

**Western Kentucky University Foundation, Inc.**

**Financial Statements**

**December 31, 2010 and 2009**

**Western Kentucky University Foundation, Inc.**  
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Mountjoy  
Chilton  
Medley

## Independent Auditor's Report

To the Board of Trustees  
Western Kentucky University Foundation, Inc.  
Bowling Green, Kentucky

We have audited the accompanying statements of financial position of Western Kentucky University Foundation, Inc. (a nonprofit organization) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Kentucky University Foundation, Inc. as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note O to the financial statements, certain errors resulting in the overstatement of the previously reported net pledges receivable balance as of December 31, 2009 were discovered by management during the current year. Accordingly, an adjustment has been made to net assets as of December 31, 2009 by revising the 2009 financial statements as previously presented, including adjusting net assets as of January 1, 2009.

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June 1, 2011

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**Western Kentucky University Foundation, Inc.**  
**Statements of Financial Position**  
**December 31, 2010 and 2009**

	2010	(Restated) 2009
	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,145,612	\$ 7,179,092
Investments	49,567,277	37,758,352
Pledges receivable, net	14,724,906	14,007,645
Due from the WKU Real Estate Corporation	1,268,905	1,400,039
Due from the Warren County Downtown Economic Development Authority	1,986,893	3,800,000
Other receivables	71,426	50,034
Prepaid expenses and other assets	91,438	80,744
Assets held for others	<u>17,500,625</u>	<u>16,761,391</u>
Total assets	<u>\$ 88,357,082</u>	<u>\$ 81,037,297</u>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 12,000	\$ 89,652
Bank notes payable	3,342,891	2,874,174
Due to the Hilltopper Athletic Foundation	504,013	-
Deferred gift liabilities	2,555,825	2,676,922
Liability for assets held for others	<u>17,500,625</u>	<u>16,761,391</u>
Total liabilities	<u>23,915,354</u>	<u>22,402,139</u>
<b>Net assets</b>		
Unrestricted	14,371,636	12,388,088
Temporarily restricted	14,893,369	12,493,574
Permanently restricted	<u>35,176,723</u>	<u>33,753,496</u>
Total net assets	<u>64,441,728</u>	<u>58,635,158</u>
Total liabilities and net assets	<u>\$ 88,357,082</u>	<u>\$ 81,037,297</u>

See accompanying notes

**Western Kentucky University Foundation, Inc.**  
**Statement of Activities**  
**Year Ended December 31, 2010**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<b>Revenues, gains (losses), and other support</b>				
Contributions	\$ 466,011	\$ 6,535,314	\$ 1,423,227	\$ 8,424,552
Investment income	1,648,756	526,913	-	2,175,669
Net unrealized gains on investments	1,974,852	532,909	-	2,507,761
Net realized gains on sales of investments	260,869	101,080	-	361,949
Net actuarial loss from deferred gift liabilities	-	(316,604)	-	(316,604)
Other income	-	186,300	-	186,300
	<u>4,350,488</u>	<u>7,565,912</u>	<u>1,423,227</u>	<u>13,339,627</u>
Net assets released from restrictions	<u>5,166,117</u>	<u>(5,166,117)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses), and other support	<u>9,516,605</u>	<u>2,399,795</u>	<u>1,423,227</u>	<u>13,339,627</u>
<b>Expenses</b>				
<b>Expenses on behalf of WKU programs</b>				
Salaries/wages, payroll taxes, and benefits	924,046	-	-	924,046
Scholarships and honorariums	972,763	-	-	972,763
Gifts and donations	431,618	-	-	431,618
Capital expenditures	1,861,870	-	-	1,861,870
Professional fees and other services	158,873	-	-	158,873
Travel, meals, and entertainment	660,164	-	-	660,164
Dues/subscriptions and registrations	314,599	-	-	314,599
Printing, supplies, and other office expenses	272,454	-	-	272,454
Equipment rentals and maintenance	22,887	-	-	22,887
Other miscellaneous expenses	247,506	-	-	247,506
	<u>5,866,780</u>	<u>-</u>	<u>-</u>	<u>5,866,780</u>
<b>Management and general</b>				
Salaries/wages, payroll taxes, and benefits	388,976	-	-	388,976
Professional fees and other services	262,758	-	-	262,758
Travel, meals, and entertainment	12,204	-	-	12,204
Printing, supplies, and other office expenses	23,461	-	-	23,461
Interest expense	104,527	-	-	104,527
Other miscellaneous expenses	2,911	-	-	2,911
Provision for uncollectible pledges	835,448	-	-	835,448
	<u>1,630,285</u>	<u>-</u>	<u>-</u>	<u>1,630,285</u>
<b>Fundraising</b>				
Gifts and donations	17,510	-	-	17,510
Travel, meals, and entertainment	11,756	-	-	11,756
Printing, supplies, and other office expenses	4,346	-	-	4,346
Other miscellaneous expenses	2,380	-	-	2,380
	<u>35,992</u>	<u>-</u>	<u>-</u>	<u>35,992</u>
Total expenses	<u>7,533,057</u>	<u>-</u>	<u>-</u>	<u>7,533,057</u>
Change in net assets	1,983,548	2,399,795	1,423,227	5,806,570
Net assets, beginning of year	<u>12,388,088</u>	<u>12,493,574</u>	<u>33,753,496</u>	<u>58,635,158</u>
Net assets, end of year	<u>\$ 14,371,636</u>	<u>\$ 14,893,369</u>	<u>\$ 35,176,723</u>	<u>\$ 64,441,728</u>

