

FINANCIAL STATEMENTS
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
December 31, 2008

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

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INDEPENDENT AUDITOR'S REPORT

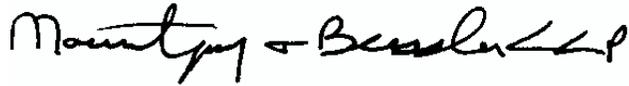
To the Board of Trustees
Western Kentucky University Foundation, Inc.
Bowling Green, Kentucky

We have audited the accompanying statement of financial position of Western Kentucky University Foundation, Inc. (a nonprofit organization) as of December 31, 2008, and the related statements of activities and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note N to the financial statements, certain errors resulting in the understatement of previously reported net pledges receivable as of December 31, 2007 were discovered by management during the current year. Accordingly, an adjustment has been made to net assets as of December 31, 2007 to correct these errors.



Louisville, Kentucky
August 20, 2009

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2008

ASSETS

Cash and cash equivalents	\$ 14,916,946
Investments	33,863,441
Net pledges receivable	15,891,644
Due from the WKU Real Estate Corporation	1,633,415
Other receivables	97,034
Prepaid expenses and other assets	118,197
Assets held for others	<u>15,477,184</u>
Total assets	\$ <u>81,997,861</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 96,450
Bank notes payable	3,224,624
Deferred gift liabilities	2,737,367
Liability for assets held for others	<u>15,477,184</u>
Total liabilities	<u>21,535,625</u>

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>

See accompanying notes to financial statements

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Year ended December 31, 2008

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support				
Contributions	\$ 653,388	\$ 5,225,544	\$ 1,976,354	\$ 7,855,286
Investment income	1,555,417	704,021	-	2,259,438
Net unrealized losses on investments	(9,065,770)	(1,725,509)	-	(10,791,279)
Net realized losses on sales of investments	(404,858)	(102,839)	-	(507,697)
Net actuarial gain from deferred gift liabilities	-	307,459	-	307,459
Other income	-	<u>189,085</u>	-	<u>189,085</u>
	<u>(7,261,823)</u>	<u>4,597,761</u>	<u>1,976,354</u>	<u>(687,708)</u>
Net assets released from restrictions	<u>5,041,266</u>	<u>(5,041,266)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses), and other support	<u>(2,220,557)</u>	<u>(443,505)</u>	<u>1,976,354</u>	<u>(687,708)</u>
Expenses				
Expenses on behalf of WKU programs				
Salaries/wages, payroll taxes, and benefits	480,866	-	-	480,866
Scholarships and honorariums	817,073	-	-	817,073
Gifts and donations	281,135	-	-	281,135
Capital expenditures	2,245,760	-	-	2,245,760
Professional fees and other services	336,506	-	-	336,506
Travel, meals, and entertainment	702,886	-	-	702,886
Dues/subscriptions and registrations	305,974	-	-	305,974
Printing, supplies, and other office expenses	428,866	-	-	428,866
Equipment rentals and maintenance	216,567	-	-	216,567
Other miscellaneous expenses	97,887	-	-	97,887
	<u>5,913,520</u>	<u>-</u>	<u>-</u>	<u>5,913,520</u>
Management and general				
Salaries/wages, payroll taxes, and benefits	343,649	-	-	343,649
Professional fees and other services	182,585	-	-	182,585
Travel, meals, and entertainment	8,507	-	-	8,507
Dues/subscriptions and registrations	6,615	-	-	6,615
Interest expense	103,917	-	-	103,917
Other miscellaneous expenses	5,138	-	-	5,138
Provision for uncollectible pledges	<u>231,845</u>	<u>-</u>	<u>-</u>	<u>231,845</u>
	<u>882,256</u>	<u>-</u>	<u>-</u>	<u>882,256</u>
Fundraising				
Gifts and donations	5,360	-	-	5,360
Capital expenditures	15,494	-	-	15,494
Travel, meals, and entertainment	26,693	-	-	26,693
Printing, supplies, and other office expenses	10,494	-	-	10,494
Other miscellaneous expenses	1,849	-	-	1,849
	<u>59,890</u>	<u>-</u>	<u>-</u>	<u>59,890</u>
Total expenses	<u>6,855,666</u>	<u>-</u>	<u>-</u>	<u>6,855,666</u>
Change in net assets	(9,076,223)	(443,505)	1,976,354	(7,543,374)
Net assets, beginning of year (as restated)	<u>19,377,138</u>	<u>19,784,722</u>	<u>28,843,750</u>	<u>68,005,610</u>
Net assets, end of year	<u>\$ 10,300,915</u>	<u>\$ 19,341,217</u>	<u>\$ 30,820,104</u>	<u>\$ 60,462,236</u>

