072</u>
				<u>50,598</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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>				
Pass Through Programs (continued)				
Department of Justice				
Iris Image Capture	University of KY Research Foundation	16.560	UKRF 3046979700-414	\$ 63,373
Enhancement Mitigation --				
Chemical Plants	University of Louisville	16.560	ULRF 05-1414	44,527
RLEAKS	Eastern Kentucky University	16.560	EKU 06-203WKU-Mobile	314,029
				<u>421,929</u>
<b>National Science Foundation</b>				
Computation of Rope Length	University of NC at Chapel Hill	47.049	2975-03-0194	800
Molecular Self-Assembly/ Solar Cells	KY NSF EPSCOR	47.076	4-69018-05-488	3,457
Managing XML Documents	KY NSF EPSCOR	47.076	4-69018-05-489	4,648
Genetic Transformation of Sesbania	KY NSF EPSCOR	47.076	4-69018-05-486	9,494
Development of Nanoscale Sensors	KY NSF EPSCOR	47.076	Email dated 5/4/06	14,785
Agent Framework for Information	KY NSF EPSCOR	47.076	Email dated 5/4/06	9,878
NSF SBIR Coal Analysis	KY NSF EPSCOR	47.050	PRIV-SUB	933
Equal Energy Hypothesis	KY NSF EPSCOR	47.076	Sub dated 4/6/07	4,501
Summer Research in Nanotech@PNL	KY NSF EPSCOR	47.076	UKRF304.901800-07-101	6,982
				<u>55,478</u>

(Continued)



WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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>				
Pass Through Programs (continued)				
Department of State				
WKU Hoffman Inst. China FY07	USAID	19.300	486-A-00-06-0001400	\$ 637,182
Environmental Protection Agency				
Non-point Source Public Ed Program	University of Louisville	66.460	ULRF-G03-1016-04-01	1,870
TMDL Development Project	Kentucky Division of Water	66.463	M06147994 M-06148343	138,108 <u>139,978</u>
Department of Energy				
Power Plant Mercury Control	Sorbent Technologies	81.057	DE-FC26-05NT42308	139,909
Ph 2 Measuring Carbon Balance	PARAS/DOE	81.049	RA-08-06-04	10,699
FAST	Battette Memorial Institute	81.FPC	Contract #43946	9,074 <u>159,682</u>
Department of Education				
Personnel Prep in EI FY08	University of Connecticut	84.325	Subcontract #667907	70,054
Personal Prep in EI FY06	University of Connecticut	84.325	ID #651006	84,591 <u>154,645</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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>				
Pass Through Programs (continued)				
Department of Health and Human Services				
Neural Development- Zebrafish 2006	University of Louisville	93,389	INBRE-04-0388A	\$ 1,002
INBRE-Butterfly 2007	University of Louisville	93,389	ULRF-NIH-P20RR16481-06-MARCUS	75,051
INBRE-Zebrafish 2007	University of Louisville	93,389	ULRF-NIH-P20RR16481-06-SMITH	94,564
INBRE-RNA 2007	University of Louisville	93,389	ULFR-NIH-P20RR16481-06-KING	85,836
INBRE-Mech/Transcript 2007	University of Louisville	93,389	ULFR-NIH-P20RR16481-06-RICE	76,073
INBRE-Faculty Recruit 2007	University of Louisville	93,389	ULRF-NIH-P20RR16481-06-DAVIS	60,629
Action Spectrum Predicting Long Term Mobility 2006	University of Louisville	93,389	ULRF-DHHS/NIH-P20RR16481-06	12,157
Predicting Long Term Mobility 2007	University of Alabama at Birmingham	93,866	5R01 AG021958-03	18,205
INBRE RNA 2008	University of Alabama at Birmingham	93,866	5R01 AG021958-04-001	116,091
INBRE Butterfly 2008	University of Louisville	93,389	04-0388C	16,414
INBRE Zebrafish 2008	University of Louisville	93,389	04-0388C	22,889
INBRE Mech/Transcript 2008	University of Louisville	93,389	04-0388C	9,841
INBRE Faculty Recruit 2008	University of Louisville	93,389	04-0388C	5,600
INBRE Circadian Timing System FY08	University of Louisville	93,889	04-0388C	17,728
Protein Structural Refinement	University of Louisville	93,889	04-0388C	724
Sodium- Proton Exchange	University of Louisville	93,889	letter dated 3/20/07	2,054
			letter dated 3/20/07	8,383
				<u>623,241</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<u>Federal Agency Cluster / Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
Department of Homeland Security MILK Wireless Monitoring System	University of Kentucky Research Foundation	97.077	UKRF 30469625-06-222	\$ 78,800
<b>Total Research and Development</b>				<u>8,400,262</u>
<b>TRIO Cluster</b>				
Direct Programs				
Student Support Services 02-06		84.042	P042A021170	41,593
Talent Search 03-06		84.044	P044A020280	74,038
Veterans Upward Bound 04-07		84.047	P047A030239	255,044
Upward Bound 2005-2009		84.047	P047A040249	357,891
EOC - Educational Opportunity Centers		84.066	P066A020229 & 229A	227,235
Student Support Services FY07		84.042	P042A060158	231,599
Talent Search 07		84.044	P044A060337	<u>282,794</u>
<b>Total TRIO Cluster</b>				<u>1,470,194</u>
<b>Headstart Program</b>				
Direct Programs				
Head Start General 22-2007		93.600	04CH0201/23	718,900
Head Start General 22-2006		93.600	04CH0201/22	395,057
Head Start T/TAS 20-2007		93.600	04CH0201/23	5,514
Head Start T/TAS 22-2006		93.600	04CH0201/22	<u>6,275</u>
				<u>1,125,746</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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>Headstart Program</b>				
Pass Through Programs				
Early Head Start FY 07	Murray Head Start	93.600	04CH2692-001	\$ 159,332
Early Head Start Train PAII FY07	Murray Head Start	93.600	04CH2692-001	4,081
Early Head Start 2006	Murray Head Start	93.600	04CH2692-01	31,599
Early Head Start - Train/PA II-2006	Murray Head Start	93.600	04CH2692-01	<u>2,087</u>
				<u>197,099</u>
<b>Total Headstart Program</b>				<u>1,322,845</u>
<b>U.S. Department of Agriculture</b>				
Direct Programs				
WKYU-TV Rural Public TV		10.855	GA 3-9-04	<u>40,303</u>
<b>Department of Commerce</b>				
Direct Programs				
University Center Program 2006		11.303	04-66-05606	1,133
WKYU-FM Transmitter Replacement		11.550	21-01-N05021	<u>48,320</u>
<b>Total Department of Commerce</b>				<u>49,453</u>
<b>Department of Housing and Urban Development</b>				
Direct Programs				
Housing Authority Training Sessions		14.218	MOA Dated 8/2/06	<u>37,654</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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>				