See accompanying notes

**Western Kentucky University Foundation, Inc.**  
**Statement of Activities**  
**Year Ended December 31, 2009 (Restated)**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains (losses), and other support				
Contributions	\$ 405,542	\$ 4,837,961	\$ 2,933,392	\$ 8,176,895
Investment income	1,191,635	272,974	-	1,464,609
Net unrealized gains on investments	4,101,428	987,051	-	5,088,479
Net realized losses on sales of investments	(6,780)	(233,724)	-	(240,504)
Net actuarial loss from deferred gift liabilities	-	(361,837)	-	(361,837)
Other income	208	188,400	-	188,608
	<u>5,692,033</u>	<u>5,690,825</u>	<u>2,933,392</u>	<u>14,316,250</u>
Net assets released from restrictions	<u>12,241,646</u>	<u>(12,241,646)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses), and other support	<u>17,933,679</u>	<u>(6,550,821)</u>	<u>2,933,392</u>	<u>14,316,250</u>
Expenses				
Expenses on behalf of WKU programs				
Salaries/wages, payroll taxes, and benefits	679,468	-	-	679,468
Scholarships and honorariums	852,489	-	-	852,489
Gifts and donations	524,926	-	-	524,926
Capital expenditures	10,233,080	-	-	10,233,080
Professional fees and other services	224,428	-	-	224,428
Travel, meals, and entertainment	685,822	-	-	685,822
Dues/subscriptions and registrations	334,576	-	-	334,576
Printing, supplies, and other office expenses	279,364	-	-	279,364
Equipment rentals and maintenance	38,658	-	-	38,658
Other miscellaneous expenses	227,655	-	-	227,655
	<u>14,080,466</u>	<u>-</u>	<u>-</u>	<u>14,080,466</u>
Management and general				
Salaries/wages, payroll taxes, and benefits	424,177	-	-	424,177
Professional fees and other services	173,309	-	-	173,309
Travel, meals, and entertainment	10,289	-	-	10,289
Printing, supplies, and other office expenses	26,460	-	-	26,460
Interest expense	123,536	-	-	123,536
Other miscellaneous expenses	2,498	-	-	2,498
Provision for uncollectible pledges	11,400	-	-	11,400
	<u>771,669</u>	<u>-</u>	<u>-</u>	<u>771,669</u>
Fundraising				
Gifts and donations	37,787	-	-	37,787
Travel, meals, and entertainment	20,823	-	-	20,823
Printing, supplies, and other office expenses	11,179	-	-	11,179
Other miscellaneous expenses	5	-	-	5
	<u>69,794</u>	<u>-</u>	<u>-</u>	<u>69,794</u>
Total expenses	<u>14,921,929</u>	<u>-</u>	<u>-</u>	<u>14,921,929</u>
Change in net assets	3,011,750	(6,550,821)	2,933,392	(605,679)
Net assets, beginning of year	<u>9,376,338</u>	<u>19,044,395</u>	<u>30,820,104</u>	<u>59,240,837</u>
Net assets, end of year	<u>\$ 12,388,088</u>	<u>\$ 12,493,574</u>	<u>\$ 33,753,496</u>	<u>\$ 58,635,158</u>