See accompanying notes to financial statements

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year ended December 31, 2008

Cash flows from operating activities

Change in net assets	\$ (7,543,374)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Provision for uncollectible pledges	231,845
Net unrealized losses on investments	10,791,279
Net realized losses on sales of investments	507,697
Net actuarial gain from deferred gift liabilities	(307,459)
Changes in assets and liabilities	
Net pledges receivable	(1,855,487)
Other receivables	(39,275)
Prepaid expenses and other assets	(114,097)
Assets held for others	4,199,882
Accounts payable	92,196
Liability for assets held for others	<u>(4,199,882)</u>
Net cash provided by operating activities	<u>1,763,325</u>

Cash flows from investing activities

Reductions to the amount due from the WKU Real Estate Corporation	198,031
Proceeds from sales and maturities of investments	18,100,899
Additions to the amount due from the WKU Real Estate Corporation	(143,690)
Purchases of investments	<u>(19,462,045)</u>
Net cash used in investing activities	<u>(1,306,805)</u>

Cash flows from financing activities

Proceeds from bank notes payable	800,000
Payments on bank notes payable	(181,364)
Payments on deferred gift liabilities	<u>(423,087)</u>
Net cash provided by financing activities	<u>195,549</u>

Change in cash and cash equivalents 652,069

Cash and cash equivalents, beginning of year 14,264,877

Cash and cash equivalents, end of year \$ 14,916,946

Supplemental disclosure of cash flow information

Interest paid	\$ <u>103,917</u>
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See accompanying notes to financial statements

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE A--NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of 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 assets, as well as providing bookkeeping services, under an agency relationship on behalf of the Western Kentucky University Alumni Association (WKUAA). Under a similar relationship, the Foundation also provides for the safekeeping of assets on behalf of and provides bookkeeping services to the Hilltopper Athletic Foundation (HAF), however the Foundation only provides for the safekeeping of certain of the HAF's assets. Both 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.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues and gains are recognized when they are earned and expenses and losses are recognized when they are incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. Under SFAS No. 117, 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.

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.

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

December 31, 2008

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 (see Note C). 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.

Net Pledges Receivable

Pledges receivable are reflected on the accompanying statement 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.

Deferred Gift Liabilities

The carrying amount 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.

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 FINANCIAL STATEMENTS--CONTINUED

December 31, 2008

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 statement 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.

In December 2008, the FASB issued Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, to its annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected to defer the application of FASB Interpretation No. 48 for the year ending December 31, 2008. The Foundation evaluates its uncertain tax positions using the provisions of FASB Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management's judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

December 31, 2008

NOTE B--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.

NOTE C--INVESTMENTS

At December 31, 2008, investments consist of the following:

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>
	49,571,503
Investments included above which are held for WKU (see also Note F)	(14,693,746)
Investments included above which are held for the Research Foundation (see also Note F)	(487,406)
Investments included above which are held for the WKUAA and the HAF (see also Note F)	<u>(526,910)</u>
	<u>\$ 33,863,441</u>

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 statement of financial position.

