

**WESTERN KENTUCKY UNIVERSITY  
REPORT ON AUDIT OF INSTITUTION  
OF HIGHER EDUCATION  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
June 30, 2009 and 2008**

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CONTENTS

REPORT OF INDEPENDENT AUDITORS.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	3
 FINANCIAL STATEMENTS	
WESTERN KENTUCKY UNIVERSITY - STATEMENTS OF NET ASSETS.....	13
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. - STATEMENT OF FINANCIAL POSITION .....	15
WKU STUDENT LIFE FOUNDATION, INC. - STATEMENTS OF FINANCIAL POSITION.....	16
COLLEGE HEIGHTS FOUNDATION, INC. - STATEMENTS OF FINANCIAL POSITION.....	17
WESTERN KENTUCKY UNIVERSITY - STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS.....	18
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. - STATEMENT OF ACTIVITIES.....	20
WKU STUDENT LIFE FOUNDATION, INC. - STATEMENTS OF ACTIVITIES .....	21
COLLEGE HEIGHTS FOUNDATION, INC. - STATEMENTS OF ACTIVITIES.....	22
WESTERN KENTUCKY UNIVERSITY - STATEMENTS OF CASH FLOWS.....	23
NOTES TO FINANCIAL STATEMENTS.....	25
 SUPPLEMENTAL INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	74
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	82
INDEPENDENT AUDITORS' REPORT 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 .....	84
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	86
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	88



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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 of Western Kentucky University (the "University") as of and for the years ended June 30, 2009 and 2008, 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% of the assets and 6% and 7% of revenues of Western Kentucky University's business-type activities for the years ended June 30, 2009 and 2008, 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, 2009 and 2008, 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, 2009 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 74 through 81 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 12 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 Horwath LLP

Louisville, Kentucky  
October 8, 2009

**WESTERN KENTUCKY UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2009**

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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, 2009 and 2008. 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 Horwath LLP, provides an opinion on the basic financial statements taken as a whole. Crowe Horwath LLP 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, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended. Included in these financial statements are the financial statements that have not been audited by Crowe Horwath LLP, including the Research Foundation, which is a blended component of the University's financial statements. Also included are the financial statements of the Western Kentucky University Foundation, College Heights Foundation and the Student Life Foundation, which are each discretely presented within the financial statements of the University. Crowe Horwath LLP received and relied upon audit reports prepared and work performed by other auditors for a basis of their opinion on the University's financial statements. Furthermore, Crowe Horwath LLP 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.

Crowe Horwath LLP 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 Horwath LLP, 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.

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## *Fiscal Year 2009 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 2008</u></b>	<b><u>Fall 2007</u></b>	<b><u>Fall 2006</u></b>
Undergraduate applications	11,222	10,587	10,184
Undergraduate enrollment (including returning students)	16,966	16,508	16,067
First-time freshmen	3,187	3,063	3,171
Total graduate enrollment	2,795	2,757	2,597
Total enrollment	19,761	19,265	18,664

The following data, with a comparison between 2008/2009 and 2007/2008, is provided to help assess the financial viability of the University:

<b><u>WKU Foundation</u></b>	<b><u>June 30, 2009</u></b>	<b><u>June 30, 2008</u></b>	<b><u>June 30, 2007</u></b>
Endowments	\$ 95.8 million	\$ 104.5 million	\$ 97.1 million
Total cash receipts	13.6 million	17.7 million	17.6 million
<b><u>State Appropriations</u></b>			
General nonoperating revenue	\$ 79,013,801	\$ 82,562,101	\$ 77,053,200
Retirement of debt obligations	<u>1,669,999</u>	<u>1,280,599</u>	<u>3,171,000</u>
Total	<u>\$ 80,683,800</u>	<u>\$ 83,842,700</u>	<u>\$ 80,224,200</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, 2009, 2008 and 2007, are as follows:

*Condensed Statements of Net Assets (in Thousands)*

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>			
Current assets	\$ 82,500	\$ 78,650	\$ 70,705
Capital assets, net	337,724	276,260	224,142
Other noncurrent assets	<u>64,017</u>	<u>35,299</u>	<u>71,825</u>
Total assets	<u>\$ 484,241</u>	<u>\$ 390,209</u>	<u>\$ 366,672</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 32,774	\$ 26,006	\$ 30,721
Noncurrent liabilities	<u>142,274</u>	<u>99,990</u>	<u>105,526</u>
Total liabilities	<u>\$ 175,048</u>	<u>\$ 125,996</u>	<u>\$ 136,247</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 189,109	\$ 171,529	\$ 113,217
Restricted			
Nonexpendable	11,159	12,644	13,219
Expendable	56,788	32,135	58,264
Unrestricted	<u>52,137</u>	<u>47,905</u>	<u>45,725</u>
Total net assets	<u>\$ 309,193</u>	<u>\$ 264,213</u>	<u>\$ 230,425</u>

Liabilities include pledges payable to the city of Bowling Green ("City") in the amount of \$30,804,711 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$116,239,182 with final payments on the bonds scheduled for fiscal year 2027.

***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 \$(111,103,658), \$(120,736,862) and \$(114,518,877) for fiscal years 2009, 2008 and 2007, respectively.

A summary of the University's revenues, expenses and changes in net assets for the years ended June 30, 2009, 2008 and 2007, is as follows:

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Operating revenues</b>			
Net tuition and fees	\$ 97,896	\$ 84,685	\$ 78,819
Grants and contracts	1,654	2,658	654
Sales and services of educational departments	13,366	12,851	12,537
Auxiliary enterprises	20,986	19,949	18,894
Other	<u>21,074</u>	<u>11,136</u>	<u>8,985</u>
Total operating revenues	<u>154,976</u>	<u>131,279</u>	<u>119,889</u>
<b>Operating expenses</b>	<u>266,080</u>	<u>252,016</u>	<u>234,408</u>
<b>Operating loss</b>	<u>(111,104)</u>	<u>(120,737)</u>	<u>(114,519)</u>
<b>Nonoperating revenues (expenses)</b>			
State appropriations	80,684	83,843	80,224
Grants and contracts	60,042	55,045	60,314
Investment income (expense)	(921)	2,268	3,985
Interest on capital asset-related debt	(4,390)	(2,955)	(2,724)
Other	<u>(102)</u>	<u>161</u>	<u>33</u>
Net nonoperating revenues	<u>135,313</u>	<u>138,362</u>	<u>141,832</u>
<b>Income before other revenues, expenses, gains or losses</b>	<u>24,209</u>	<u>17,625</u>	<u>27,313</u>
State capital appropriations	<u>20,771</u>	<u>16,163</u>	<u>4,016</u>
<b>Increase in net assets</b>	44,980	33,788	31,329
<b>Net assets, beginning of year</b>	<u>264,213</u>	<u>230,425</u>	<u>199,096</u>
<b>Net assets, end of year</b>	<u>\$ 309,193</u>	<u>\$ 264,213</u>	<u>\$ 230,425</u>



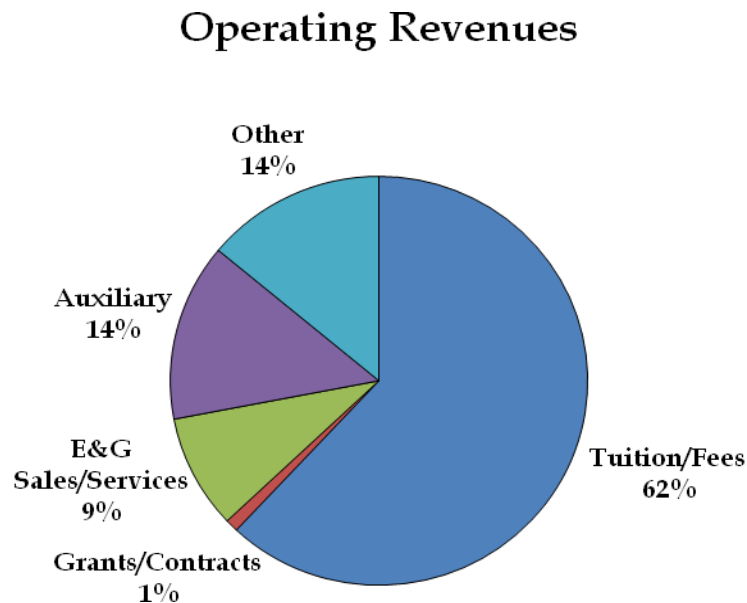
## Operating Revenues

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 2.6% and 3.2% between fall 2007 and 2008, and fall 2006 and 2007, respectively. As of fall 2008, approximately 83% of students enrolled at the University were Kentucky residents. An additional 7% 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. 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, 2009 and 2008, were 70.5% and 68.3%, respectively, of the gross tuition and fees with approximately \$41.0 million and \$39.3 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 2009, 2008 and 2007 fiscal years.

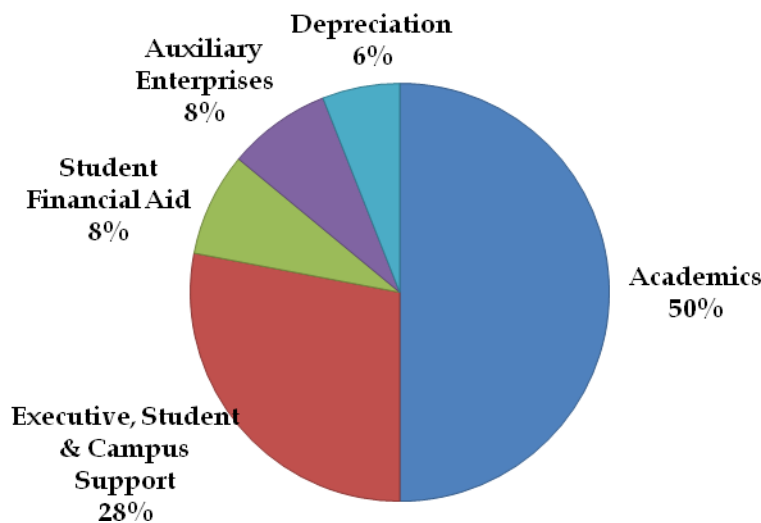
**Grants and Contracts Awards (Excluding Financial Aid)**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Federal	\$ 14,773,130	\$ 11,818,503	\$ 13,995,511
State	5,287,452	2,869,240	4,249,923
Other	<u>3,645,664</u>	<u>7,435,895</u>	<u>6,026,188</u>
<b>Total</b>	<b><u>\$ 23,706,246</u></b>	<b><u>\$ 22,123,638</u></b>	<b><u>\$ 24,271,622</u></b>

**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 program classification (*e.g.*, instruction, research, public service, auxiliary enterprises). Depreciation is recognized as an expense and a reduction in the value of the capital assets. The following graph summarizes expenses as academics, executive, student and campus support, student financial aid, depreciation and auxiliary enterprises. Academics include the program classification categories of instruction, research, public service, libraries and academic support. Executive, student and campus support includes student services, institutional support and operation and maintenance of the plant.

**Operating Expenses**



### Nonoperating Revenues and Expenses

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

The University's investments consist primarily of collateralized mortgage obligations and its equity in Commonwealth of Kentucky pooled investment funds. Investment income for the years ended June 30, 2009, 2008 and 2007 is comprised of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Investment income	\$ 911,837	\$ 3,180,526	\$ 3,214,703
Net change for the year in the fair value of investments	<u>(1,833,203)</u>	<u>(912,517)</u>	<u>769,696</u>
	<u>\$ (921,366)</u>	<u>\$ 2,268,009</u>	<u>\$ 3,984,399</u>

State appropriations were \$80,683,800 for 2009 in comparison to \$83,842,700 and \$80,224,200 for 2008 and 2007, respectively. The University's state appropriation, based on the enacted 2008-2009 Biennial Budget, was decreased by \$3,158,900 or 3.8% in recognition of the University's enrollment growth.

### Change in Net Assets

For the years ended June 30, 2009 and 2008, the University's net assets increased \$44,980,013 and \$33,787,436, respectively. The year-end net assets for June 30, 2009 and 2008 were \$309,192,793 and \$264,212,780, 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 \$100,152,865, auxiliary enterprises of \$20,967,016 and grants and contracts of \$1,968,051. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$160,693,697 and to suppliers and contractors of \$87,168,972. 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 \$1,669,999 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>2009</u>	<u>2008</u>	<u>2007</u>
<b>Cash Provided By (Used In)</b>			
Operating activities	\$ (90,218)	\$ (110,789)	\$ (104,622)
Noncapital financing activities	139,333	137,876	137,679
Capital and related financing activities	(14,329)	(56,322)	12,364
Investing activities	<u>2,078</u>	<u>1,937</u>	<u>585</u>
Net increase (decrease) in cash and cash equivalents	36,864	(27,298)	46,006
<b>Cash and cash equivalents, beginning of year</b>	<u>65,135</u>	<u>92,433</u>	<u>46,427</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 101,999</u>	<u>\$ 65,135</u>	<u>\$ 92,433</u>

*Capital Asset and Long-term Obligations*

Capital Assets

As of June 30, 2009, 2008 and 2007, the University had \$337.7 million, \$276.2 million and \$224.1 million invested in capital assets, net of accumulated depreciation of \$176.1 million, \$161.0 million and \$148.0 million, respectively. Capital assets at June 30, 2009, 2008 and 2007 are summarized below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land	\$ 7,689,350	\$ 7,689,350	\$ 7,341,917
Buildings and improvements	320,736,754	265,424,793	235,092,409
Infrastructure	30,993,127	24,641,214	22,593,433
Furniture, fixtures and equipment	44,746,732	39,647,294	36,256,901
Library materials	40,486,729	38,186,922	35,995,333
Construction in progress	<u>69,132,068</u>	<u>61,664,183</u>	<u>34,891,920</u>
Total capital assets	513,784,760	437,253,756	372,171,913
Less accumulated depreciation	<u>(176,061,128)</u>	<u>(160,993,768)</u>	<u>(148,029,407)</u>
Capital assets	<u>\$ 337,723,632</u>	<u>\$ 276,259,988</u>	<u>\$ 224,142,506</u>

The major construction projects in progress, as of June 30, 2009, consisted of Van Meter Hall, Preston Health Center Addition, Science Campus, College of Education Building, Carroll Knicely Conference Center Addition, and various parking lot upgrades.