See accompanying notes

**Western Kentucky University Foundation, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

	2010	(Restated) 2009
	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets	\$ 5,806,570	\$ (605,679)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Provision for uncollectible pledges	835,448	11,400
Net unrealized gains on investments	(2,507,761)	(5,088,479)
Net realized (gains) losses on investments	(361,949)	240,504
Net actuarial loss from deferred gift liabilities	316,604	361,837
Changes in assets and liabilities		
Net pledges receivable	(1,552,709)	651,200
Other receivables	(21,392)	45,000
Prepaid expenses and other assets	(10,694)	37,453
Accounts payable	(77,652)	(6,798)
Net cash provided by (used in) operating activities	<u>2,426,465</u>	<u>(4,353,562)</u>
Cash flows from investing activities		
Proceeds from the sales and maturities of investments	16,435,086	52,276,541
Repayments of the amount due from the WKU Real Estate Corporation	154,476	296,358
Repayments of the amount due from the Warren County Downtown Economic Development Authority	2,130,583	-
Additions to the amount due from the WKU Real Estate Corporation	(23,342)	(60,982)
Additions to the amount due from the Warren County Downtown Economic Development Authority	(317,476)	(3,800,000)
Purchases of investments	(25,374,301)	(51,323,477)
Net cash used in investing activities	<u>(6,994,974)</u>	<u>(2,611,560)</u>
Cash flows from financing activities		
Proceeds from bank notes payable	999,739	-
Additions to the amount due to the Hilltopper Athletic Foundation	504,013	-
Payments on bank notes payable	(531,022)	(350,450)
Payments on deferred gift liabilities	(437,701)	(422,282)
Net cash provided by (used in) financing activities	<u>535,029</u>	<u>(772,732)</u>
Change in cash and cash equivalents	(4,033,480)	(7,737,854)
Cash and cash equivalents, beginning of year	<u>7,179,092</u>	<u>14,916,946</u>
Cash and cash equivalents, end of year	<u>\$ 3,145,612</u>	<u>\$ 7,179,092</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 104,527</u>	<u>\$ 123,536</u>
Supplemental disclosure of non-cash investing and financing activities		
Bank note payable refinanced with a new lender	<u>\$ 1,967,661</u>	<u>\$ -</u>

See accompanying notes

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2010 and 2009**

**Note A--Nature of the Organization**

Western Kentucky University Foundation, Inc. (Foundation) is an independent, nonprofit charitable corporation chartered in 1993 for the exclusive benefit of Western Kentucky University (WKU). Because the Foundation was organized for the principal benefit of WKU, the Foundation is considered a component unit of WKU and is discreetly presented in the annual financial statements of WKU.

The Foundation, the official repository for contributions to WKU, promotes the welfare and future development of WKU's educational goals. The Foundation provides the services normally associated with a university related foundation, including, but not limited to, volunteer leadership, fund solicitation, gift acceptance and acknowledgement, and asset management services.

The Foundation provides for the safekeeping of certain assets, as well as providing bookkeeping services, under an agency relationship on behalf of both the Western Kentucky University Alumni Association (WKUAA) and the Hilltopper Athletic Foundation (HAF). The WKUAA and the HAF continue to maintain separate management control and oversight over both functions.

The Foundation has also assumed an agency relationship on behalf of WKU and Western Kentucky University Research Foundation, Inc. (Research Foundation) whereby the Foundation provides for the safekeeping of certain assets of both organizations. WKU and the Research Foundation continue to maintain separate management control and oversight over such assets.

**Note B--Summary of Significant Accounting Policies**

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. In substance, SFAS No. 168 makes the FASB Accounting Standards Codification (ASC) the sole source of authoritative accounting technical literature for nongovernmental entities. All accounting guidance that is not included in the ASC is considered to be non-authoritative. The ASC was first effective for annual reporting periods ending after September 15, 2009. The Foundation adopted the ASC upon issuance.

Basis of Presentation

Financial statement presentation follows the recommendations of the FASB specifically as it pertains to financial statements of not-for-profit organizations. As such, the Foundation is required to report information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note B--Summary of Significant Accounting Policies (Continued)**

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and 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.

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 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 (see Note D). 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 statements of activities.

Pledges Receivable, Net

Pledges receivable are reflected on the accompanying statements of financial position net of an estimated allowance for uncollectible pledges. The allowance for uncollectible pledges is generally based on a review of existing outstanding pledges. Outstanding pledges expected to have collection periods in excess of a year are recorded after discounting such amounts to the present value of future cash flows using the risk free interest rate applicable to the month and year in which the unconditional promise is made.