Direct Programs				
Karst Groundwater Delineation		15.916	H5000070800-J5560040060	\$ 1,550
Cultural Resources Mgmt. Specialist		15.916	H5530050050	30,283
Dev Nat Pk Species Database		15.921	CA553000002	-
Clark's River Wildlife Refuge III		15.608	2006-0111-007	2,528
Student Intern Support - Cumberland		15.916	H5000040800	7,803
Mammoth Cave International Center		15.916	H55530060045 (to #J211301001)	21,562
Backlog Cataloging 10,000 items		15.921	1443 CA 5530 00 001	23,358
Ecological Monitoring Collection		15.921	H5530010144 MOD 4	295
Student Research at Mammoth Cave		15.921	H5530020034	748
Oregon Caves National Monument		15.921	CONTRACT R934020005	<u>3,034</u>
<b>Total Department of the Interior</b>				<u>91,161</u>
<b>Department of Justice</b>				
Direct Programs				
WKU Spotlight Youth Project		16.541	2005-JL-FX-0147	845,652
CCTV Project at WKU		16.541	2005-DD-BX-1219	<u>324,877</u>
<b>Total Department of Justice</b>				<u>1,170,529</u>
<b>Department of State</b>				
Pass Through Programs				
International Journalism & Media	Inter News	19.300	F1176-WKU-00	<u>379,149</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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	\$ 22,203
<b>National Aeronautics and Space Administration</b>				
Direct Programs				
Astronomy & Space Workshop 2006	NASA	43.001	NNG05GH07H-SUB	160
Preparing K-12 Teachers - Sub516171		43.001	NNG05GH07H-SUB	4,936
Astronomy Workshop FY07 - Sub516171		43.001	516171-07-65	8,261
Nanotechnology and Robotics - Sub516171		43.001	NNG05GH07H 516171-07-62	6,198
NASA - GSRP		43.001	NGT-1-03012	25,925
				<u>45,480</u>
<b>Pass Through Programs</b>				
How Old Is Your Universe? A Workshop	Space Telescope Science Institute	43.001	HST-ED-90251-01-A	585
11,000 Year History - Mammoth Cave	National Endowment for Humanities	45.162	BI-50037-06	<u>63,406</u> <u>63,991</u>
				<u>109,471</u>
<b>Total National Aeronautics and Space Administration</b>				
<b>Department of Transportation</b>				
Pass Through Programs				
5309 FTA Earmark Grant	KY Transportation Cabinet	20.500	5309 ALLOCATION	791,328
Governor's Highway Safety FY06	Kentucky State Police	20.920	AGREEMENT dated 4/20/06	<u>(93)</u>
<b>Total Department of Transportation</b>				<u>791,235</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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 Science Foundation</b>				
Direct Programs				
Web-Based Homework:				
Curric. Reform		47.076	DUE-021353	\$ 5,316
REI Site-Development Psychology		47.075	SES-0453454	86,109
				<u>91,425</u>
Pass Through Programs				
KY West VALSAMP FY07	University of Kentucky Research Foundation	47.076	UKRF 3048032200-07-248	<u>8,581</u>
<b>Total National Science Foundation</b>				<u>100,006</u>
<b>Environmental Protection Agency</b>				
Direct Programs				
Expanding Environmental Discovery FY07		66.951	NE-96455206-0	<u>21,384</u>
Pass Through Programs				
Radon Mitigation FY07	KY Cabinet for Health Services	66.032	M-06073466	31,657
River Institute: Building Ed Part	Kentucky Division of Water	66.460	M-02025681 & M-02172347	3,704
KNSE for Landuse Development	Kentucky Division of Water	66.460	M-04184956	45,229
KY Water Education Project	University of Louisville	66.460	ULFRG-03-1016-04	3,240
Analysis of Water Samples	Kentucky Division of Water	66.419	MOA Dated 5/1/07	<u>600</u>
				<u>84,430</u>
<b>Total for Environmental Protection Agency</b>				<u>105,814</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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	\$ 55,900
Nursing Accelerated Dev. Program		84.116	P1162040026	760
Enhancing Number of Teachers		84.215	U215K050007	210,585
Just Think		84.215	U215K050086	477,872
Training on Budget Mgmt 04-06		84.103	D103A040004	165,057
Legislative & Regulatory 04-06		84.103	P103A040010	175,879
Advancing International Motives		84.153	P153A050007	67,037
				<u>1,153,090</u>
Pass Through Programs				
KYAE - Community Assessments	Kentucky Cabinet for Workforce Development	84.002	P0241507000053121	32,500
KY Task Force on Recruitment	Kentucky Department of Education	84.027	M-05211383	794
Perkins Adm. FY 07	Kentucky Department of Education	84.048	M-06156594	1,155
KY Task Force on Retirement FY07	Kentucky Department of Education	84.027	M-06133238	150,139
FY05 TE02 Carryforward	Kentucky Cabinet for Workforce Development	84.048	M-06182470	7,117
Perkins 07 Community College	Kentucky Department for Workforce Development	84.048	M-06156594	116,212
Teaching Math and Geometry	Kentucky Council on Postsecondary Education	84.048	P0207000062381	2,315
Environmental Problem Solving	Murray State University	84.376	MUA dated 2/12/07	874