### Long-Term Obligations

As of June 30, 2009, 2008 and 2007, the University had \$149.6 million, \$105.5 million and \$114.7 million, respectively, in long-term obligations consisting of pledges payable to the city of Bowling Green, bonds payable (Consolidated Educational Buildings Revenue Bonds and General Receipts Bonds), capital leases and other long-term obligations. The long-term obligations are summarized as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Pledges to the City	\$ 30,804,711	\$ 31,234,988	\$ 31,505,265
Consolidated Educational Buildings Revenue Bonds	20,264,245	23,083,078	26,101,911
General Receipts Bonds	95,974,937	50,234,941	52,485,003
Capital leases	2,367,830	556,466	924,311
Other long-term obligations	<u>218,426</u>	<u>434,588</u>	<u>3,684,967</u>
Total	<u>\$ 149,630,149</u>	<u>\$ 105,544,061</u>	<u>\$ 114,701,457</u>

### *Economic Factors Impacting Future Periods*

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

- The Council on Postsecondary Education 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 projected enrollment for fall 2009 is 20,674 or 3.4% higher than the fall 2011 target. Between fall 2008 and fall 2009, undergraduate applications increased 7.2% and admissions increased 6.2%. WKU continues to focus on alternative delivery methods (e.g., online courses) to meet the demand for programs. Graduate School enrollment continues to grow as WKU has expanded its offerings and has implemented a professional MBA program and a doctoral program in educational leadership. Continued focused student recruitment and improved student retention efforts will yield tuition revenue that is critical due to the recession’s impact on the State’s economy.
- The University’s Board of Regents, at its spring 2009 meeting, approved tuition rates for fiscal year 2010. The rates approved for fiscal year 2010 reflect an increase of 4% and a commitment to return to more modest rate increases. 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.
- The Commonwealth of Kentucky’s General Fund declined by 2.7% between FY 2008 and FY 2009. For WKU, this resulted in a \$1,612,500 reduction in State funding in FY 2009. As of May 29, 2009, the Consensus Forecast Group projected that actual FY 2010 General Fund revenue may decline an additional \$131 million below actual FY 2009. WKU’s FY 2010 budget includes a Budget Reduction Reserve sufficient to handle the FY 2009 State funding reduction being made permanent. If any additional reductions are implemented, WKU will use surplus tuition revenue and implement strategic reductions as its means for balancing the budget.

- After the start of FY 2010, WKU was informed by state government that Federal stimulus funds (State Fiscal Stabilization Funds) would be allocated in the amount of \$5,416,100 to replace State appropriations of a like amount. It is anticipated that Federal stimulus funds will also replace a portion of State funding in FY 2011. In January 2010, the General Assembly will go into session and it is anticipated that actions will be taken to enact a biennial budget for 2010-2012.
- In the 2008 Special Session of the General Assembly, House Bill 1 was enacted as a first step in state retirement system (KERS, CERS and SPRS) reform. Statutes were revised especially in regard to employees hired on or after September 1, 2008. While the actuarial analysis supports the need for additional long-term funding for the retirement systems, House Bill 1 demonstrated that this is a significant funding priority of the Commonwealth. It is noted that rate increases may occur without any increase in state funding.
- 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 WKU 2009-10 Operating Budget includes an institutional contribution for each full-time employee of \$405 per month for the first six months and \$430 per month effective January 2010. As a result of the University Benefits Committee's oversight, the self-funded insurance program continues to be operationally and financially sound; however, trends in claims paid support the need for annual reassessment of plan designs and premium structures, including employer contributions.
- WKU does not plan to issue any additional construction bonds in FY 2010. However, WKU will request authorization to issue bonds for the renovation of Downing University Center in FY 2012. It is anticipated that the size of this project will be approximately \$48 million.
- In September 2007, WKU 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 \$100 million in new gifts and pledges was raised. The "New Century of Spirit" campaign has currently raised over \$144 million in new gifts and pledges.

### *Requests for Information*

This financial report is designed to provide a general overview of Western Kentucky University's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Western Kentucky University, Wetherby Administration Building G-21, 1906 College Heights Blvd., #11002, Bowling Green, Kentucky 42101.

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF NET ASSETS  
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 67,029,002	\$ 61,612,694
Accounts receivable, net of allowance of \$492,417 and \$519,843, respectively	4,419,414	6,218,655
Interest receivable	1,387,514	1,329,168
Federal and state grants receivable	5,503,222	5,247,670
Inventories	2,441,168	2,211,684
Loans to students, net	716,609	742,783
Prepaid expenses and other	<u>1,003,568</u>	<u>1,287,319</u>
Total current assets	<u>82,500,497</u>	<u>78,649,973</u>
Noncurrent assets		
Restricted cash and cash equivalents	34,970,363	3,522,583
Long-term investments	3,740,917	4,162,307
Loans to students, net of allowance of \$548,366 and \$547,891, respectively	4,795,767	4,970,934
Assets held in trust	18,889,422	21,650,503
Capital assets	513,784,760	437,253,756
Accumulated depreciation on capital assets	(176,061,128)	(160,993,768)
Deferred bond issuance costs, net of accumulated amortization of \$400,104 and \$302,016, respectively	<u>1,620,505</u>	<u>992,512</u>
Total noncurrent assets	<u>401,740,606</u>	<u>311,558,827</u>
Total assets	<u>484,241,103</u>	<u>390,208,800</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	8,215,904	5,535,033
Self-insured health liability	1,050,878	616,686
Self-insured workers' compensation liability	59,993	89,764
Accrued payroll and withholdings	1,393,096	1,708,048
Accrued compensated absences	2,672,661	2,626,532
Accrued interest	1,579,069	940,908
Deferred revenue	9,665,210	8,295,676
Long-term obligations - current portion	7,356,326	5,553,729
Deposits held in custody for others	731,350	589,312
Other current liabilities	<u>50,000</u>	<u>50,000</u>
Total current liabilities	<u>32,774,487</u>	<u>26,005,688</u>
Long-term obligations	<u>142,273,823</u>	<u>99,990,332</u>
Total liabilities	<u>175,048,310</u>	<u>125,996,020</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF NET ASSETS  
June 30, 2009 and 2008

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	<u>2009</u>	<u>2008</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 189,108,872	\$ 171,529,459
Restricted for		
Nonexpendable - endowments	11,158,716	12,644,188
Expendable		
Loans	5,843,126	5,907,685
Capital projects	46,932,059	22,120,276
Debt service	4,012,989	4,106,374
Unrestricted	<u>52,137,031</u>	<u>47,904,798</u>
Total net assets	<u>\$ 309,192,793</u>	<u>\$ 264,212,780</u>

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See accompanying notes.



WESTERN KENTUCKY UNIVERSITY  
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.  
STATEMENT OF FINANCIAL POSITION  
December 31, 2008

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**ASSETS**

Cash and cash equivalents	\$ 14,916,946
Investments	33,863,441
Accounts receivable	97,034
Receivable - WKU Real Estate Corporation	1,633,415
Contributions receivable, net of allowance of \$1,040,300	15,891,644
Prepaid expenses and other assets	118,197
Investments held for Western Kentucky University	15,181,152
Assets held for others	<u>296,032</u>
 Total assets	 <u>\$ 81,997,861</u>

**LIABILITIES**

Accounts payable	\$ 96,450
Notes payable	3,224,624
Annuities payable	2,737,367
Assets held for others	<u>15,477,184</u>
Total liabilities	21,535,625

**NET ASSETS**

Unrestricted	10,300,915
Temporarily restricted	19,341,217
Permanently restricted	<u>30,820,104</u>
Total net assets	<u>60,462,236</u>
 Total liabilities and net assets	 <u>\$ 81,997,861</u>

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See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
 WKU STUDENT LIFE FOUNDATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,676,317	\$ 5,360,579
Accounts receivable, net of allowance of \$17,608 and \$16,872 for 2009 and 2008, respectively	1,184,835	1,061,098
Loans receivable from Western Kentucky University	-	184,669
Net investment in direct financing lease	2,465,902	-
Accrued interest receivable	21,451	118,663
Prepaid expenses	268,009	293,960
Assets limited as to use	14,086,691	25,695,549
Assets held for others - student deposits	623,668	601,535
Assets held by others - student deposits	30,497	26,165
Property and equipment, net	79,026,651	69,821,322
Other assets	<u>655,771</u>	<u>686,729</u>
Total assets	<u>\$ 103,039,792</u>	<u>\$ 103,850,269</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 1,366,695	\$ 2,038,601
Accrued expenses	193,242	176,181
Student deposits	654,165	627,700
Interest rate collar and swap agreements, at fair value	11,052,097	7,402,364
Asset retirement obligation	618,838	761,250
Long-term debt, net of unamortized discounts of \$193,893 and \$203,162 for 2009 and 2008, respectively	<u>82,796,731</u>	<u>84,753,294</u>
Total liabilities	96,681,768	95,759,390
Net assets - unrestricted	<u>6,358,024</u>	<u>8,090,879</u>
Total liabilities and net assets	<u>\$ 103,039,792</u>	<u>\$ 103,850,269</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
COLLEGE HEIGHTS FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,520,377	\$ 844,682
Notes receivable	26,000	26,000
Interest and dividends receivable	116,337	143,081
Short-term investments	1,467,499	1,398,534
Contributions receivable	<u>-</u>	<u>47,106</u>
Total current assets	3,130,213	2,459,403
Investments and long-term receivables		
Long-term investments	24,233,946	35,250,234
Assets held in trust	1,853,094	2,195,305
Investments held for Western Kentucky University	1,453,441	1,918,584
Note receivable	26,295	52,295
Contributions receivable	<u>-</u>	<u>43,556</u>
Total investments and long-term receivables	27,566,776	39,459,974
Other assets		
	<u>94,697</u>	<u>94,697</u>
Total assets	<u>\$ 30,791,686</u>	<u>\$ 42,014,074</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Current portion of long-term debt	\$ 87,643	\$ 87,643
Current portion of refundable advances and gift annuity liabilities	<u>427,219</u>	<u>485,271</u>
Total current liabilities	514,862	572,914
Long-term liabilities		
Notes payable	751,449	838,983
Refundable advances and gift annuity liabilities	1,909,526	2,876,839
Assets held for Western Kentucky University	<u>1,453,441</u>	<u>1,918,584</u>
Total long-term liabilities	<u>4,114,416</u>	<u>5,634,406</u>
Total liabilities	<u>4,629,278</u>	<u>6,207,320</u>
Net assets		
Donor restricted		
Permanently	30,059,145	28,381,328
Temporarily	<u>589,850</u>	<u>1,462,552</u>
	30,648,995	29,843,880
Unrestricted		
Designated by board for perpetual scholarship fund	<u>(4,486,587)</u>	<u>5,962,874</u>
Total net assets	<u>26,162,408</u>	<u>35,806,754</u>
Total liabilities and net assets	<u>\$ 30,791,686</u>	<u>\$ 42,014,074</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>REVENUES</b>		
Operating revenues		
Tuition and fees, net of discounts and allowances of \$41,007,231 and \$39,250,853 for 2009 and 2008, respectively	\$ 97,895,753	\$ 84,685,406
Federal grants and contracts	1,244,152	1,081,478
State grants and contracts	409,697	1,576,455
Sales and services of educational activities	13,365,965	12,851,422
Auxiliary enterprise revenues, net of discounts and allowances of \$1,051,467 and \$1,006,432 for 2009 and 2008, respectively	20,985,766	19,949,265
Other operating revenues	<u>21,074,756</u>	<u>11,135,678</u>
Total operating revenues	<u>154,976,089</u>	<u>131,279,704</u>
 <b>EXPENSES</b>		
Operating expenses		
Education and general		
Instruction	85,606,658	87,739,099
Research	12,391,848	12,691,414
Public service	14,219,868	13,578,858
Libraries	5,203,154	5,207,896
Academic support	16,541,347	13,666,219
Student services	24,053,804	23,235,961
Institutional support	26,410,130	24,608,311
Operation and maintenance of plant	24,893,477	23,063,529
Student financial aid	20,512,281	15,733,948
Depreciation	15,633,167	13,328,763
Auxiliary enterprises	<u>20,614,013</u>	<u>19,162,568</u>
Total operating expenses	<u>266,079,747</u>	<u>252,016,566</u>
 <b>Operating loss</b>	 (111,103,658)	 (120,736,862)

(Continued)

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Years ended June 30, 2009 and 2008

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	<u>2009</u>	<u>2008</u>
Nonoperating revenues (expenses)		
State appropriations	\$ 80,683,800	\$ 83,842,700
Federal grants and contracts	36,454,781	32,644,725
State grants and contracts	18,988,230	17,802,192
Local and private grants and contracts	4,598,780	4,598,052
Net investment income (expense)	(921,366)	2,268,009
Interest on capital asset-related debt	(4,389,823)	(2,955,019)
Gain (loss) on disposal of capital assets	6,712	(7,354)
Gain (loss) on sale of investments	(89,775)	190,531
Other nonoperating revenue (expenses)	<u>(18,976)</u>	<u>(22,207)</u>
Net nonoperating revenues	<u>135,312,363</u>	<u>138,361,629</u>
<b>Income before other revenue expenses, gains or losses</b>	24,208,705	17,624,767
State capital appropriations	<u>20,771,308</u>	<u>16,162,669</u>
<b>Increase in net assets</b>	44,980,013	33,787,436
Net assets, beginning of year	<u>264,212,780</u>	<u>230,425,344</u>
<b>Net assets, end of year</b>	<u>\$ 309,192,793</u>	<u>\$ 264,212,780</u>

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See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.  
STATEMENT OF ACTIVITIES  
Year ended December 31, 2008

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<b>Changes in unrestricted net assets</b>	
Unrestricted revenues, gains and other support	
Contributions	\$ 653,388
Investment return	(7,915,211)
Net assets released from restrictions	<u>5,041,266</u>
Total unrestricted revenues, gains and other support	<u>(2,220,557)</u>
 Expenses	
Payments made on behalf of Western Kentucky University - Programs	5,913,520
Management and general	882,256
Fundraising	<u>59,890</u>
Total expenses	<u>6,855,666</u>
 <b>Changes in unrestricted net assets</b>	 <u>(9,076,223)</u>
<b>Changes in temporarily restricted net assets</b>	
Contributions	5,225,544
Investment return	(1,124,327)
Miscellaneous income	496,544
Net assets released from restrictions	<u>(5,041,266)</u>
 <b>Changes in temporarily restricted net assets</b>	 <u>(443,505)</u>
<b>Changes in permanently restricted net assets</b>	
Contributions	<u>1,976,354</u>
 <b>Increase in net assets</b>	 (7,543,374)
Net assets, beginning of period, as restated	<u>68,005,610</u>
 <b>Net assets, end of period</b>	 <u>\$ 60,462,236</u>

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See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
 WKU STUDENT LIFE FOUNDATION, INC.  
 STATEMENTS OF ACTIVITIES  
 Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Operating revenues</b>		
Rent	\$ 16,405,903	\$ 15,488,058
Interest income - direct financing lease	156,711	-
Other	<u>1,350,754</u>	<u>1,208,636</u>
Total operating revenues	<u>17,913,368</u>	<u>16,696,694</u>
<b>Operating expenses</b>		
Salaries, benefits and related expenses	4,664,890	4,107,984
Utilities	2,715,959	2,311,452
Repairs, maintenance and supplies	962,369	973,693
Management fee	69,200	40,000
Professional fees	91,729	54,393
Insurance	641,565	744,072
Depreciation and amortization	3,134,648	2,826,770
Bad debt expense (recovery)	105,899	87,602
Other	<u>603,423</u>	<u>471,206</u>
Total operating expenses	<u>12,989,682</u>	<u>11,617,172</u>
<b>Changes in net assets from operations</b>	<u>4,923,686</u>	<u>5,079,522</u>
<b>Nonoperating revenues (expenses)</b>		
Interest income	788,331	943,122
Interest expense and fees	(1,557,405)	(2,527,873)
Loss on defeasance of bonds	-	(109,841)
Change in fair value of interest rate collar and swap agreements, net of settlement payments of \$2,237,734 and \$1,142,915 for 2009 and 2008, respectively	<u>(5,887,467)</u>	<u>(4,159,683)</u>
Total nonoperating revenues (expenses)	<u>(6,656,541)</u>	<u>(5,854,275)</u>
<b>Changes in unrestricted net assets</b>	(1,732,855)	(774,753)
Unrestricted net assets, beginning of year	<u>8,090,879</u>	<u>8,865,632</u>
<b>Unrestricted net assets, end of year</b>	<u>\$ 6,358,024</u>	<u>\$ 8,090,879</u>

See accompanying notes.