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note B--Summary of Significant Accounting Policies (Continued)**

Deferred Gift Liabilities

The carrying amount (estimated fair value) for deferred gift liabilities (split-interest annuity and trust agreements) is the actuarially determined present value of the income distributions or other payments to the donor or other designated beneficiaries during the term of the split-interest agreements.

Fair Value Measurements

The Foundation has adopted the fair value provisions of the ASC. These provisions define fair value as the price that would be received by the Foundation to sell an asset or be paid by the Foundation to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. These provisions also expand disclosures about fair value measurements and establish a framework for measuring fair value, a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy 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.

At December 31, 2010 and 2009, items carried at fair value on a recurring basis consist principally of investments for which the fair values are generally determined by referring to quoted market prices and other relevant information generated by market transactions (see also Note D) and deferred gift liabilities for which fair value is the estimated present value of the future obligations calculated using the appropriate discount rates (see also the Deferred Gift Liabilities significant accounting policy, as well as Note I). The Foundation has made the determination that the accompanying statements of financial position do not reflect any non-financial assets or non-financial liabilities to which additional disclosure requirements would apply.

Contributions

Contributions, including unconditional promises to give (pledges receivable), are recognized as revenue in the period when they are received or unconditionally pledged and are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor imposed restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restriction. Contributions that are originally restricted by donor stipulation and for which the restriction is satisfied in the same fiscal year are recorded as temporarily restricted and then released from restriction. Conditional contributions are not included as support until the applicable conditions are met.

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note B--Summary of Significant Accounting Policies (Continued)**

Contributions (Continued)

When applicable, gifts of long-lived assets are reported as unrestricted support unless explicit donor stipulations specify how such assets must be used, in which case such gifts are reported as temporarily or permanently restricted. Absent explicit donor stipulations regarding the time period for which the long-lived assets must be held, expirations of restrictions resulting in the reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Endowment Fund Spending Policy

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

The annual distribution from accumulated earnings may be made at any time during the fiscal year. Annual distributions may not be carried over between fiscal years unless the Foundation's Board of Trustees grants prior approval to do so.

Functional Allocation of Expenses

The costs of providing the various programs (on behalf of WKU programs) and other activities are summarized on a functional basis in the accompanying statements of activities. Directly identifiable expenses are charged to the applicable program and supporting services. Expenses related to more than one function are allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) for all function income. When applicable, the Foundation is subject to federal income tax on unrelated business income. The Foundation has been determined by the Internal Revenue Service not to be a private foundation within the context of Section 509(a) of the Code.

The Foundation believes there is no significant impact to its financial statements with the respect to the standards (contained in the ASC) which require recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach. Such standards were first effective for fiscal years beginning after December 15, 2008.

Subsequent Events

The Foundation has evaluated events occurring subsequent to year-end through the date of the Independent Auditor's Report, the date the accompanying financial statements were available to be issued.

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note B--Summary of Significant Accounting Policies (Continued)**

Reclassifications

Certain amounts for 2009 have been reclassified to conform with the 2010 presentation. These reclassifications had no effect on the previously reported change in net assets. See also Note O.

**Note C--Concentrations of Credit Risk**

Effective July 21, 2010, the federal deposit insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC) permanently increased from \$100,000 to \$250,000 per depositor.

On November 9, 2010, the FDIC issued a final rule to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Act) which provides temporary unlimited deposit insurance for non-interest bearing accounts at all FDIC insured depository institutions. This separate coverage for non-interest bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012.

At December 31, 2010, the Foundation's one non-interest bearing cash account is fully insured under the Act. At December 31, 2010, uninsured balances with respect to the Foundation's interest bearing accounts (including certificates of deposit) total approximately \$3,300,000. At December 31, 2010, the Foundation's money market funds (cash equivalents) are uninsured.