(Continued)



WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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 FY07	Kentucky Department of Education	84.048	M-06156594	\$ 26,870
Perkins - Agriculture FY07	Kentucky Department of Education	84.048	M-06156594	2,779
Perkins 06 - Tech Prep	Kentucky Cabinet for Workforce Development	84.048	M-06187076	154,222
PDTA for Technical Ed. Teachers 07	Kentucky Cabinet for Workforce Development	84.048	M-06182470	20,285
Perkins 06 Improve Career	Kentucky Cabinet for Workforce Development	84.048	M-06182470	19,954
Kentucky Tech. Prep. Improvement	Kentucky Department of Education	84.048	M-06082122	13,699
NWP Writing Project	National Writing Project Corporation	84.298	92KY-06	49,177
WKU Writing Project NRI M & LETS	National Writing Project Corporation	84.298	NWP CK 9-20/9-30	790
Curriculum Review - FY06 - Sub 543604	Education Professional Standards Board	84.336	WKURF 543604-06-48	25,882
Administrative Support for Title II	Educational Professional Standards Board	84.336	M-03120201	1,005,304
Reading First Coach 06-07	Kentucky Department of Education	84.357	M-06091941	96,551

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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-06046944	\$ 55,638
Watershed Education	Kentucky Council on Postsecondary Education	84.367	OSP 2006-122	52,714
				<u>1,834,971</u>
<b>Total Department of Education</b>				<u>2,988,061</u>
<b>Department of Health and Human Services</b>				
Direct Programs				
The Rural Health Initiative 04-06		93.888	1D1ARH03551-01-00	37,821
The Alliance Project		93.888	1D1ARH03550-01-00	73,869
Advanced Ed Nursing FY07		93.358	2A10HIP00189-07-00	43,954
				<u>155,644</u>
Pass Through Programs				
MSSA 05-06	University of Louisville	93.107	Contract dated 12-22-05	33,904
MSSA FY07	University of Louisville	93.107	Subcontract dated 11/30/06	43,825
HETC 2006	University of Louisville	93.189	Subcontract dated 12/22/05	32,092
KEMSA Hospital Training FY07	University of Kentucky Research Foundation	93.301	UKRF 3048054800-07-237	2,316
Training Resource Center 2007	Eastern Kentucky University	93.658	EKU-07-271	123,608
Chafee Independent Living 07	University of Kentucky Research Foundation	93.674	UKRF 3048024900-07-114	1,698
School Health Institute	Federal Department of Education	93.938	M-06209365	21,320

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

<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>				
Rural Quality Improvement	University of Kentucky Research Foundation	93.241	UKR F4-68183-05-462	\$ 34,326
Child Care Resource & Referral 2007	University of Kentucky Research Foundation	93.575	UKRF 0553-6	140,298
MSW Program Development 2007	Eastern Kentucky University	93.658	EKU 07-271	101,140
PCWCP FY 07	Eastern Kentucky University	93.658	EKU 07-340	7,383
OEL - Quality Initiative FY06-07	State of Florida	93.575	SR 547	919,153
OEL - FY08	State of Florida	93.575	Contract SR548	<u>525</u>
				<u>1,461,588</u>
<b>Total Department of Health and Human Services</b>				<u>1,617,232</u>
<b>Small Business Administration</b>				
Pass Through Programs				
Small Business Center FY07	University of Kentucky Research Foundation	59.037	UKRF-3048051900-07-279	43,392
Small Business Center FY06	University of Kentucky Research Foundation	59.037	UKRF-3046970300-06-276	<u>17,505</u>
<b>Total Small Business Administration</b>				<u>60,897</u>
<b>U.S. Department of Veterans Affairs</b>				
Enhancing Environmental Discovery		66.951	NE-96427905-0	<u>2,729</u>
<b>Total Federal Expenditures</b>				<u>\$ 1,793,590</u>

WESTERN KENTUCKY UNIVERSITY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2007

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**NOTE 1 – BASIS OF ACCOUNTING**

This schedule includes the federal awards activity of Western Kentucky University and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**NOTE 2 – LOANS**

Western Kentucky University participates in the Federal Family Education Loan Program (including Stafford Loans, Supplemental Loans for Students, and Parents Loans for Undergraduate Students).

Western Kentucky University administers the Federal Perkins Loan Program (CFDA Number 84.038). At June 30, 2007, the University had loans outstanding in the amount of \$5,759,891 with an allowance for doubtful accounts of \$510,564.



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 (the "University") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 8, 2007, 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 University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a

misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted certain matters that we reported to management of the University in a separate letter dated October 8, 2007.

#### Compliance and Other Matters

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

\* \* \* \* \*

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

  
Crowe Chizek and Company LLC

Louisville, Kentucky  
October 8, 2007



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 (the "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 its major federal program for the year ended June 30, 2007. The University's major federal program is 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 its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the 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 the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007. 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.

### Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined below.

A *control deficiency* in the University's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the University's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the University's internal control.

However, we noted certain other matters that we have reported to management in a separate letter dated October 8, 2007.

\* \* \* \* \*



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

*Crowe Chizek and Company LLC*  
Crowe Chizek and Company LLC

Louisville, Kentucky  
October 8, 2007

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2007

**PART I: SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

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

**Federal Awards**

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
	Total Federal Student Aid (consisting of):
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grant
84.376	National Science and Mathematics Access to Retain Talent Grant
84.033	Federal Work Student Program
84.007	Federal Supplemental Educational Opportunity Grant Program
84.038	Federal Perkins Loan Program
84.032	Federal Family Education Loan Program

Dollar threshold used to distinguish between Type A and Type B programs	\$ 1,046,680
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Auditee qualified as low-risk auditee?	<u>      X      </u> Yes	<u>                    </u> No
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(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2007

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**PART II – FINANCIAL STATEMENT FINDINGS**

None

**PART III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS**

None

**PART IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

None