WESTERN KENTUCKY UNIVERSITY  
COLLEGE HEIGHTS FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Changes in unrestricted net assets</b>		
Unrestricted revenues, gains and other support		
Investment income	\$ 73,687	\$ 76,594
Net realized and unrealized gains (losses) on investments	(6,217,591)	159,348
Net assets released from restrictions:		
Satisfaction of program restrictions	<u>477,944</u>	<u>6,526,439</u>
Total unrestricted revenues, gains and other support	<u>(5,665,960)</u>	<u>6,762,381</u>
 Expenses		
Program		
Scholarships and awards	3,730,285	3,244,509
Other	<u>551,460</u>	<u>535,170</u>
	<u>4,281,745</u>	<u>3,779,679</u>
 Management and general		
Salaries and benefits	373,811	334,420
Interest expense	38,097	69,148
Other	<u>89,848</u>	<u>35,751</u>
	<u>501,756</u>	<u>439,319</u>
Total expenses	<u>4,783,501</u>	<u>4,218,998</u>
 <b>Changes in unrestricted net assets</b>	 <u>(10,449,461)</u>	 <u>2,543,383</u>
 <b>Changes in temporarily restricted net assets</b>		
Contributions	2,303,581	2,481,036
Investment income	821,108	544,257
Net realized and unrealized gains (losses) on investments	(3,403,851)	1,216,718
Net realized gain on sale of real estate		-
Net change in value of split interest agreements	(115,596)	252,573
Net assets released from restrictions	<u>(477,944)</u>	<u>(6,526,439)</u>
	<u>(872,702)</u>	<u>(2,031,855)</u>
 <b>Changes in permanently restricted net assets</b>		
Contributions	<u>1,677,817</u>	<u>1,513,444</u>
 <b>Increase (decrease) in net assets</b>	 (9,644,346)	 2,024,972
 Net assets, beginning of year	 <u>35,806,754</u>	 <u>33,781,782</u>
 <b>Net assets, end of year</b>	 <u>\$ 26,162,408</u>	 <u>\$ 35,806,754</u>

See accompanying notes.



WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 100,152,865	\$ 82,838,439
Grants and contracts	1,968,051	5,991,279
Payments to employees	(153,620,593)	(150,246,431)
Payments to suppliers	(73,398,579)	(73,081,453)
Loans issued to students	(166,508)	(1,046,501)
Collection of loans issued to students	367,849	593,268
Sales and services of educational departments	13,365,965	12,851,422
Other operating revenues	20,989,166	10,919,778
Auxiliary enterprise revenues	20,967,016	19,874,265
Auxiliary enterprise payments		
Payments to employees	(7,073,104)	(6,434,761)
Payments to suppliers	(13,770,393)	(13,048,584)
Net cash used in operating activities	<u>(90,218,265)</u>	<u>(110,789,279)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	79,013,801	82,562,101
Grants and contracts receipts	60,041,791	55,044,969
Student organization agency receipts (disbursements) - net	142,038	99,170
Other non-operating receipts	<u>135,590</u>	<u>169,377</u>
Net cash provided by noncapital financing activities	<u>139,333,220</u>	<u>137,875,617</u>
<b>Cash flows from capital and related financing activities</b>		
State capital appropriations	20,741,765	16,014,548
State appropriations designated for debt service	1,669,999	1,280,599
Proceeds from issuance of debt	46,900,000	-
Proceeds from sale of capital assets	21,549	77,109
Purchases of capital assets	(73,939,830)	(64,035,005)
Principal paid on capital debt and leases	(5,970,767)	(6,900,634)
Interest paid on capital debt and leases	<u>(3,751,662)</u>	<u>(2,757,526)</u>
Net cash used in capital and related financing activities	<u>(14,328,946)</u>	<u>(56,320,909)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	4,139,354	5,378,004
Purchase of investments	(2,996,974)	(5,535,616)
Investment income	<u>935,699</u>	<u>2,094,532</u>
Net cash flows provided by investing activities	<u>2,078,079</u>	<u>1,936,920</u>
<b>Net change in cash and cash equivalents</b>	36,864,088	(27,297,651)
Cash and cash equivalents, beginning of year	<u>65,135,277</u>	<u>92,432,928</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 101,999,365</u>	<u>\$ 65,135,277</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Reconciliation of net operating loss to net cash used in operating activities</b>		
Operating loss	\$ (111,103,658)	\$ (120,736,862)
Contributions of capital assets by Foundations	(85,590)	(215,900)
Depreciation expense	15,633,167	13,328,763
Changes in operating assets and liabilities		
Accounts receivable, net	1,799,241	(2,015,537)
Federal and state grants receivable	(255,552)	2,720,279
Assets held in trust	39,343	48,540
Inventories	(229,484)	(320,778)
Loans to students, net	201,341	(453,233)
Prepaid expenses and other	283,751	(925,194)
Accounts payable and other current liabilities	1,964,501	(3,358,046)
Health insurance liability	404,421	13,226
Accrued payroll and payroll withholdings	(314,952)	287,806
Accrued compensated absences	46,129	53,622
Deferred revenue	<u>1,399,077</u>	<u>784,035</u>
<b>Net cash used in operating activities</b>	<u>\$ (90,218,265)</u>	<u>\$ (110,789,279)</u>
<b>Supplemental cash flows information</b>		
Capital leases incurred for capital assets	\$ 2,388,608	\$ 377,411
Construction in process included in accounts payable	697,620	902,392
Bond issue costs paid out of proceeds	726,082	-
<b>Reconciliation of cash and cash equivalents to the statement of net assets</b>		
Cash and cash equivalents	\$ 67,029,002	\$ 61,612,694
Restricted cash and cash equivalents	<u>34,970,363</u>	<u>3,522,583</u>
<b>Total cash and cash equivalents</b>	<u>\$ 101,999,365</u>	<u>\$ 65,135,277</u>

See accompanying notes.

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

Nature of Operations: Western Kentucky University (the "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 19,700 and 19,300 in 2009 and 2008, 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.

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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

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, 2008 and 2007. 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, 2009 and 2008.

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

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

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

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

Cash and Cash Equivalents: The University considers all highly liquid investments with an original maturity of three 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

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

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

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

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

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

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

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

	<u>2009</u>	<u>2008</u>
Total interest expense incurred on borrowings for project	\$ 681,109	\$ 1,485,011
Interest income from investment of proceeds of borrowings for project	<u>334,910</u>	<u>1,748,707</u>
Net interest cost capitalized	<u>346,199</u>	<u>(263,696)</u>
Interest capitalized	346,199	(263,696)
Interest charged to expense	<u>4,389,823</u>	<u>2,955,019</u>
Total interest incurred	<u>\$ 4,736,022</u>	<u>\$ 2,691,323</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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

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

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

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

*Nonoperating Revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements – Management’s Discussion & Analysis – for State & Local Governments*, such as state appropriations and investment income.

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, 2009 and 2008

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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.

Recent Pronouncements Adopted/Implemented: In June 2004, the Governmental Accounting Standards Board issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (GASB 45)*. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of employers subject to governmental accounting standards. The provisions of this statement are effective for the University's fiscal year ended June 30, 2008. The adoption of this statement had no impact on the University's financial statements.

In December 2006, the Governmental Accounting Standards Board issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations (GASB 49)*. This statement establishes a framework for the recognition and measurement of pollution remediation liabilities. The provisions of this statement are effective for the University's fiscal year-ended June 30, 2009. The adoption of this statement had no impact on the University's financial statements.

In May 2007, the Governmental Accounting Standards Board issued Statement No. 50, *Pension Disclosures (GASB 50)* – an amendment of GASB Statements No. 25 and No. 27. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and enhances the information disclosed in the notes to the financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. The provisions of this statement are effective for the University's fiscal year-ended June 30, 2008. The adoption of this statement had no impact on the University's financial statements.

In November 2007, the Governmental Accounting Standards Board issued Statement no. 52, *Land and Other Real Estate Held as Investments by Endowments (GASB 52)*. This statement improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for the University's fiscal year-ended June 30, 2009. The adoption of this statement had no impact on the University's financial statements.

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

Reclassifications: Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on the change in net assets or total net assets.

**NOTE 2 - ASSETS HELD IN TRUST**

Assets held in trust consisted of:

	<u>2009</u>	<u>2008</u>
Cash equivalents	\$ 3,182,398	\$ 3,825,374
Common equity, common fixed income and mutual funds	<u>15,707,024</u>	<u>17,825,129</u>
Fair value of assets held in trust	<u>\$ 18,889,422</u>	<u>\$ 21,650,503</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.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

**Cash**

The carrying amount of cash and cash equivalents was \$101,999,365 at June 30, 2009, while the bank balances were \$90,208,754. All account balances at banks were either insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000, 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 that 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 that are insured by a Federal corporation; and (4) fully collateralized repurchase agreements.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

**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, 2009 was \$147,573. 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, 2009:

<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>
Federal Home Loan Bank	\$ 3,585,783	\$ 3,585,783	\$ -	\$ -	\$ -
457(f) Incentive Plan	<u>155,134</u>	<u>155,134</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total	 <u>\$ 3,740,917</u>	 <u>\$ 3,740,917</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

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

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

University investments in debt securities, at June 30, 2009, 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, 2009.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

Of the University's cash and investment balance as of June 30, 2009, \$500,000 is secured by FDIC insurance, and \$58,426,134 is secured by U.S. Treasury Notes held in the University's name, collateralized by the pledging institution. Additionally, \$43,073,231 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 is beneficiary-directed money-market mutual funds.

The University is not exposed to foreign currency risk as of June 30, 2009.

**Investment Income**

Investment income for the year ended June 30, 2009 and 2008 consisted of:

	<u>2009</u>	<u>2008</u>
Interest income, including interest earned on cash equivalents	\$ 911,837	\$ 3,180,526
Net decrease in fair value of investments	<u>(1,833,203)</u>	<u>(912,517)</u>
	<u>\$ (921,366)</u>	<u>\$ 2,268,009</u>

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following as of June 30:

	<u>2009</u>	<u>2008</u>
Tuition, fees, sales and services	\$ 4,220,290	\$ 5,711,186
Credit memos	285,165	336,094
Miscellaneous, other	<u>406,376</u>	<u>691,218</u>
	4,911,831	6,738,498
Less allowance for doubtful accounts	<u>(492,417)</u>	<u>(519,843)</u>
Accounts receivable, net	<u>\$ 4,419,414</u>	<u>\$ 6,218,655</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

**NOTE 5 - CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2009, are summarized as follows:

	Balance July 1, <u>2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance June 30, <u>2009</u>
<b>Cost</b>					
Land	\$ 7,689,350	\$ -	\$ -	\$ -	\$ 7,689,350
Buildings and improvements	265,424,793	2,388,608	-	52,923,353	320,736,754
Infrastructure	24,641,214	-	-	6,351,913	30,993,127
Furniture, fixtures and equipment	39,647,294	4,563,699	(576,444)	1,112,183	44,746,732
Library materials	38,186,922	2,304,007	(4,200)	-	40,486,729
Construction in progress	<u>61,664,183</u>	<u>67,855,334</u>	<u>-</u>	<u>(60,387,449)</u>	<u>69,132,068</u>
	<u>437,253,756</u>	<u>77,111,648</u>	<u>(580,644)</u>	<u>-</u>	<u>513,784,760</u>
<b>Accumulated depreciation</b>					
Buildings and improvements	98,268,338	9,239,493	-	-	107,507,831
Infrastructure	7,489,372	1,156,965	-	-	8,646,337
Furniture, fixtures, and equipment	26,779,109	3,504,625	(561,607)	-	29,722,127
Library materials	<u>28,456,949</u>	<u>1,732,084</u>	<u>(4,200)</u>	<u>-</u>	<u>30,184,833</u>
	<u>160,993,768</u>	<u>15,633,167</u>	<u>(565,807)</u>	<u>-</u>	<u>176,061,128</u>
Net capital assets	<u>\$ 276,259,988</u>	<u>\$ 61,478,481</u>	<u>\$ (14,837)</u>	<u>\$ -</u>	<u>\$ 337,723,632</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

Changes in capital assets for the year ended June 30, 2008, are summarized as follows:

	Balance July 1, <u>2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance June 30, <u>2008</u>
<b>Cost</b>					
Land	\$ 7,341,917	\$ 347,433	\$	\$	\$ 7,689,350
Buildings and improvements	235,092,409	-	-	30,332,384	265,424,793
Infrastructure	22,593,433	-	-	2,047,781	24,641,214
Furniture, fixtures and equipment	36,256,901	2,719,403	(434,620)	1,105,610	39,647,294
Library materials	35,995,333	2,205,834	(14,245)	-	38,186,922
Construction in progress	<u>34,891,920</u>	<u>60,258,038</u>	<u>-</u>	<u>(33,485,775)</u>	<u>61,664,183</u>
	<u>372,171,913</u>	<u>65,530,708</u>	<u>(448,865)</u>	<u>-</u>	<u>437,253,756</u>
<b>Accumulated depreciation</b>					
Buildings and improvements	90,617,255	7,651,083	-	-	98,268,338
Infrastructure	6,597,914	891,458	-	-	7,489,372
Furniture, fixtures, and equipment	24,003,173	3,126,093	(350,157)	-	26,779,109
Library materials	<u>26,811,065</u>	<u>1,660,129</u>	<u>(14,245)</u>	<u>-</u>	<u>28,456,949</u>
	<u>148,029,407</u>	<u>13,328,763</u>	<u>(364,402)</u>	<u>-</u>	<u>160,993,768</u>
Net capital assets	<u>\$ 224,142,506</u>	<u>\$ 52,201,945</u>	<u>\$ (84,463)</u>	<u>\$ -</u>	<u>\$ 276,259,988</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

A summary of construction in progress at June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Van Meter Renovation, Phase 1	\$ 12,584,448	\$ 1,450,927
High Voltage Circuit/Mimosa	-	1,896,100
South - Main Campus Lighting	589,964	-
Preston Health Center Addition	4,518,280	-
Science Campus, Phase II	30,700,597	15,199,182
Parking Lot Upgrades	2,586,838	-
Academic/Athletic #2, Smith Stadium	-	34,337,852
College of Education Building	9,179,899	3,181,449
South Campus Dining/Bookstore	587,577	-
College of Business Design	900,351	-
Science Campus Phase III	4,185,191	-
Renovation - Carol Knicely Center	1,030,317	624,307
Others under \$500,000	<u>2,268,606</u>	<u>4,974,366</u>
	<u>\$ 69,132,068</u>	<u>\$ 61,664,183</u>

Contractual commitments in connection with all projects totaled \$44,167,241 and \$32,732,601 at June 30, 2009 and 2008, respectively.