**Note D--Investments**

At December 31, 2010 and 2009, investments consist of the following:

	<u>2010</u>	<u>2009</u>
Certificates of deposit	\$ 4,171,111	\$ 2,225,238
Mutual funds	40,847,339	28,357,901
U.S. government and government agency obligations	8,061,450	12,616,145
Corporate bonds/notes and other fixed income securities	5,465,900	6,300,224
Equities and exchange traded funds	4,125,554	2,242,856
Real estate and other alternative investments	<u>4,392,408</u>	<u>2,711,770</u>
	67,063,762	54,454,134
Less: investments included above which are held for WKU (see also Note G)	16,256,833	15,731,814
Less: investments included above which are held for the Research Foundation (see also Note G)	866,261	549,447
Less: investments included above which are held for the WKUAA and the HAF (see also Note G)	<u>373,391</u>	<u>414,521</u>
	<u>\$ 49,567,277</u>	<u>\$ 37,758,352</u>

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note D--Investments (Continued)**

As indicated above, at year-end, the Foundation is invested in various types of investment securities. Investments are exposed to various risks such as interest rate risk, credit risk, and market risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

At December 31, 2010 and 2009, assets carried at fair value on a recurring basis consist principally of investments as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2010	<u>\$ 67,063,762</u>	<u>\$ 49,144,004</u>	<u>\$ 15,233,493</u>	<u>\$ 2,686,265</u>
December 31, 2009	<u>\$ 54,454,134</u>	<u>\$ 32,825,995</u>	<u>\$ 18,916,369</u>	<u>\$ 2,711,770</u>

At December 31, 2010 and 2009, investments included above under Level 2 principally represent investments in U.S. government/government agency obligations, corporate bonds/notes, and other fixed income securities. Such Level 2 investments also include marketable alternatives, investments for which fair value is determined using the net asset value (or its equivalent), as provided by the respective "fund," and that are considered to have sufficient activity or liquidity within the respective "fund."

At December 31, 2010 and 2009, investments included above under Level 3 represent three investments in real estate, as well as other alternative type investments (investments in partnerships and funds of funds).

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 at December 31, 2010 and 2009) of the related real estate investments to approximate fair value as of December 31, 2010 and 2009.

During 2008, the Foundation funded leasehold improvements on behalf of a lessee of certain office space located within the building (real estate) owned by one of the two charitable remainder annuity trusts noted above. 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 (\$447,934 and \$600,770 at December 31, 2010 and 2009, respectively) of the net outstanding advances to approximate fair value as of December 31, 2010 and 2009.

The net asset value (or its equivalent), as provided by the respective "fund," relative to the alternative type investments included above under Level 3 (investments that are not considered to have sufficient activity or liquidity within the respective "fund"), is utilized as a practical expedient to determine fair value.

The 2010 and 2009 activity with respect to the investments included above under Level 3 is as follows:

	<u>2010</u>	<u>2009</u>
Beginning of the year	\$ 2,711,770	\$ 2,271,802
Net additional investments (sales)	<u>(25,505)</u>	<u>439,968</u>
End of the year	<u>\$ 2,686,265</u>	<u>\$ 2,711,770</u>

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note E--Pledges Receivable, Net**

At December 31, 2010 and 2009, net pledges receivable consist of the following:

	<u>2010</u>	<u>2009</u>
Estimated to be collected in less than one year	\$ 5,418,282	\$ 3,737,154
Estimated to be collected in one to five years	9,986,269	9,906,194
Estimated to be collected thereafter	<u>2,879,001</u>	<u>3,488,122</u>
	18,283,552	17,131,470
Less: allowance	<u>1,930,800</u>	<u>1,137,500</u>
	16,352,752	15,993,970
Less: discounts to net present value	<u>1,627,846</u>	<u>1,986,325</u>
	<u>\$ 14,724,906</u>	<u>\$ 14,007,645</u>

Discount rates with respect to all outstanding pledges as of December 31, 2010 range from 1.83% to 7.00% (1.98% to 7.00% as of December 31, 2009).

**Note F--Due from the Warren County Downtown Economic Development Authority**

In October 2009, under the terms of a promissory note, the Foundation loaned \$3,800,000 to the Warren County Downtown Economic Development Authority (Authority), the proceeds of which were to be used by the Authority to purchase property (in conjunction with the development of "blocks 12 and 14 in the WKU Gateway to Downtown Bowling Green tax increment financing district). The loan bears interest at a fixed rate of 8.00%. Semi-annual interest payments began in April 2010 (interest on the loan is recognized over the term of the loan calculated using the simple-interest method on the outstanding principal amount), while the outstanding principal amount, and the unpaid interest accrued thereon, is due June 30, 2016 (maturity date). The loan is secured by two mortgages. The Foundation's position relative to one of the two mortgages is subordinate to the liens of three other creditors. At December 31, 2010 and 2009, the amount due from the Authority (principal and the unpaid interest accrued thereon through year-end) totals \$1,986,893 and \$3,800,000, respectively.