**NOTE 6 - DEFERRED REVENUES**

Deferred revenues as of June 30 consisted of:

	<u>2009</u>	<u>2008</u>
Unexpended state capital appropriations	\$ 535,594	\$ 565,139
Summer school tuition and fees	4,171,805	3,713,935
Grants and contracts	4,192,739	3,622,985
Advance sale of football tickets	83,272	138,878
University master plan	82,700	91,800
Aramark dining services contribution	400,000	-
Miscellaneous	<u>199,100</u>	<u>162,939</u>
Total deferred revenues	<u>\$ 9,665,210</u>	<u>\$ 8,295,676</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

**NOTE 7 - LONG-TERM OBLIGATIONS**

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2009:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Current</u> <u>Portion</u>
Capital lease obligations	\$ 556,466	\$ 2,388,608	\$ (577,244)	\$ 2,367,830	\$ 177,243
Bonds payable, net of discounts and deferred loss on refinancing	23,083,078	-	(2,818,833)	20,264,245	2,918,833
General receipts bonds payable, net of discounts	50,234,941	47,640,567	(1,900,571)	95,974,937	3,641,590
Other long-term debt	434,588	-	(216,162)	218,426	13,383
Pledges payable, net of discount	<u>31,234,988</u>	<u>-</u>	<u>(430,277)</u>	<u>30,804,711</u>	<u>605,277</u>
 Total bonds, pledges and capital leases	 <u>\$105,544,061</u>	 <u>\$50,029,175</u>	 <u>\$(5,943,087)</u>	 <u>\$ 149,630,149</u>	 <u>\$ 7,356,326</u>

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Current</u> <u>Portion</u>
Capital lease obligations	\$ 924,311	\$ 377,411	\$ (745,256)	\$ 556,466	\$ 188,393
Bonds payable, net of discounts and deferred loss on refinancing	26,101,911	-	(3,018,833)	23,083,078	2,818,835
General receipts bonds payable, net of discounts	52,485,003	-	(2,250,062)	50,234,941	1,900,062
Other long-term debt	3,684,967	-	(3,250,379)	434,588	216,162
Pledges payable, net of discount	<u>31,505,265</u>	<u>-</u>	<u>(270,277)</u>	<u>31,234,988</u>	<u>430,277</u>
 Total bonds, pledges and capital leases	 <u>\$114,701,457</u>	 <u>\$ 377,411</u>	 <u>\$(9,534,807)</u>	 <u>\$ 105,544,061</u>	 <u>\$ 5,553,729</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

**Bonds Payable**

Bonds payable as of June 30, 2009, are composed of Consolidated Educational Buildings Revenue Bonds ("CEBRB"), Series N, O, P and Q and General Receipts Bonds, Series 2006A, 2007A and 2009A. 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>2009</u>	<u>2008</u>
Series N Bonds, dated September 1, 2002, with interest rates from 2.00% to 3.375%. Final principal payment date May 1, 2012	\$ 1,540,000	\$ 2,015,000
Series O Bonds, dated July 1, 2003, with interest rates from 2.00% to 2.85%. Final principal payment date May 1, 2010	1,478,472	2,906,945
Series P Bonds, dated September 1, 2003, with interest rates from 2.00% to 4.75%. Final principal payment date May 1, 2023	8,525,333	8,970,416
Series Q Bonds, dated December 1, 2003, with interest rates from 1.50% to 4.25%. Final principal payment date May 1, 2023	8,720,439	9,190,717
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	9,259,070	9,617,017
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	39,075,810	40,617,924
General Receipts Bonds, Series 2009A, dated February 18, 2009, with interest rates from 2.50% to 5.00%. Final principal payment date September 1, 2028	<u>47,640,058</u>	<u>-</u>
Total bonds payable	<u>\$ 116,239,182</u>	<u>\$ 73,318,019</u>

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

The debt service requirements for the bonds payable as of June 30, 2009 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 6,650,000	\$ 4,661,372	\$ 11,311,372
2011	5,325,000	4,358,126	9,683,126
2012	5,515,000	4,177,298	9,692,298
2013	5,150,000	4,033,232	9,183,232
2014	5,345,000	3,795,814	9,140,814
2015-2019	29,000,000	15,865,963	44,865,963
2020-2024	33,740,000	9,434,032	43,174,032
2025-2029	<u>26,355,000</u>	<u>2,557,699</u>	<u>28,912,699</u>
	117,080,000	48,883,536	165,963,536
Less: unamortized discounts, net of premiums	(795,145)	-	(795,145)
Less: deferred loss on defeasance of CEBR Series L	<u>(45,673)</u>	<u>-</u>	<u>(45,673)</u>
	<u>\$ 116,239,182</u>	<u>\$ 48,883,536</u>	<u>\$ 165,122,718</u>

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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2009 and 2008

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

On February 18, 2009, the University issued Western Kentucky University General Receipts Bonds, Series 2009A. The \$46,900,000 proceeds generated from the bond issue are being used to fund a portion of the renovation/expansion of Van Meter Hall, Preston Center, Ivan Wilson Center, Science Campus, Grise Hall and various parking lots across campus.

**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 \$2,977,621 and \$2,679,019, net of accumulated depreciation of \$146,751 and \$759,168 at June 30, 2009 and 2008, 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, 2009:

	<u>Total to be Paid</u>	<u>Present Value of Future Minimum Lease Payments</u>	<u>Interest Portion</u>
Year ending June 30			
2010	\$ 280,971	\$ 177,243	\$ 103,728
2011	238,718	109,497	129,221
2012	198,503	74,665	123,838
2013	194,149	80,069	114,080
2014	194,149	84,983	109,166
Thereafter	<u>2,765,627</u>	<u>1,841,373</u>	<u>924,254</u>
	<u>\$ 3,872,117</u>	<u>\$ 2,367,830</u>	<u>\$ 1,504,287</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%.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

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

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, 2009, the remaining balance has been fully amortized.

Debt service requirements on the other long-term debt at June 30, 2009, were as follows:

Year ending June 30	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 24,000	\$ 13,383	\$ 10,617
2011	24,000	14,067	9,933
2012	24,000	14,787	9,213
2013	24,000	15,544	8,456
2014	24,000	16,339	7,661
2015-2019	120,000	95,122	24,878
2020-2024	<u>52,000</u>	<u>49,184</u>	<u>2,816</u>
	<u>\$ 292,000</u>	<u>\$ 218,426</u>	<u>\$ 73,574</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, 2009 and 2008

**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 payments when due, while pledge payments on Series 2002C Term Bonds will be set aside in a debt service reserve account held in trust with the City until date of term requires payment of principal. Series 2002C 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>
2010	\$ 2,124,388	\$ 590,000	\$ 30,000	\$ 1,393,675	\$ 110,713
2011	2,274,025	755,000	40,000	1,370,075	108,950
2012	2,436,475	940,000	50,000	1,339,875	106,600
2013	2,513,587	1,055,000	55,000	1,299,925	103,662
2014	2,595,518	1,175,000	65,000	1,255,087	100,431
2015-2019	14,308,682	8,020,000	465,000	5,389,088	434,594
2020-2024	15,518,050	11,480,000	710,000	3,073,250	254,800
2025-2027	<u>6,058,875</u>	<u>5,280,000</u>	<u>345,000</u>	<u>399,750</u>	<u>34,125</u>
	47,829,600	29,295,000	1,760,000	15,520,725	1,253,875
Less unamortized discount	<u>(250,289)</u>	<u>(242,780)</u>	<u>(7,509)</u>	-	-
Total pledges payable	<u>\$ 47,579,311</u>	<u>\$ 29,052,220</u>	<u>\$ 1,752,491</u>	<u>\$ 15,520,725</u>	<u>\$ 1,253,875</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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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 executor costs (property taxes, maintenance and insurance).

Future minimum lease payments at June 30, 2009, were:

2010	\$ 422,001
2011	334,969
2012	329,351
2013	337,344
2014	357,204
Thereafter	<u>1,038,010</u>
	<u>\$ 2,818,879</u>

**NOTE 9 - PENSION PLAN**

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% (or 7.16% for employees entering the plan on or after July 1, 2008) of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 13.84% (or 14.84% on behalf of employees entering the plan on or after July 1, 2008) 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, 2009, 2008 and 2007, were \$7,090,933, \$6,794,704 and \$6,585,829, respectively, which equaled the required contributions for each year.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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**NOTE 9 - PENSION PLAN (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% (or 6.00% for employees entering the plan on or after September 1, 2008) of their annual covered salary, and the University is required to contribute at an actuarially determined rate. The current rate is 10.01% of annual covered payroll. University police officers participate in the Hazardous Duty Division of KERS. The officers are required to contribute 8.00% (or 9.00% for officers entering the plan on or after September 1, 2008) of their annual covered salary, and the University is required to contribute at an actuarially determined rate. The current rate is 24.35% 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, 2009, 2008 and 2007, were \$2,356,189, \$2,036,837 and \$1,780,151, 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 expressed as a percentage of covered payrolls were 6.16% and 13.84%, respectively. Of the University's 13.84% contribution, 5.10% 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, 2009, 2008 and 2007, were \$2,887,167, \$2,341,817 and \$1,938,705, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2009, 2008 and 2007, were \$2,035,081, \$2,005,478 and \$1,798,557, respectively.

**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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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**NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)**

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.

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

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 616,686	\$ 621,263
Claims and changes in estimates	12,109,837	9,474,572
Claims payments	<u>(11,675,645)</u>	<u>(9,479,149)</u>
Balance, end of year	<u>\$ 1,050,878</u>	<u>\$ 616,686</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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

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

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 89,764	\$ 71,961
Claims and changes in estimates	110,681	180,629
Claims payments	<u>(140,452)</u>	<u>(162,826)</u>
Balance, end of year	<u>\$ 59,993</u>	<u>\$ 89,764</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.

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 in trust).

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

Following is a summary of the funding for the RUETF as of June 30, 2009:

	CPE Funding <u>Received</u>	--- External Matched Pledges--- <u>Received</u>	<u>Pledged</u>
Balance, July 1, 2008	\$ 11,772,209	\$ 11,677,793	\$ 212,105
Current year collections	<u>-</u>	<u>38,559</u>	<u>(38,559)</u>
Balance, June 30, 2009	<u>\$ 11,772,209</u>	<u>\$ 11,716,352</u>	<u>\$ 173,546</u>

Following is a summary of the funding for the RUETF as of June 30, 2008:

	CPE Funding <u>Received</u>	--- External Matched Pledges--- <u>Received</u>	<u>Pledged</u>
Balance, July 1, 2007	\$ 11,772,209	\$ 11,302,614	\$ 587,284
Current year collections	<u>-</u>	<u>375,179</u>	<u>(375,179)</u>
Balance, June 30, 2008	<u>\$ 11,772,209</u>	<u>\$ 11,677,793</u>	<u>\$ 212,105</u>

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

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

The University's operating expenses by functional classification on June 30, 2009, were as follows:

<u>Functional Classification</u>	<u>Compensation and Benefits</u>	<u>Supplies Contractual Services and Other</u>	<u>Utilities</u>	<u>Non Capitalized Property</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 76,624,309	\$ 7,812,406	\$ 52,268	\$ 1,117,675	\$ -	\$ -	\$ 85,606,658
Research	6,664,592	5,345,909	4,488	376,859	-	-	12,391,848
Public service	8,974,850	4,917,237	33,502	294,279	-	-	14,219,868
Libraries	4,545,704	594,105	-	63,345	-	-	5,203,154
Academic support	12,304,624	3,413,330	17,638	805,755	-	-	16,541,347
Student services	14,262,146	9,309,378	3,232	479,048	-	-	24,053,804
Institutional support	19,020,811	7,381,278	2,434	5,607	-	-	26,410,130
Operation and maintenance of plant	10,909,927	4,664,746	7,251,814	2,066,990	-	-	24,893,477
Student financial aid	44,807	879,574	-	67,074	19,520,826	-	20,512,281
Depreciation	-	-	-	-	-	15,633,167	15,633,167
Auxiliary enterprise	<u>7,073,104</u>	<u>10,683,489</u>	<u>2,679,513</u>	<u>177,907</u>	<u>-</u>	<u>-</u>	<u>20,614,013</u>
Total operating expenses	<u>\$ 160,424,874</u>	<u>\$ 55,001,452</u>	<u>\$10,044,889</u>	<u>\$ 5,454,539</u>	<u>\$ 19,520,826</u>	<u>\$15,633,167</u>	<u>\$ 266,079,747</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

**NOTE 13 - NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES (Continued)**

The University's operating expenses by functional classification on June 30, 2008, were as follows:

<u>Functional Classification</u>	<u>Compensation and Benefits</u>	<u>Supplies Contractual Services and Other</u>	<u>Utilities</u>	<u>Non Capitalized Property</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 77,432,301	\$ 8,801,335	\$ 31,498	\$ 1,473,965	\$ -	\$ -	\$ 87,739,099
Research	6,818,932	5,516,086	19,617	336,779	-	-	12,691,414
Public service	8,281,152	4,978,616	29,304	289,786	-	-	13,578,858
Libraries	4,499,023	674,368	82	34,423	-	-	5,207,896
Academic support	10,337,099	2,936,725	20,559	371,836	-	-	13,666,219
Student services	13,853,160	9,182,314	3,660	196,827	-	-	23,235,961
Institutional support	19,011,824	5,255,840	2,866	337,781	-	-	24,608,311
Operation and maintenance of plant	10,294,226	5,115,079	6,450,009	1,204,215	-	-	23,063,529
Student financial aid	60,142	948,775	-	67,077	14,657,954	-	15,733,948
Depreciation	-	-	-	-	-	13,328,763	13,328,763
Auxiliary enterprise	<u>6,434,761</u>	<u>10,263,318</u>	<u>2,402,776</u>	<u>61,713</u>	<u>-</u>	<u>-</u>	<u>19,162,568</u>
Total operating expenses	<u>\$ 157,022,620</u>	<u>\$ 53,672,456</u>	<u>\$ 8,960,371</u>	<u>\$ 4,374,402</u>	<u>\$ 14,657,954</u>	<u>\$13,328,763</u>	<u>\$ 252,016,566</u>

**NOTE 14 - FUTURE CHANGES IN ACCOUNTING PRINCIPLES**

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.

In June 2008, the Governmental Accounting Standards Board issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). GASB 53 will address the recognition, measurement and disclosure of information regarding derivative instruments entered into by governments. The provisions of this statement are effective for fiscal periods beginning after June 15, 2009. Management does not anticipate GASB 53 will have a material impact on the financial statements of the University.

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

Nature of Operations: Western Kentucky University Foundation, Inc. (the "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.

Cash Equivalents: The Foundation generally considers all highly liquid investments (money market funds) to be cash equivalents. Certificates of deposit are designated for investment and are not considered to be cash equivalents.

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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

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.

Related Party Transactions: During the year ended December 31, 2008, the Foundation made payments/reimbursements on behalf of the University of \$5,913,520 from restricted sources. Accounts receivable from the Foundation and accounts payable to the Foundation as of the University's fiscal year ended June 30, 2009 and 2008 were insignificant.

Concentration of Credit Risk: Effective October 3, 2008, the federal deposit insurance coverage provided by the FDIC temporarily increased from \$100,000 to \$250,000 per depositor. Effective December 19, 2008, the FDIC enacted the Transaction Account Guarantee Program. Under the Transaction Account Guarantee Program, any non-interest bearing account at a participating bank is fully guaranteed by the FDIC for the account's entire balance. The federal deposit insurance coverage is scheduled to revert to \$100,000 effective January 1, 2014.

The banks at which the Foundation maintains its cash deposits participate in the Transaction Account Guarantee Program. Accordingly, at December 31, 2008, the Foundation's applicable cash balances are thus fully insured under the Transaction Account Guarantee Program.

In September 2008, the U.S. Treasury Department established a Temporary Guarantee Program for all taxable and tax-exempt money market funds. Under the Temporary Guarantee Program, the U.S. Treasury Department guarantees that investors will receive one dollar for each money market fund share held in a participating fund as of the close of business on September 19, 2008. Accordingly, if the number of shares held by the investor fluctuates, the investor is covered for the number of shares held as of the close of business on September 19, 2008, or the current number of shares held, whichever is less. The Temporary Guarantee Program was scheduled to end on April 30, 2009, however in March 2009 the U.S. Treasury Department extended the Program through September 18, 2009.

As of December 31, 2008, the Foundation's money market funds are eligible under the Program (including as extended). From time to time throughout the year, the balance of the Foundation's money market funds may exceed what was insured as of the close of business on September 19, 2008, as the number of shares held increases.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

Investments: The Foundation's investments are generally administered as pools of commingled assets held in custodial investment accounts managed by professional investment advisors. The investment objective for endowed assets is to achieve growth that will preserve and increase the purchasing power of such assets. The objective is to protect endowed assets against inflation and to produce current income to support the numerous programs and requirements of the Foundation and WKU. In order to provide current support and ensure support in the future, the Foundation and its Board of Trustees has adopted a total return approach to investment management with a long-term investment horizon. Such a strategy will balance income and capital appreciation oriented assets to generate desired returns. The Foundation targets a diversified asset allocation that places a greater emphasis on equity- based investments, allowing the respective investment advisors to take advantage of market opportunities to achieve long-term return objectives, while maintaining a prudent level of risk.

The Foundation carries its investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values, as determined by quoted market prices. Investments also consist of vested beneficial interests in various charitable remainder unitrusts and charitable remainder annuity trusts, all for which the Foundation acts as the trustee. Such vested beneficial interests, since the Foundation is the trustee, are included in investments at fair value. Two such charitable remainder annuity trusts are invested in real estate. Management considers the carrying value of these and all other real estate investments to approximate fair value.

The Foundation's investments are commingled with certain investments held for WKU, the Research Foundation, the WKUAA, and the HAF. Accordingly, investment income and unrealized and realized gains/losses are allocated between the respective organizations on a pro-rata basis. Unrealized gains and losses are included in the change in net assets on the accompanying statement of activities.

Investments held at December 31, 2008, were as follows:

Certificates of deposit	\$ 10,367,830
Mutual funds	14,268,154
U.S. Government and government agency obligations	12,098,996
Corporate bonds and notes	5,867,193
Equities and exchange traded funds	4,697,528
Real Estate	<u>2,271,802</u>
Total investments	49,571,503
Investments held for the University included above	(14,693,746)
Investments held for WKU Research Foundation included above	(487,406)
Investments held for HAF and AA included above	<u>(526,910)</u>
	<u>\$ 33,863,441</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors. At December 31, 2008, the fair value of all of the assets of these funds was more than the level required by donor stipulation or law.

**Contributions Receivable**

Contributions receivable at December 31, 2008, consisted of the following unconditional promises to give:

Due in less than one year	\$ 3,507,100
Due in one to five years	10,952,552
Due in more than five years	<u>5,500,753</u>
	19,960,405
Less	
Allowance for doubtful accounts	1,041,300
Unamortized discount	<u>3,027,461</u>
	<u>\$ 15,891,644</u>

Discount rates ranged from 3.29% to 7.00% at December 31, 2008.

**Net Assets**

*Temporarily Restricted Net Assets*

Temporarily restricted net assets at December 31, 2008, are available for the following purposes:

Scholarships	\$ 611,466
University program support	<u>18,729,751</u>
	<u>\$ 19,341,217</u>

*Permanently Restricted Net Assets*

Permanently restricted net assets at December 31, 2008, are restricted to:

Scholarships	\$ 11,175,529
University program support	<u>19,644,575</u>
	<u>\$ 30,820,104</u>

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(Continued)

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

**Fair Value Measurements**

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, in order to establish a single definition of fair value and a framework for measuring fair value in generally accepted accounting principles that is intended to result in increased consistency and comparability in fair value measurements. SFAS No. 157 also expands disclosures about fair value measurements. SFAS No. 157 applies whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. SFAS No. 157 was originally effective for financial statements issued for fiscal years beginning after November 15, 2007.

In early 2008, the FASB issued Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays by one year, the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay pertains to items including, but not limited to, non-financial assets recorded at fair value at the time of donation and long-lived assets measured at fair value relative to assessing impairment under SFAS No. 144, *Accounting for Impairment of Disposal of Long-Lived Assets*.

Effective January 1, 2008, the Foundation adopted the portion of SFAS No. 157 that has not been delayed by FSP FAS 157-2. Items carried at fair value on a recurring basis (to which SFAS 157 applies for 2008) consist principally of investments for which the fair values are determined by referring to quoted market prices and other relevant information generated by market transactions. Items carried at fair value on a non-recurring basis (to which SFAS No. 157 will apply in 2009) consist principally of net pledges receivable and deferred gift liabilities. The Foundation has not yet evaluated the subsequent impact (subsequent to the fiscal year-ended December 31, 2008) that SFAS No. 157 will have on the determination of fair value related to non-financial assets and non-financial liabilities.

SFAS No. 157 utilizes a fair value hierarchy that prioritizes the inputs (from the most objective to the most subjective) to the valuation techniques used to measure fair value into the three broad levels described as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Observable inputs, such as, quoted prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active, or unobservable inputs that are derived principally from or corroborated by observable market data.
- Level 3 – Unobservable inputs that are based on the Foundation’s own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2009 and 2008

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

Fair values of assets measured on a recurring basis at December 31, 2008 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 49,571,503	\$ 29,333,512	\$ 17,966,189	\$ 2,271,802

At December 31, 2008, investments included above under Level 2 represent investments in U.S. government/government agency obligations and corporate bonds/notes (fixed income securities).

At December 31, 2008, investments included above under Level 3 represent three investments in real estate.

Beginning of the year	\$ 1,528,500
Net additional investments	743,302
Transfers in/out of Level 3	<u>                  -</u>
End of the year	<u>\$ 2,271,802</u>

As previously indicated, investments include vested beneficial interests in various charitable remainder unitrusts and charitable remainder annuity trusts, all for which the Foundation acts as the trustee. Two such charitable remainder annuity trusts are invested in real estate. Management considers the carrying value (\$1,528,500) of the related real estate investments to approximate fair value as of December 31, 2008.

During 2008, the Foundation funded leasehold improvements for a lessee of office space in a building owned by the Foundation. The advances are to be repaid, with interest (7.00%), on a monthly basis until paid in-full (approximately August 2013). Management considers the carrying value (\$743,302) of the net outstanding advances to approximate fair value as of December 31, 2008.

**FASB Staff Position 117-1**

In August 2008, the FASB issued Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures of All Endowment Funds*. FASB Staff Position 117-1 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. To-date, the state of Kentucky has not enacted a version of UPMIFA legislation.

The Foundation classifies as permanently restricted net assets the original value of contributions to the permanent endowment and the original value of any such subsequent contributions.

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

At December 31, 2008, endowment net assets consist of the following:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 15,088,216	\$ -	\$ -	\$ 15,088,216
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>30,820,104</u>	<u>30,820,104</u>
	<u>\$ 15,088,216</u>	<u>\$ -</u>	<u>\$ 30,820,104</u>	<u>\$ 45,908,320</u>

Changes in endowment net assets during the year ended December 31, 2008 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Beginning of the year (as restated)	\$ 15,991,574	\$ -	\$ 28,843,750	\$ 44,835,324
Contributions	494,905	-	1,976,354	2,471,259
Investment return	320,074	-	-	320,074
Net depreciation (unrealized and realized)	(1,286,150)	-	-	(1,286,150)
Appropriation of endowment assets for expenditure	<u>(432,187)</u>	<u>-</u>	<u>-</u>	<u>(432,187)</u>
End of the year	<u>\$ 15,088,216</u>	<u>\$ -</u>	<u>\$ 30,820,104</u>	<u>\$ 45,908,320</u>

**Deferred Compensation Agreement**

In 2008, the Foundation implemented a non-qualified deferred compensation plan whereby a specific WKU employee earns deferred compensation in the amount of \$50,000 annually for a period of fifteen years (through 2022). The Foundation will fund a "rabbi" trust (for which a third-party will act as the trustee) with the annual \$50,000. All such amounts allocated to the employee shall be deferred for payment to the employee on, or beginning on, the employee's retirement date. Should the employee leave WKU prior to the end of the fifteen year arrangement, such employee would only receive the amount of deferred compensation relative to the number of years employed.

**Prior Period Adjustment**

During 2008, Foundation management recognized that certain individual pledges receivable had been misstated as of December 31, 2007. Accordingly, net assets as previously reported increased from \$67,408,869 to \$68,005,610, a net difference of \$596,741. The \$596,741 adjustment represents the net effect of the discounted present values of such pledges as of December 31, 2007.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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**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.

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, 2008 and 2007, cash equivalents consisted primarily of checking accounts and 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

Investments at December 31, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Short-term investments		
Mutual Funds	\$ 631,581	\$ -
Mortgage-backed securities	-	509,942
Corporate bonds	320,001	157,061
Certificates of deposit	<u>515,917</u>	<u>731,531</u>
	<u>\$ 1,467,499</u>	<u>\$ 1,398,534</u>
Long-term investments		
Equity securities	\$ 14,749,650	\$ 22,530,955
U. S. Treasury securities	300,703	271,407
Government agency securities	405,682	1,063,284
Mortgage-backed securities	2,278,280	3,525,982
Corporate bonds	4,592,669	6,764,291
Certificates of deposit	1,696,812	884,165
Real estate	<u>210,150</u>	<u>210,150</u>
	<u>\$ 24,233,946</u>	<u>\$ 35,250,234</u>

Related Party Transactions: During the fiscal years ended December 31, 2008 and 2007, College Heights made scholarship payments of \$3,730,285 and \$3,244,509, 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 \$52,295 is included in the University's capital leases payable, disclosed in Note 7. Accounts receivable from College Heights and accounts payable to College Heights as of the University's fiscal years ended June 30, 2009 and 2008 were insignificant.

Fair Value Measurement: In September, 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, in order to establish a single definition of fair value and a framework for measuring fair value in generally accepted accounting principles that is intended to result in increased consistency and comparability in fair value measurements. SFAS No. 157 also expands disclosures about fair value measurements. SFAS No. 157 applies whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. SFAS No. 157 was originally effective for financial statements issued for fiscal years beginning after November 15, 2007.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

In early 2008, the FASB issued Staff Position (FSP) FAS-157-2, *Effective Date of FASB Statement No. 157*, which delays by one year, the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay pertains to items including, but not limited to, non-financial assets recorded at fair value at the time of donation and long-lived assets measured at fair value relative to assessing impairment under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Effective January 1, 2008, the Foundation adopted the portion of SFAS No. 157 that has not been delayed by FSP FAS-157-2. Items carried at fair value on a recurring basis (to which SFAS No. 157 applies for 2008) consist principally of investments for which the fair values are determined by referring to quoted market prices and other relevant information generated by market transactions. Items carried at fair value on a non-recurring basis (to which SFAS No. 157 will apply in 2009) consist principally of net pledges receivable and deferred gift liabilities. The Foundation has not yet evaluated the subsequent impact (subsequent to the fiscal year ended December 31, 2008) that SFAS No. 157 will have on the determination of fair value related to non-financial assets and non-financial liabilities.

SFAS No. 157 utilizes a fair value hierarchy that prioritizes the inputs (from the most objective to the most subjective) to the valuation techniques used to measure fair value into the three broad levels described as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs such as quoted prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active or unobservable inputs that are derived principally from or corroborated by observable market data.
- Level 3 - Unobservable inputs that are based on the Foundation's own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

Fair values of assets measured on a recurring basis at December 31, 2008 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 27,154,886	\$ 18,093,960	\$8,850,776	\$210,150

At December 31, 2008, investments included above under Level 2 represent investments in U.S. government/government agency obligations (including mortgage-backed securities) and corporate bonds/notes (fixed income securities).

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

At December 31, 2008, investments included above under Level 3 represent Foundation investments in real estate:

Beginning of the year	\$ 210,150
Net additional investments	-
Transfers in/out of Level 3	<u>-</u>
End of the year	<u>\$ 210,150</u>

Assets Held in Trust, Gift Annuities and Refundable Advances: The Foundation is party to various split-interest agreements. A split-interest agreement is a gift that is partially for the Foundation's benefit and partially for the benefit of the respective donor or their designated beneficiaries. Upon acceptance of a split-interest agreement, the Foundation records the contributed asset and the actuarially determined present value of the liability payable to the beneficiary. These agreements include charitable gift annuities and charitable remainder trusts (charitable remainder unitrusts and charitable remainder annuity trusts).

A charitable gift annuity is an arrangement between a donor and the Foundation in which the donor contributes assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount to the donor or to others designated by the donor for a specific period of time. Obligations continue until the death of the beneficiary. The accompanying statements of financial position as of December 31, 2008 and 2007 reflect liabilities totaling \$1,325,825 and \$1,827,376, respectively, relative to the estimated present value of the future annuity obligations calculated using discount rates ranging from 5.6% to 11.3%. At December 31, 2008 and 2007, investments relative to charitable gift annuities totaled \$2,237,109 and \$3,223,061, respectively.