**Note G--Assets Held for Others**

Assets held for others represent resources in the possession of, but not under the control of the Foundation. At December 31, 2010 and 2009, assets held for others consist of the following:

	<u>2010</u>	<u>2009</u>
WKU - Regional University Excellence Trust Fund	\$ 12,820,687	\$ 11,441,495
WKU - self-insurance program funds	3,436,146	4,290,319
Research Foundation - quasi-endowment funds	866,261	549,447
WKUAA and HAF - certain cash and investment funds	<u>377,531</u>	<u>480,130</u>
	<u>\$ 17,500,625</u>	<u>\$ 16,761,391</u>

Accordingly, the accompanying statements of financial position as of December 31, 2010 and 2009 reflect a liability for assets held for others in the amount of \$17,500,625 and \$16,761,391, respectively.

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note H--Bank Notes Payable**

At December 31, 2010 and 2009, bank notes payable consist of the following:

	<u>2010</u>	<u>2009</u>
Bank note payable bearing interest at a fixed rate of 3.25%, quarterly interest and principal payments totaling \$114,324 through July 2015, balloon payment due at maturity (October 2015), secured by an assignment of the collections on all pledges receivable, see (A) and (B) below	\$ 2,100,000	\$ -
Bank note payable bearing interest at a fixed rate of 4.04%, quarterly interest and principal payments totaling \$48,186 through September 2015, balloon payment due at maturity (December 2015), secured by an assignment of the collections on all pledges receivable, see (B) below	867,400	-
Bank note payable bearing interest at a fixed rate of 4.80%, interest paid quarterly, principal and unpaid interest accrued thereon due at maturity (June 2013), collateralized by security interests in two bank certificates of deposit	209,667	460,000
Bank note payable bearing interest at a fixed rate of 5.25%, the note is payable in-full upon demand of the bank, otherwise (if no demand is made), quarterly interest and principal payments totaling \$17,152 through maturity (June 2013), collateralized by a security interest in a bank certificate of deposit	121,501	193,771
\$100,000 bank line of credit bearing interest at the prime rate (3.25% at December 31, 2010 and 2009) minus .50% (not to result in an interest rate of less than 3.25%), interest paid quarterly, principal and unpaid interest accrued thereon due at maturity (September 2011), \$100,000 compensating balance requirement, see (B) and (C) below	44,323	58,757
Bank note payable bearing interest at a fixed rate of 4.50%, quarterly interest and principal payments totaling \$60,878, balloon payment due at maturity, collateralized by all Foundation assets including an assignment of the collections on certain pledges receivable, see (A) below	-	2,149,337

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note H--Bank Notes Payable (Continued)**

At December 31, 2010 and 2009, bank notes payable consist of the following (continued):

	<u>2010</u>	<u>2009</u>
Bank note payable bearing interest at the prime rate (3.25% at December 31, 2009) minus 1.375%, interest paid quarterly, principal and the unpaid interest accrued thereon due at maturity, collateralized by a security interest in a bank certificate of deposit, paid in-full during 2010	<u>-</u>	<u>12,309</u>
	<u>\$ 3,342,891</u>	<u>\$ 2,874,174</u>

(A) The above bank note payable with an outstanding balance as of December 31, 2009 in the amount of \$2,149,337 was refinanced with a new lender during 2010 (the above bank note payable with an outstanding balance as of December 31, 2010 in the amount of \$2,100,000).

(B) These respective debt obligations are subject to a covenant whereby the Foundation is required to submit annual audited financial statements within 120 days of year-end. The Foundation is not in compliance with this covenant, for which it received a waiver from the bank.

(C) In April 2011, the respective debt obligation (bank line of credit) was paid in-full.

At December 31, 2010, the aggregate maturities required on the bank notes payable are as follows:

<u>Year Ending December 31</u>	
2011	\$ 719,458
2012	573,204
2013	803,141
2014	614,468
2015	<u>632,620</u>
	<u>\$ 3,342,891</u>

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note I--Deferred Gift Liabilities**

The Foundation is party to various irrevocable 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 specified period of time. Obligations continue until the death of the beneficiary. The accompanying statements of financial position reflect liabilities totaling \$215,433 and \$240,247 as of December 31, 2010 and 2009, respectively, relative to the estimated present value of the future annuity obligations calculated using discount rates ranging from 3.81% to 7.96%. At December 31, 2010 and 2009, cash, cash equivalents, and investments relative to charitable gift annuities total \$263,346 and \$291,061, 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 reflect liabilities totaling \$2,340,392 and \$2,436,675 as of December 31, 2010 and 2009, respectively, relative to the estimated present value of the future obligations calculated using discount rates ranging from 5.60% to 7.20%. At December 31, 2010 and 2009, cash, cash equivalents, and investments relative to charitable remainder trusts total \$3,563,751 and \$3,562,556, 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.