Charitable remainder trusts are arrangements in which a donor establishes and funds a trust with specified distributions to be made to the donor or designated beneficiaries over the trust's term. Upon the termination of the trust, the Foundation receives the assets remaining in the trust. Obligations to the beneficiaries are limited to the trust's assets. The accompanying statements of financial position as of December 31, 2008 and 2007 reflects liabilities totaling \$1,010,920 and \$1,534,734, respectively, relative to the estimated present value of the future obligations calculated using discount rates ranging from 6% to 10%. At December 31, 2008 and 2007, investments relative to charitable remainder trusts totaled \$1,853,094 and \$2,195,305, respectively.

Trust assets are reported at fair value in the same manner as are all Foundation investments. The income or loss recognized under these trusts is included in temporarily restricted net assets. Discount rates are determined in accordance with the Internal Revenue Code and represent the rate at the date (month and year) of the contribution. Actuarial assumptions used in calculating present values, include the beneficiary's age and life expectancies using the applicable mortality tables, the date of the gift, the fair market value of the principal donated, the rate of return, the payout rate, the payment schedule, and the discount rate.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

Assets held for others represent resources in the possession of, but not under the control of, the Foundation and represent funds received for investment by the Foundation through the Commonwealth of Kentucky's Regional University Excellence Trust Fund and funds held by the Foundation on behalf of the WKU Foundation for an employee deferred compensation benefit plan. Assets held for others at December 31, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
Western Kentucky University - investments	\$ 1,402,386	\$ 1,918,584
WKU Foundation trust	<u>51,055</u>	<u>-</u>
	<u>\$ 1,453,441</u>	<u>\$ 1,918,584</u>

Accordingly, the statement of financial position reflects liabilities for assets held for others in the amounts of \$1,453,441 and \$1,918,584 as of December 31, 2008 and 2007, respectively.

Notes Payable: Notes Payable at December 31, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
U.S. Bank amended promissory note, dated December 31, 2007; principal due in quarterly installments of \$17,411; variable interest at prime rate minus 1% payable monthly (2.25% at December 31, 2008); outstanding principal and accrued interest due December 31, 2012; unsecured.	\$ 643,092	\$ 712,626
U.S. Bank installment note, dated December 13, 2005; principal due in quarterly installments of \$4,500; variable interest at prime rate minus 1% payable monthly (2.25% at December 31, 2008); outstanding principal and accrued interest due December 13, 2010; unsecured.	<u>196,000</u>	<u>214,000</u>
	<u>\$ 839,092</u>	<u>\$ 926,626</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

At December 31, 2008, aggregate principal payments required on notes payable for each of the succeeding five years are:

2009	\$ 87,643
2010	247,643
2011	69,643
2012	434,163
2013	<u>-</u>
	<u>\$ 839,092</u>

**Restricted Net Assets**

At December 31, 2008, temporarily restricted net assets consist of the following:

Scholarship funds	\$ 579,150
Other program support	<u>10,700</u>
	<u>\$ 589,850</u>

At December 31, 2008, permanently restricted net assets consist of the following:

Scholarship funds	\$ 26,722,895
Other program support	<u>3,336,250</u>
	<u>\$ 30,059,145</u>

FASB Staff Position 117-1: In August, 2008, the FASB issued Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures of All Endowment Funds*. FASB Staff Position 117-1 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. To date, the state of Kentucky has not enacted a version of UPMIFA legislation.

The Foundation classifies as permanently restricted net assets the original value of contributions to the permanent endowment and the original value of any such subsequent contributions.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

At December 31, 2008, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 3,561,742	\$ -	\$ -	\$ 3,561,742
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>30,059,145</u>	<u>30,059,145</u>
	<u>\$ 3,561,742</u>	<u>\$ -</u>	<u>\$ 30,059,145</u>	<u>\$ 33,620,887</u>

Changes in endowment net assets during the year ended December 31, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of the year	\$ 4,597,418	\$ -	\$ 28,381,328	\$ 32,978,746
Contributions	35,992	-	1,677,817	1,713,809
Investment return				
Investment income	100,552	-	-	100,552
Net depreciation (unrealized and realized)	(737,355)	-	-	(737,355)
Appropriation of endowment assets for expenditure	<u>(434,865)</u>	<u>-</u>	<u>-</u>	<u>(434,865)</u>
End of the year	<u>\$ 3,561,742</u>	<u>\$ -</u>	<u>\$ 30,059,145</u>	<u>\$ 33,620,887</u>

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
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.

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, 2009 and 2008, 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, 2009 and 2008

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

Capital asset activity for the year ended June 30, 2009 was:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2009</u>
Cost				
Land	\$ 1,200,000	\$ 1,397,598	\$ -	\$ 2,597,598
Land improvements	485,269	446,868	-	932,137
Buildings and improvements	74,744,746	11,127,083	(2,197,566)	83,674,263
Furniture, fixtures and equipment	3,782,317	1,784,601	(301,235)	5,265,683
Construction-in-progress	<u>5,012,735</u>	<u>13,187,533</u>	<u>(13,195,078)</u>	<u>5,005,190</u>
	<u>85,225,067</u>	<u>27,943,683</u>	<u>(15,693,879)</u>	<u>97,474,871</u>
Less accumulated depreciation				
Land improvements	62,680	16,861	-	79,541
Building and improvements	12,594,365	2,390,128	-	14,984,493
Furniture, fixtures and equipment	<u>2,746,700</u>	<u>642,506</u>	<u>(5,020)</u>	<u>3,384,186</u>
	<u>15,403,745</u>	<u>3,049,495</u>	<u>(5,020)</u>	<u>18,448,220</u>
Net capital assets	<u>\$ 69,821,322</u>	<u>\$24,894,188</u>	<u>\$ (15,688,859)</u>	<u>\$ 79,026,651</u>

Capital asset activity for the year ended June 30, 2008 was:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2008</u>
Cost				
Land	\$ 1,200,000	\$ -	\$ -	\$ 1,200,000
Land improvements	485,269	-	-	485,269
Buildings and improvements	70,301,476	4,443,270	-	74,744,746
Furniture, fixtures and equipment	3,669,251	113,066	-	3,782,317
Construction-in-progress	<u>2,059,546</u>	<u>2,953,189</u>	<u>-</u>	<u>5,012,735</u>
	<u>77,715,542</u>	<u>7,509,525</u>	<u>-</u>	<u>85,225,067</u>
Less accumulated depreciation				
Land improvements	50,549	12,131	-	62,680
Building and improvements	10,415,092	2,179,273	-	12,594,365
Furniture, fixtures and equipment	<u>2,216,477</u>	<u>530,223</u>	<u>-</u>	<u>2,746,700</u>
	<u>12,682,118</u>	<u>2,721,627</u>	<u>-</u>	<u>15,403,745</u>
Net capital assets	<u>\$ 65,033,424</u>	<u>\$ 4,787,898</u>	<u>\$ -</u>	<u>\$ 69,821,322</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
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, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 84,775,000	\$ -	\$ (1,870,000)	\$ 82,905,000	\$ 1,785,000
Less: unamortized discount	(203,163)	-	9,270	(193,893)	(9,270)
Note payable, swap agreement	<u>181,457</u>	<u>-</u>	<u>(95,833)</u>	<u>85,624</u>	<u>85,624</u>
	<u>\$ 84,753,294</u>	<u>\$ -</u>	<u>\$ (1,956,563)</u>	<u>\$ 82,796,731</u>	<u>\$ 1,861,354</u>

The following is a summary of long-term obligation transactions for Student Life for the year ended June 30, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 65,230,000	\$ 26,000,000	\$ (6,455,000)	\$ 84,775,000	\$ 1,870,000
Less: unamortized discount	(212,433)	-	9,270	(203,163)	(9,270)
Note payable, swap agreement	271,011	-	(89,554)	181,457	110,203
Note payable, chiller plant	<u>637,984</u>	<u>1,790,337</u>	<u>(2,428,321)</u>	<u>-</u>	<u>-</u>
	<u>\$ 65,926,562</u>	<u>\$ 27,790,337</u>	<u>\$ (8,963,605)</u>	<u>\$ 84,753,294</u>	<u>\$ 1,970,933</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

Bonds payable as of June 30, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Series 2000 Tax Exempt Bonds		
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.	\$ 57,350,000	\$ 58,775,000
Series 2008 Tax Exempt Bonds		
Floating weekly rate as determined by the remarketing agent to produce, as nearly as possible, a par bid for the bonds; 2.20% as of June 30, 2008; payable in monthly installments of interest plus principal payments of \$445,000 to \$1,885,000 through 2030; collateralized by all real estate.	25,555,000	26,000,000
Note payable, swap agreement, payable in monthly payments of \$2,045 to \$10,227, including interest at 10.08% through June 1, 2010; uncollateralized.	<u>85,624</u>	<u>181,456</u>
	82,990,624	84,956,456
Less unamortized discount	<u>(193,893)</u>	<u>(203,162)</u>
	<u>\$ 82,796,731</u>	<u>\$ 84,753,294</u>

The debt service requirements for the bonds payable as of June 30, 2009, are as follows:

	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30			
2010	\$ 1,874,250	\$ 1,785,000	\$ 89,250
2011	2,236,500	2,130,000	106,500
2012	2,478,000	2,360,000	118,000
2013	2,625,000	2,500,000	125,000
2014	2,756,250	2,625,000	131,250
2015-2019	15,991,500	15,230,000	761,500
2020-2024	20,417,250	19,445,000	972,250
2025-2029	26,066,250	24,825,000	1,241,250
2030	<u>12,605,250</u>	<u>12,005,000</u>	<u>600,250</u>
	87,050,250	82,905,000	4,145,250
Less: unamortized discount	<u>(193,893)</u>	<u>(193,893)</u>	-
	<u>\$ 86,856,357</u>	<u>\$ 82,711,107</u>	<u>\$ 4,145,250</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

Student Life has an \$84,774,943 million letter of credit securing all principal and interest payments due on the bonds payable.

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, 2009, the Foundation was in compliance with its debt covenants.

The debt service requirements for the note payable swap agreement as of June 30, 2009, are as follows:

Year ending June 30	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ <u>193,156</u>	\$ <u>85,624</u>	\$ <u>107,532</u>
	\$ <u>193,156</u>	\$ <u>85,624</u>	\$ <u>107,532</u>

Related Party Transactions: During Student Life's fiscal years ended June 30, 2009 and 2008, Student Life received rental revenues from University students of \$16,405,903 and \$15,488,058, respectively. Additionally, during fiscal years ended June 30, 2009 and 2008, Student Life received payments of \$184,681 and \$498,267, respectively, from the University as repayment of the fiscal year 2008 debt payments related to Downing University Center (DUC) and Garrett Conference Center (GCC). Loans and accounts receivable from the University totaled \$1,184,835 and \$1,245,767 at June 30, 2009 and 2008, respectively, (which includes the amount owed by the University related to DUC and GCC noted above). Net investment in a direct financing lease receivable from the university was \$2,465,902 and \$0 at June 30, 2009 and 2008, respectively. Likewise, accounts payable to the University totaled \$755,356 and \$658,835 at June 30, 2009 and 2008, respectively.

Student Life has no employees of its own and its board of trustees serves on a voluntary, no compensatory 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 \$69,200 for 2009 and \$40,000 for 2008.

Student Life receives fees from the University relating to chilled water services. The fees were \$875,715 and \$675,277 for the years ended June 30, 2009 and 2008, respectively.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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**NOTE 17 - WESTERN KENTUCKY UNIVERSITY STUDENT LIFE FOUNDATION, INC. -  
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, 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 \$57,350,000 as of June 30, 2009, 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 (\$38,424,500 as of June 30, 2009), and established a maximum (cap) annual interest rate of 5.75% and a minimum (floor) annual rate of 4.67%. As of June 30, 2009 and 2008, respectively, the variable interest rate paid to the bondholders was significantly below the floor rate.

Simultaneously, with the issuance of its 2006 bonds payable (paid off in 2008), 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 \$4,600,000 as of June 30, 2009, which is reduced periodically over the term of the swap.

Simultaneously, with the issuance of its 2008 bonds payable, the Foundation also entered into an interest rate swap agreement with a bank. The Foundation receives interest from the counterparty based on 68% of the 30-day U.S. LIBOR rate and pays interest to the counterparty at 3.63% on notional amounts of \$20,386,825 as of June 30, 2009, 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.

The estimated fair value of these derivative arrangements at June 30, 2009, was:

<u>Type</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Underlying Index</u>	<u>Fair Value June 30, 2009</u>	<u>Fair Value June 30, 2008</u>
Floor	May 25, 2000	June 1, 2015	LIBOR	\$ (8,602,930)	\$ (6,442,425)
Cap	May 25, 2000	June 1, 2010	LIBOR	188	2,703
Swap	May 25, 2000	July 1, 2010	LIBOR	(107,172)	(211,166)
Swap	Feb. 1, 2006	Feb. 1, 2016	LIBOR	(368,659)	(183,869)
Swap	Jan. 25, 2008	June 30, 2024	LIBOR	<u>(1,973,524)</u>	<u>(567,607)</u>
Net liabilities				<u>\$ (11,052,097)</u>	<u>\$ (7,402,364)</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

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

	<u>2009</u>	<u>2008</u>
Net cash payments made under the collar agreement	\$ (2,037,787)	\$ (1,079,281)
Net cash payments made under the interest rate swap agreements	(199,947)	(63,634)
Change in fair value of the derivative agreements	<u>(3,649,733)</u>	<u>(3,016,768)</u>
	<u>\$ (5,887,467)</u>	<u>\$ (4,159,683)</u>

**Functional Allocation of Expenses**

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

	<u>2009</u>	<u>2008</u>
Student housing program	\$ 11,952,358	\$ 10,686,100
Management and general	<u>1,037,324</u>	<u>931,072</u>
	<u>\$ 12,989,682</u>	<u>\$ 11,617,172</u>

**Litigation**

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

**Asset Retirement Obligations**

The Foundation has recognized 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

A summary of changes in AROs is included in the table below.

	<u>2009</u>	<u>2008</u>
Balance, July 1	\$ 761,250	\$ 1,080,623
Accretion expense	47,198	65,884
Liabilities settled	<u>(189,610)</u>	<u>(385,257)</u>
Balance, June 30	<u>\$ 618,838</u>	<u>\$ 761,250</u>

**Disclosures about Fair Value of Financial Instruments**

Effective July 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurement (FAS 157). FAS 157 define fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

*Money Market Funds:* Money market funds are stated at cost plus accrued interest, which approximates market value, and are based on quoted prices in active markets for identical investments. Therefore, these investments are classified within Level 1 of the valuation hierarchy.

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

*Interest Rate Collar and Swap Agreements:* The fair value is estimated using standard pricing models, forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2009.

	<u>Fair Value</u>	<u>Fair Value Measurement Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Interest rate swap agreements:				
Floor - 2000 bond series	\$ 8,602,930	\$ -	\$ 8,602,930	\$ -
Cap - 2000 bond series	(188)	-	(188)	-
Swap - 2000 bond series	107,172	-	107,172	-
Swap - 2006 bond series	368,659	-	368,659	-
Swap - 2008 bond series	<u>1,973,524</u>	<u>-</u>	<u>1,973,524</u>	<u>-</u>
	<u>\$ 11,052,097</u>	<u>\$ -</u>	<u>\$ 11,052,097</u>	<u>\$ -</u>
Cash equivalents - money market accounts	\$ 2,317,681	\$ 2,317,681		
Assets limited as to use - money market accounts	\$ 7,613,352	\$ 7,613,352		

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial position at amounts other than fair value.

*Cash and Cash Equivalents:* The carrying amount approximates fair value.

*Net Investment in Direct Financing Lease:* The carrying amount approximates fair value.

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

*Long-Term Debt:* Fair value is estimated based on the borrowing rates currently available to the Foundation for bank loans with similar terms and maturities.

*Assets Held for Others:* The carrying amount approximates fair value.

The following table presents estimated fair values of the Foundation's financial instruments in accordance with FAS 107 not previously disclosed at June 30, 2009 and 2008.

	<u>2009</u>		<u>2008</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets				
Cash and cash equivalents	\$ 4,676,317	\$ 4,676,317	\$ 5,360,579	\$ 5,360,579
Net investment in direct financing lease	2,465,902	2,465,902	-	-
Assets limited as to use - cash and money market accounts	7,613,425	7,613,425	19,019,814	19,019,814
Assets limited as to use - guaranteed investment contract	6,473,266	6,473,266	6,675,735	6,675,735
Assets held for and by other - student deposits	654,165	654,165	627,700	627,700
Financial liabilities				
Long-term debt	82,796,731	82,796,731	84,753,294	84,753,294

*Commitments:* During the fiscal year ended June 30, 2009, the Foundation had ongoing commitments to expand and renovate the following residence halls with the corresponding estimated costs:

<u>Hall</u>	<u>Estimated Cost</u>
Gilbert Hall	\$ 990,000
Douglas Keen Hall	5,000,000
McCormack Hall	1,810,000
Pearce Ford Tower	9,498,000
Rodes Harlin Hall	1,800,000

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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

During the fiscal year ended June 30, 2009, the Foundation committed to renovate an existing residence hall in addition to developing land for additional offerings with the corresponding estimated costs:

<u>Hall</u>	<u>Estimated Cost</u>
Kentucky Street Land Improvements	\$ 300,000
Pearce Ford Tower Boiler	350,000

**SUPPLEMENTAL INFORMATION**

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2009

<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>				
Direct Programs				
<b>U. S. Department of Education</b>				
SEOG		84.007	P007A081615	\$ 471,810
Federal Perkins Loan Program		84.032		6,055,031
Federal Family Education Loan Program		84.038		88,738,392
Federal Work Study		84.033	P033A21615	739,962
PELL Grants		84.063	P063P081508	19,615,872
SMART Grant		84.376	P376S081508	349,768
FAC Grant		84.375	P375A081508	<u>850,418</u>
<b>Total Student Financial Aid Cluster</b>				<u>116,821,253</u>
<b>Research and Development Center</b>				
Direct Programs				
<b>U. S. Department of Agriculture</b>				
Poultry Waste Management		10.001	56-6445-8-101	975,878
Support of Ag Research FY09		10.001	Memo dated 9/22/2008	20,368
Conservation Practices		10.902	69-5C16-4-220 and 6-23	<u>162,196</u>
				<u>1,158,442</u>
<b>U.S. Department of Commerce</b>				
KY Meso-scale Network		11.468	NA07NWS4680010	<u>85,357</u>
<b>U. S. Department of Interior</b>				
Interactions - Cave Shrimp and Trout		15.608	H5530030048	3,495
Archeological Site Mod 2		15.916	H5530020075	9,105
Mammoth Cave Learning Center		15.916	H5530030051 MOD 1	92,703
Archival Cataloging		15.916	H5530060050	64,384
Mercury Bioaccumulation in CPPU		15.916	H5000050800/J55330071012	3,783
Mercury in Mammoth CaveNP Phase II		15.921	H5530030029 MOD 1	4,559
GIS Assistant FY07		15.DAV	Order # J2113060008	5,061
Abe Lincoln Birthplace Assessment		15.DAV	Order # J211306003	<u>30,229</u>
				<u>213,319</u>
<b>U.S. Department of State Bureau of Intelligence and Research</b>				
WKU Hoffman Inst. China FY07		19.300	486-A-00-06-00014-00	<u>518,026</u>
<b>National Aeronautics and Space Administration</b>				
KY NASA/EPSoR Program Yr 8-10		43.001	NCC5-571	101,689
KY Space Grant Consortium Yr 14		43.001	NNG05GH07H	635,143
NASA EPSCoR Research Dev.		43.001	NNX07AL55A	59,653
Efficacy Countermeasures of C.D.		43.001	NNX07AT58A	106,398
Versatile Biosensing Platform		43.001	NNX08BA13A	<u>43,554</u>
				<u>946,437</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2009

<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 Center (Continued)</b>				
Direct Programs				
<b>National Science Foundation</b>				
Analyte Extractions		47.049	OISE-0553369	\$ 23,094
RUI: Hydrocarbon Media		47.049	CHE-0710021	102,182
Exploring Space - Large Knots & Links		47.049	DMS-0712997	30,551
Survey - Ghana - Spider & Dung Beetles		47.074	DEB-0430132	10,317
MS Partnership		47.076	DUE0832115	<u>105,091</u>
				<u>271,235</u>
<b>Environmental Protection Agency</b>				
Green River Project		66.436	X7-9643906-0	22,182
Kentucky Center Waste Water Research		66.606	X-97418901-0	91,832
Technical Asst. Ctr/Water Quality		66.606	X-83123601-0, 1	56,783
T.A.C. for Water Quality		66.202	EM-83400201-0	<u>136,374</u>
				<u>307,171</u>
<b>U. S. Department of Health and Human Resources</b>				
Reaction to Bulky Platinum Complex		93.390	1 R15 GM074663-01A1	54,541
Mechanical Stress/Myofibroblast Fxn		93.390	1 R15 HL 087185-01	37,244
Chlamydomonas Entrainment		93.859	1 R15 GM076079-01A1	44,150
ID of RNA's in Ecoli		93.859	1 R15 GM79694-01	<u>60,065</u>
				<u>196,000</u>
Pass Through Programs				
<b>U. S. Department of Agriculture</b>				
Johne's Disease Demo Herd Program	KY Department of Agriculture	10.025	MOA 6-21-04	798
Johne's Disease Demo Herd FY08	KY Department of Agriculture	10.025	P02 035 0700013626 1	<u>3,965</u>
				<u>4,763</u>
<b>U. S. Department of Commerce</b>				
WKU Mesonet Project	NOAA	11.467	NA06NWS4670010	<u>779,473</u>
<b>U. S. Department of Defense</b>				
Fortitude FY09	EWA, GSI	12.902	EWAGSI-08-SC-0006	328,845
U & R Violence Impacts - Columbia	Radiance Technologies, Inc.	12.CON	075-2212	42,581
Timed Neutron Techniques	SAIC	12.100	4400162053	18,625
Cyber Defense	EWA, GSI	12.902	EWAGSI-07-SC-0003 9PO#01-4311	<u>246,652</u>
				<u>636,703</u>
<b>U.S. Department of Education</b>				
Personnel Prep in EI FY09	University of Cincinnati	84.325	ID# 082908	<u>96,423</u>
<b>Environmental Protection Agency</b>				
Non-Point Source Public Ed. Program	University of Louisville	66.460	ULRF-G03-1016-04-01	(1,180)
TMDL Development Project	Kentucky Division of Water	66.463	M06147994 & M-06148343	<u>244,975</u>
				<u>243,795</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2009

<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 Center (Continued)</b>				
Pass Through Programs				
<b>U. S. Department of Health and Human Services</b>				
Kentucky Interagency Council	Kentucky Housing Corporation	93.224	MOA dated 3/17/2008	\$ 29,832
Respiratory Protection in Ag Occupational Noise Exposure	University of Cincinnati	93.262	Sub #005091 1005571	28,155
Linkage of Atrazine Exposure	University of Cincinnati	93.262	PO#4500027161/1005775	456
MidSouth CEED	University of Kentucky Research Foundation	93.262	UKRF 3049023124-09-286	5,105
Predicting Long-Term Mobility	University of Alabama at Birmingham	93.283	1458DP001031-01 SUB#014	6,000
INBRE-RNA FY09	University of Alabama at Birmingham	93.866	5 R01 AG021958-05	14,709
Inventory by KY Schools	University of Louisville	93.389	Email dated 6/11/2008	383,799
	Kentucky Department of Education	93.938	P02 540 0800018153 1	18,360
				<u>486,416</u>
<b>U.S. Department of Interior</b>				
Preparing an Eval. Report	The University of Tennessee	15.904	UT Contract	1,058
Mammoth Cave Contamination	National Park Service	15.916	R5536080316/P5536080316	2,445
				<u>3,503</u>
<b>U. S. Department of Homeland Security</b>				
MILK: Wireless Monitoring System	University of Kentucky Research Foundation	97.077	UKRF 30469625-06-222	72,726
PCIRS	National Institute for Hometown Security	97.001	05-07-WKU	242,502
Compact Neutron Interrogation System	National Institute for Hometown Security	97.001	04-07-WKU	62,571
WTI-Impulse Generation	National Institute for Hometown Security	97.065	06-07-WKU	124,979
				<u>502,778</u>
<b>National Aeronautics and Space Administration</b>				
Cass 2001	Tennessee State University	43.001	CONTRACO.WKS	893
<b>National Science Foundation</b>				
GNM Weighted Superimpositions	National Science Foundation	47.070	UKRF 3048105113-09-175	8,310
US TEDS Coordination	Natural Science Foundation	47.076	PSC dated 5/29/2008	116
Acquisition of Raman Microscope	National Science Foundation	47.076	UKRF 3046901800-08-536	61,450
				<u>69,876</u>
<b>Total Research and Development Cluster</b>				<u>6,520,610</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2009

<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
<b>TRIO Cluster</b>				
Direct Programs				
<b>U. S. Department of Education</b>				
Student Support Services FY07		84.042	P042A060158	\$ 280,503
Talent Search FY07		84.044	P044A060357	360,173
Veterans Upward Bound FY08-11		84.047	P047V070027-1	264,816
Upward Bound 2005-2009		84.047	P047A040249	266,586
EOC - FY 2008-2012		84.066	P066A070115	<u>218,081</u>
				<u>1,390,159</u>
Pass Through Programs				
Upward Bound National Evaluation	ABT Associates	84.047	Check #327582	<u>1,348</u>
<b>Total TRIO Cluster</b>				<u>1,391,507</u>
<b>Head Start Cluster</b>				
Direct Programs				
<b>Department of Health and Human     Services</b>				
Head Start General 22-2008		93.600	04CH0201/24	460,393
Head Start General 22-2009		93.600	04CH0201/25	<u>870,857</u>
				<u>1,331,250</u>
Pass Through Programs				
Early Head Start FY07	Murray Head Start	93.600	04CH2692-001	27,957
Early Head Start FY09	Murray Head Start	93.600	04CH2692-001	<u>163,799</u>
				<u>191,756</u>
<b>Total Head Start Cluster</b>				<u>1,523,006</u>
<b>Fund for the Improvement of Postsecondary Education</b>				
<b>Department of Education</b>				
Equipment Acquisition for STE Facility		84.116	Award # P1162080172	1,427,563
Alliance in North America		84.116	Award # P116N080017	<u>7,737</u>
<b>Total Fund for the Improvement of Postsecondary Education</b>				<u>1,435,300</u>
<b>Other Federal</b>				
<b>U. S. Department of Agriculture</b>				
Direct Programs				
WKYU-TV Rural Public TV		10.855	GA 3-9-04	<u>251,354</u>
Pass Through Programs				
Kaleidoscope - Fall Session	Enterprise Community, Inc.	10.772	9-3-2008 Agreement	<u>24,303</u>
<b>Total U.S. Department of Agriculture</b>				<u>275,657</u>
<b>U. S. Department of Interior</b>				
Direct Programs				
Mammoth Cave International Center		15.916	H5000 04 0800 (J211301001)	<u>62,496</u>

(Continued)



WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2009

<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>Other Federal (Continued)</b>				
<b>U. S. Department of Justice</b>				
Direct Programs				
WKU Spotlight Youth Project		16.541	2005-JL-FX-0147	\$ 132,420
CCTV Project Phase II		16.710	2008CKWX0485	<u>44,830</u>
<b>Total U.S. Department of Justice</b>				<u>177,250</u>
<b>U.S. Department of Labor</b>				
Pass Through Programs				
Entrepr.Academy of Excellence	Lincoln Trail Area Development District	17.260	LTADD-WIA-09-09E-04	<u>235,144</u>
<b>National Aeronautics and Space Administration</b>				
Pass Through Programs				
How Old is Your Universe?	Space Telescope Science Institute	43.001	HST-ED-90251-01-A	<u>10,473</u>
<b>National Science Foundation</b>				
Direct Program				
REU Site - Developmental				
Psychology		47.075	SES-0453454	36,281
22 <sup>nd</sup> Annual Cumberland Conference		47.049	DMS-0904269	<u>9,004</u>
				<u>45,285</u>
Pass Through Programs				
KY-West VA LSAMP FY07	University of Kentucky Research Foundation	47.076	UKRF3048032200-07-248	<u>10,000</u>
<b>Total National Science Foundation</b>				<u>55,285</u>
<b>Environmental Protection Agency</b>				
Direct Programs				
KY Inst. Watershed Mgmt.				
Support		66.436	X7 95400008-0	20,813
Expanding Environ. Discovery 07		66.951	NE-96455206-0	<u>1,764</u>
				<u>22,577</u>
Pass Through Programs				
Radon Mitigation FY09	KY Cabinet for Health Services	66.032	P02 728 0800015509 1	22,324
KY Water Response Network	Kentucky Division of Water	66.474	P02 590 0800016103 1	35,344
Birds, Students, Research/ Outdoor	PRIDE	66.950	Letter 04/01/2008	<u>971</u>
				<u>58,639</u>
<b>Total Environmental Protection Agency</b>				<u>81,216</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2009