The carrying amount (estimated fair value) for deferred gift liabilities is calculated using Level 3 inputs (see the definition of Level 3 per the Fair Value Measurements significant accounting policy).

The 2010 and 2009 activity with respect to deferred gift liabilities is as follows:

	<u>2010</u>	<u>2009</u>
Beginning of the year	\$ 2,676,922	\$ 2,737,367
Net actuarial loss	316,604	361,837
Payment obligations	<u>(437,701)</u>	<u>(422,282)</u>
End of the year	<u>\$ 2,555,825</u>	<u>\$ 2,676,922</u>

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note J--Restricted Net Assets**

At December 31, 2010 and 2009, temporarily restricted net assets consist of the following:

	<u>2010</u>	<u>2009</u>
Academic support/WKU programs	\$ 12,777,793	\$ 10,692,422
Scholarship funds	717,771	659,225
Public services	923,927	1,070,409
Athletics	<u>473,878</u>	<u>71,518</u>
	<u>\$ 14,893,369</u>	<u>\$ 12,493,574</u>

At December 31, 2010 and 2009, permanently restricted net assets consist of the following:

	<u>2010</u>	<u>2009</u>
Academic support/WKU programs	\$ 14,261,100	\$ 14,673,588
Scholarship funds	12,591,816	11,186,550
Professorships	<u>8,323,807</u>	<u>7,893,358</u>
	<u>\$ 35,176,723</u>	<u>\$ 33,753,496</u>

**Note K--Endowment Funds**

In August 2008, the FASB issued new standards relative to 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.

The new standards also improve disclosures about an organization's endowment funds (both donor-restricted and board designated endowment funds), whether or not the not-for-profit organization is subject to UPMIFA. In March 2010, the state of Kentucky enacted UPMIFA legislation, the effective date of which is July 15, 2010.

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

At December 31, 2010, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board designated	\$ 9,339,018	\$ -	\$ -	\$ 9,339,018
Donor restricted	<u>-</u>	<u>-</u>	<u>35,176,723</u>	<u>35,176,723</u>
	<u>\$ 9,339,018</u>	<u>\$ -</u>	<u>\$ 35,176,723</u>	<u>\$ 44,515,741</u>

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note K--Endowment Funds (Continued)**

At December 31, 2009, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board designated	\$ 8,694,060	\$ -	\$ -	\$ 8,694,060
Donor restricted	<u>-</u>	<u>-</u>	<u>33,753,496</u>	<u>33,753,496</u>
	<u>\$ 8,694,060</u>	<u>\$ -</u>	<u>\$ 33,753,496</u>	<u>\$ 42,447,556</u>

Changes in endowment net assets during 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of the year	\$ 8,694,060	\$ -	\$ 33,753,496	\$ 42,447,556
Contributions	295,533	-	1,423,227	1,718,760
Investment return				
Investment income	277,897	-	-	277,897
Net appreciation	606,063	-	-	606,063
Appropriation for expenditure	<u>(534,535)</u>	<u>-</u>	<u>-</u>	<u>(534,535)</u>
End of the year	<u>\$ 9,339,018</u>	<u>\$ -</u>	<u>\$ 35,176,723</u>	<u>\$ 44,515,741</u>

Changes in endowment net assets during 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of the year	\$ 10,710,370	\$ -	\$ 30,820,104	\$ 41,530,474
Contributions	247,750	-	2,933,392	3,181,142
Investment return				
Investment income	516,197	-	-	516,197
Net depreciation	(1,399,465)	-	-	(1,399,465)
Appropriation for expenditure	<u>(1,380,792)</u>	<u>-</u>	<u>-</u>	<u>(1,380,792)</u>
End of the year	<u>\$ 8,694,060</u>	<u>\$ -</u>	<u>\$ 33,753,496</u>	<u>\$ 42,447,556</u>

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note L--Pension Plans**

Through WKU, the Foundation participates in the Kentucky Employees' Retirement System (KERS) and the Kentucky Teachers' Retirement System (KTRS), both of which are cost-sharing, multiple-employer, defined benefit pension plans administered by the respective KERS and KTRS boards of trustees. Both KERS and KTRS provide retirement, disability, and death benefits to the Foundation's eligible employees. The Foundation reimburses WKU for the Foundation's share of the contributions made on behalf of eligible Foundation employees. Currently (the rates in effect as of December 31, 2010), contributions under KERS and KTRS made on behalf of eligible employees represent 16.98% and 14.84% of annual covered wages, respectively. Employer contributions made under KERS and KTRS on behalf of Foundation employees total approximately \$26,000 and \$18,900 for the years ended December 31, 2010 and 2009, respectively.