<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>Other Federal (Continued)</b>				
<b>U. S. Department of Education</b>				
Direct Programs				
Enhancing Number of Teachers		84.215	U215K050347	\$ 49,276
Project CHILDD		84.325	H325K070111	203,987
GEMS FY 09		84.206	S206A080048	119,999
National Study of Writing Instruct.		84.298	Check # 13033	<u>8,373</u>
				<u>381,635</u>
Pass Through Programs				
Gear Up FY08	University of Louisville	84.334	Subcontract #07-0452	(748)
Gear UP Host Institution	Kentucky Council on Postsecondary Education	84.334	P02 412 0800018152 1	303,375
Reading First Coach FY08	Kentucky Department of Education	84.357	P02 540 0700007107 1	40,446
Reading First Coach FY09	Kentucky Department of Education	84.357	P02 540 08000016364 1	113,081
Project TRREE FY08	Kentucky Department of Education	84.027	P02 540 0700008206 1	56,166
Project TRREE FY09	Kentucky Department of Education	84.027	P02 540 0800016365 1	54,034
Kentucky Tech Prep FY09	Kentucky Workforce Investment Board	84.048	P02 531 0800017094 1	129,570
Teacher Educators' Travel	Kentucky Cabinet for Workforce Development	84.048	P02 531 0800016473 1	1,242
Initial Teacher Prep FY09	Kentucky Cabinet for Workforce Development	84.048	P02 531 0800018140 1	22,302
08 Tech Prep Carryforward	Kentucky Cabinet for Workforce Development	84.048	P02 531 0800021141 1	21,012
NWP Writing Project	National Writing Project Corporation	84.298	92KY-06	51,702
Inside Inquiry Funding	National Writing Project Corporation	84.298	Funds Received 8/26/2008	451
Technology Liaison Network Minigran	National Writing Project Corporation	84.298	Letter dated 3/9/2009	231
Advancement in M.S. S & M	Kentucky Council on Postsecondary Education	84.367	Letter dated 11/10/2008	19,449
Central Kentucky Partnership - F.S.	Kentucky Council on Postsecondary Education	84.367	P02 415 0600004749-1	75,818
Change Over Time 08-09	Murray State University	84.367	OSP 2008-147	46,747
Perkins-Community College FY08	Kentucky Department of Education	84.048	P02 531 0700007832 1	16,830
Perkins FY09	Kentucky Department of Education	84.048	P02 531 0800016568 1	161,836
Teacher Educators P.D.	Kentucky Cabinet for Workforce Development	84.048	P02 531 080020421 1	9,661
Summer Conference C.F.	Kentucky Workforce Investment Board	84.048	P02 5310900023145 1	625

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2009

<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>Other Federal (Continued)</b>				
<b>U. S. Department of Education (Continued)</b>				
Pass Through Programs				
KTIP 09 - CTE Schools	Education Professional Standards Board	84.048	P02 183 0800017621 3	\$ 2,180
Perkins - Tech Update	Kentucky Workforce Investment Board	84.048	P02 531 09 00022317 1	6,760
Interest subsidy				<u>65,988</u>
				<u>1,198,758</u>
<b>Total U.S. Department of Education</b>				<u>1,580,393</u>
<b>Housing and Urban Development</b>				
Pass Through Programs				
HABG Training FY09	Housing Authority of Bowling Green	14.218	MOA	<u>37,583</u>
<b>U.S. Department of Transportation</b>				
Pass Through Programs				
School's in Session-Hgwy Safety	KY Department of Transportation Safety	20.600	AL-08-48	<u>3,553</u>
<b>Small Business Administration</b>				
Pass Through Programs				
Small Business Center FY08	UK Research Foundation	59.037	UKRF 3048104236-08-303	15,069
Small Business Center FY09	UK Research Foundation	59.037	UKRF 304SBDC-09	<u>39,942</u>
				<u>55,011</u>
<b>U.S. Department of Health and Human Services</b>				
Direct Programs				
WKU CyberMedicine Program		93.888	Grant # D1ECS10479A0	169,323
Advanced Ed Nursing FY09		93.358	2 A10HP00189-09-00	<u>43,966</u>
				<u>213,289</u>
Pass Through Programs				
MSSA FY08	University of Louisville	93.107	Sub dated 11/15/07	16,111
MSSA FY09	University of Louisville	93.107	Sub dated 10/10/08	34,083
MSW FY08	Eastern Kentucky University	93.658	EKU 08-273	(13)
PCWCP FY09	Eastern Kentucky University	93.658	451705-09-210	7,988
Training Resource Center FY09	Eastern Kentucky University	93.658	451702-09-164	130,653
Child Care R&R FY09	University of Kentucky Research Foundation	93.575	UKRF-3048105085-09-122	216,198
FL Agency for Workforce Innovation	State of Florida	93.575	SR5489	315,885
KEMSA Hospital Training FY07	University of Kentucky Research Foundation	93.301	UKRF 3048054800-07-237	<u>306</u>
				<u>721,211</u>
<b>Total U.S. Department of Health and Human Services</b>				<u>934,500</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2009

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<u>Federal Agency Cluster/Program</u>	<u>Grant or Pass-Through Entity</u>	<u>CFDA No.</u>	<u>Identifying Number</u>	<u>Amount Expended</u>
U.S. Department of Veterans Affairs Direct Vocational Rehab, Area 2		64.117	V101(93)P-1980	<u>56,615</u>
<b>Total Other Federal</b>				<u>3,565,176</u>
<b>Total Federal Expenditures</b>				<u>\$ 131,256,852</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2009

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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, 2009, the University had loans outstanding in the amount of \$6,055,031 with an allowance for doubtful accounts of \$548,366.

**NOTE 3 - SUBRECIPIENTS**

Of the federal expenditures presented in the schedule, the University provided federal awards to the following subrecipients:

<u>Grant</u>	<u>Subrecipient</u>	<u>Amount</u>
Reading First Coach FY08	Bowling Green Board of Education	\$ 37,450
Reading First Coach FY09	Bowling Green Board of Education	104,705
Project TRREE FY08	Murray State University	11,574
Project TRREE FY08	Pikeville College	12,521
Project TRREE FY08	Spalding University	9,849
KY Tech Prep FY09	Allen County Board of Education	24,676
KY Tech Prep FY09	Barren County Board of Education	19,811
KY Tech Prep FY09	Edmonson County Board of Education	13,112
KY Tech Prep FY09	Todd County Board of Education	14,971
KY Tech Prep FY09	Warren County Board of Education	31,552
KY NASA/EPSCoR Program Yr 8-10	Kentucky Science and Technology Cor	1,800
KY NASA/EPSCoR Program Yr 8-10	University of Kentucky	97,862
KY NASA/EPSCoR Program Yr 8-10	University of Louisville	1,825
KY Space Grant Consortium Yr 14	Cont/ Acct - US Bank refund	(2,250)
KY Space Grant Consortium Yr 14	Kentucky Science and Technology Cor	80,000
KY Space Grant Consortium Yr 14	Kentucky State University	1,500
KY Space Grant Consortium Yr 14	Morehead State University	91,277
KY Space Grant Consortium Yr 14	Murray State University	25,628

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2009

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**NOTE 3 - SUBRECIPIENTS (Continued)**

<u>Grant</u>	<u>Subrecipient</u>	<u>Amount</u>
KY Space Grant Consortium Yr 14	University of Kentucky	\$ 65,574
KY Space Grant Consortium Yr 14	University of Louisville	79,576
KY Space Grant Consortium Yr 14	Murray State University	3,762
KY Space Grant Consortium Yr 14	Morehead State University	53
KY Space Grant Consortium Suppl 1	Morehead State University	2,325
NASA EPSCoR Research Dev.	Kentucky Science and Technology Cor	8,000
NASA EPSCoR Research Dev.	Morehead State University	4,459
NASA EPSCoR Research Dev.	Murray State University	6,784
NASA EPSCoR Research Dev.	University of Kentucky	31,021
Efficacy Countermeasures of C.D.	Kentucky Science and Technology Cor	8,000
Efficacy Countermeasures of C.D.	University of Kentucky	57,288
Versatile Biosensing Platform	University of Kentucky	15,183
WTI-Impulse Generation	West Virginia High Technology Conso.	70,000
PCIRS	Murray State University	60,000
PCIRS	West Virginia High Technology Conso.	100,000
FL Agency for Workforce Innovation	Florida State University	50,330
2 <sup>nd</sup> Poultry Waste Management #2	Purdue University	15,000
Green River Project - Meier	University of Louisville	4,335
Wastewater Admin. & Mgmt.	Kentucky Rural Water Association	19,533
T.A.C. for Water Quality	Kentucky Rural Water Association	49,685
WKU Hoffman Inst. China FY07	A Childs Right	75,985
WKU Hoffman Inst. China FY07	Anhui University	97,240
WKU Hoffman Inst. China FY07	Southwest University of China	47,850
WKU Hoffman Inst. China FY07	Woodrow Wilson International Center	41,692
Head Start General 22 2008	Audubon Area Head Start	49,662
Head Start General 22 2008	Murray Head Start	150,432
Head Start T/TAS 22 2008	Murray Head Start	2,314
Head Start General 22 2009	Audubon Area Head Start	187,823
Head Start General 22 2009	Murray Head Start	178,224
Head Start T/TAS 22 2009	Audubon Area Head Start	3,213
Head Start T/TAS 22 2009	Murray Head Start	663
WKU Spotlight Youth Project	City of Bowling Green	5,749
WKU Spotlight Youth Project	Kentucky Child Now Inc.	<u>84,329</u>
		<u>\$ 2,153,947</u>



Crowe Horwath LLP  
Independent Member Crowe Horwath International

INDEPENDENT AUDITORS' REPORT 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 of Western Kentucky University (the "University") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 8, 2009, 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 University Research Foundation, Inc. (a blended component unit), 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.

#### 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 Horwath LLP

Louisville, Kentucky  
October 8, 2009





Crowe Horwath LLP  
Independent Member Crowe Horwath International

INDEPENDENT AUDITORS' REPORT 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, 2009. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs 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 programs for the year ended June 30, 2009. 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. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 09-01 to be a significant deficiency.

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. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and, accordingly, we express no opinion on it.

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 Horwath LLP

Louisville, Kentucky  
October 8, 2009

WESTERN KENTUCKY UNIVERSITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 June 30, 2009

**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?	_____	Yes	_____ X _____ No
Significant deficiency identified not considered to be material weaknesses?	_____	Yes	_____ X _____ None Reported
Noncompliance material to financial statements noted?	_____	Yes	_____ X _____ No

**Federal Awards**

Internal control over major programs:			
Material weakness(es) identified?	_____	Yes	_____ X _____ No
Significant deficiency identified not considered to be material weakness(es)?	_____ X _____	Yes	_____ _____ None Reported
Type of auditors' report issued on compliance for major programs	<u>Unqualified</u>		
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (Section .510(a))?	_____ X _____	Yes	_____ _____ 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 Study Program
84.007	Federal Supplemental Educational Opportunity Grant Program
84.038	Federal Perkins Loan Program
84.032	Federal Family Education Loan Program
84.116	Fund for the Improvement of Postsecondary Education
	Research and Development Cluster (consisting of):
10.001	Poultry Waste Management
10.001	Support of Ag Research FY09
10.025	Johne's Disease Demo Herd Program
10.025	Johne's Disease Demo Herd FY08
10.902	Conservation Practices
11.467	WKU Mesonet Project
11.468	KY Meso-scale Network
12.100	Timed Neutron Techniques
12.902	Fortitude FY09
12.902	Cyber Defense
15.608	Interactions - Cave Shrimp & Trout
15.904	Preparing an Evaluation Report

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 June 30, 2009

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
	Research and Development Cluster (Continued)
15.916	Archeological Site Mod 2
15.916	Mammoth Cave Learning Center
15.916	Archival Cataloging
15.916	Mercury Bioaccumulation in CPPU
15.921	Mammoth Cave Contamination
19.300	Mercury in Mammoth CaveNP Phase II
19.300	WKU Hoffman Inst. China FY07
43.001	KY NASA/EPSCoR Program Yr 8-10
43.001	KY Space Grant Consortium Yr 14
43.001	NASA EPSCoR Research Development
43.001	Efficacy Countermeasures of C.D.
43.001	Versatile Biosensing Platform
43.001	Cass 2001
47.049	Analyte Extractions
47.049	RUI: Hydrocarbon Media
47.049	Exploring Space - Large Knots & Links
47.074	GNM Weighted Superimpositions
47.076	Survey - Ghana - Spider & Dung Beetles
47.076	MS Partnership
47.076	US TEDS Coordination
66.202	Acquisition of Raman Microscope
66.436	T.A.C. for Water Quality
66.460	Green River Project
66.463	Non-point Source Public Ed Program
66.606	TMDL Development Project
66.606	KY Center Waste Water Research
84.325	Technical Asst. Ctr./Water Quality
93.224	Personnel Prep in EI FY09
93.262	KY Interagency Council
93.262	Respiratory Protection in Ag
93.262	Occupational Noise Exposure
93.283	Linkage of Atrazine Exposure
93.389	MidSouth CEED
93.390	INBRE-RNA FY09
93.390	Reaction to Bulky Platinum Complex
93.859	Mechanical Stress/Myofibroblast Fxn
93.859	Chlamydomonas Entrainment
93.866	ID of RNA's in Ecoli
93.938	Predicting Long-Term Mobility
97.001	Inventory of KY Schools
97.001	PCIRS
97.065	Compact Neutron Interrogation System
97.077	WTI-Impulse Generation
12.CON	MILK: Wireless Monitoring System
12.CON	U & R Violence Impacts - Columbia
15.DAV	GIS Assistant FY07
15.DAV	Abe Lincoln Birthplace Assessment

Dollar threshold used to distinguish between  
 Type A and Type B programs

\$ 1,093,903

Auditee qualified as low-risk auditee?

    X     Yes                 No

(Continued)

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2009

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**PART II - FINANCIAL STATEMENT FINDINGS**

None

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

**Finding 09-01 - Fund for the Improvement of Postsecondary Education (CFDA No. 84.116)**

**Criteria:** OMB Circular A-133 requires that auditors plan and perform procedures to achieve a low level of control risk.

**Condition:** Based on our inquiries with management and personnel managing the use of federal funds, we understand that there are a number of controls and procedures being performed in the administration of federal programs, but they are not adequately documented to permit an auditor to test that they are being performed. Listed below are some examples noted during testing where documentation was not available:

- Lack of policies and procedures to determine if a vendor has been suspended or disbarred from doing business with the federal government
- Lack of policies and procedures related to the disposition of assets originally purchased with federal funds

**Effect:** The University is open to the risk that the administration of federal funds may not be in compliance with applicable laws and regulations.

**Cause:** The cause of this finding appears to be the lack of management oversight.

**Recommendation:** We recommend that the University review its current procedures and prepare formal documentation of procedures to ensure its controls can be externally tested under federal regulations.

**Management's Response and Corrective Action Plan:** WKU has developed internal procedures that require personnel in the Purchasing Department to refer to the federal government's online list of debarred vendors (<https://www.epls.gov/>) to verify that a supplier has not been debarred from doing business with the federal government when an expenditure of federal funds exceeds \$25,000. The results of the online search, including time and date, are now documented by Purchasing personnel in the procurement records for such transactions.

The university has established formal procedures related to disposition of assets originally purchased with federal funds. During the last quarter of fiscal year 2008-09, WKU implemented a specialized ID tag system to identify fixed assets purchased with Federal funds. If an asset is transferred to the Inventory Control office to be sold or disposed of, Inventory Control staff members first determine if the asset was purchased with Federal funds. If the asset is determined to have been purchased with Federal funds, the Inventory Control staff member contacts the Grants & Contracts Accounting (GCA) office to determine the proper method of disposal. Upon advice of GCA personnel, the asset is properly disposed of or returned to the appropriate Federal agency by the Inventory Control office. All such verification and communication is documented in the property records for such assets.

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2009

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

None