**Note M--Deferred Compensation Arrangement**

In 2008, the Foundation implemented a non-qualified deferred compensation plan whereby a certain 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.

**Note N--Related Party Transactions**

Over time, the Foundation has advanced funds to the WKU Real Estate Corporation (Corporation) for various campus improvement and construction projects. No formal loan agreement exists. Accordingly, there are no formal repayment terms. The advances are non-interest bearing and are uncollateralized/unsecured. During 2010, the Foundation advanced the Corporation \$23,342, while the Corporation repaid a total of \$154,476. During 2009, the Foundation advanced the Corporation \$60,982, while the Corporation repaid a total of \$296,358. At December 31, 2010 and 2009, the amount due from the Corporation totals \$1,268,905 and \$1,400,039, respectively.

In addition to advances to the Corporation, during 2010 and 2009, the Foundation contributed to the Corporation approximately \$178,400 and \$85,500, respectively.

During 2010, the Foundation advanced \$30,000 (the amount outstanding as of December 31, 2010) to a WKU employee. The non-interest bearing advance, reflected as an other receivable per the accompanying statement of financial position as of December 31, 2010, is due in-full prior to January 2015. If the employee ceases to be employed by WKU for any reason prior to January 2015, the advance shall then be due and payable immediately upon the termination of his/her employment. The advance is secured by a mortgage on the employee's personal residence. The \$30,000 advance was funded from a contribution to Foundation by the College Heights Foundation (a separate campus foundation).

Accounts payable as of December 31, 2010 and 2009 includes amounts payable to WKU. Such accounts payable total \$12,000 and approximately \$54,600 as of December 31, 2010 and 2009, respectively.

**Western Kentucky University Foundation, Inc.**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note N--Related Party Transactions (Continued)**

During 2010, the HAF advanced to the Foundation a total of \$504,013 (the amount outstanding as of December 31, 2010) for a specific campus construction project. No formal loan agreement exists. Accordingly, there are no formal repayment terms and the outstanding amount is non-interest bearing and is uncollateralized/unsecured. Subsequent to year-end, the Foundation has repaid the HAF approximately \$121,000.

The Foundation leases to WKU the real estate owned by two separate charitable remainder annuity trusts, both for which the Foundation is the trustee and the remainder beneficiary. Under both leases, the amounts of the monthly/quarterly rent payments represent the monthly/quarterly payments to the donors or to others designated by the donors under the respective trust agreements. Under one such lease the Foundation annually receives \$180,000 (\$45,000 each quarter) of rental income. This lease expires in September 2019. Under the second lease, the Foundation received \$700 per month until the lease terminated in September 2010. Accordingly, rental income (included within other income per the accompanying statements of activities) from WKU for the years ended December 31, 2010 and 2009 totals \$186,300 and \$188,400, respectively. Rental income under the one remaining lease for 2011 through 2015 totals \$180,000 annually (\$675,000 in total thereafter).

The Foundation receives the benefit of the facilities in which its general and administrative offices are located, for which no rent is charged to the Foundation by WKU. The Foundation has no objective basis for determining the value of the donated office space.

**Note O--Prior Period Adjustment and Reclassification**

During 2010, management made the determination that certain pledges receivable had been misstated as of December 31, 2009. Accordingly, net assets as previously reported (as of December 31, 2009) decreased from \$59,527,638 to \$58,635,158, an adjustment of \$892,480, \$414,822 of which reflects an adjustment to net assets as of January 1, 2009. The remaining \$477,658 amount consists of a \$302,658 reduction to temporarily restricted contributions revenue and additional expenses on behalf of WKU programs in the amount of \$175,000. The 2009 financial statements have been revised to correct these misstatements.

During 2010, management also made the determination that certain permanently restricted net assets as of December 31, 2009 were misclassified as unrestricted. The 2009 financial statements have been revised to correct this misclassification. This \$709,383 reclassification had no effect on the previously reported change in net assets as of and for the year ended December 31, 2009.