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

December 31, 2008

NOTE D--NET PLEDGES RECEIVABLE

At December 31, 2008, net pledges receivable consist of the following:

Estimated to be collected in less than one year	\$ 3,507,100
Estimated to be collected in one to five years	10,952,552
Estimated to be collected thereafter	<u>5,500,753</u>
	19,960,405
Less allowance	<u>(1,041,300)</u>
	18,919,105
Less discounts to net present value	<u>(3,027,461)</u>
	<u>\$ 15,891,644</u>

Discount rates with respect to all outstanding pledges as of December 31, 2008 range from 3.29% to 7.00%.

During 2007, a donor pledged to contribute \$200,000 (two \$100,000 endowed scholarship funds), conditional upon three additional endowed \$100,000 scholarships funds being raised. The donor has provided for an April 2010 deadline by which the scholarship funds are to be raised. Since the pledge is conditional, the contribution will not be recorded as contribution revenue (or as a pledge receivable) until the donor's conditions have been met.

NOTE E--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 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.

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

December 31, 2008

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 (see Note C)	<u>\$ 49,571,503</u>	<u>\$ 29,333,512</u>	<u>\$ 17,966,189</u>	<u>\$ 2,271,802</u>

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	-
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.

NOTE F--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, 2008, assets held for others consist of the following:

WKU - Regional University Excellence Trust Fund	\$ 10,756,418
WKU - self-insurance program funds	3,937,328
Research Foundation - quasi-endowment funds	487,406
WKUAA and HAF - certain cash and investment funds	<u>296,032</u>
	<u>\$ 15,477,184</u>

Accordingly, the accompanying statement of financial position as of December 31, 2008 reflects a liability for assets held for others in the amount of \$15,477,184.

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

December 31, 2008

NOTE G--BANK NOTES PAYABLE

At December 31, 2008, bank notes payable consist of the following:

\$100,000 bank line of credit bearing interest at the prime rate (3.25% at December 31, 2008) minus 1.50%, interest paid quarterly, principal and unpaid interest accrued thereon due at maturity (September 2009), \$100,000 compensating balance requirement, see (A) below	\$ 58,757
Bank note payable bearing interest at the prime rate (3.25% at December 31, 2008) minus 1.375%, interest paid quarterly, principal and unpaid interest accrued thereon due at maturity (March 2011), collateralized by a security interest in a bank certificate of deposit, see (B) below	12,309
Bank note payable bearing interest at a fixed rate of 4.50%, quarterly interest and principal payments totaling \$60,878 through March 2012, balloon payment due at maturity (April 2012), collateralized by all Foundation assets including an assignment of the collections on certain pledges receivable, see (C) below	2,443,236
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	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	<u>250,322</u>
	<u>\$ 3,224,624</u>

(A) The bank line of credit is 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.

(B) Subsequent to year-end, the respective promissory note was modified to extend the note's maturity date from March 2009 to March 2011.

(C) The respective bank note payable is subject to a covenant whereby the Foundation is required to submit annual audited financial statements within 90 days of year-end. The Foundation is not in compliance with this covenant. The bank has not provided a waiver of this covenant. Accordingly, the respective note payable has been classified as being due in 2009 as indicated in the following schedule of aggregate maturities (a current liability as of December 31, 2008).

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

December 31, 2008

At December 31, 2008, the aggregate maturities required on the bank notes payable are as follows:

<u>Year Ending December 31</u>	
2009	\$ 2,752,315
2010	-
2011	12,309
2012	-
2013	<u>460,000</u>
	<u>\$ 3,224,624</u>

NOTE H--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 statement of financial position as of December 31, 2008 reflects a liability totaling \$253,675 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, 2008, cash, cash equivalents, and investments relative to charitable gift annuities total \$279,471.

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 statement of financial position as of December 31, 2008 reflects a liability totaling \$2,483,692 relative to the estimated present value of the future obligations calculated using discount rates ranging from 5.59% to 9.33%. At December 31, 2008, cash, cash equivalents, and investments relative to charitable remainder trusts total \$3,426,452.

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.

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

December 31, 2008

NOTE I--RESTRICTED NET ASSETS

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

Scholarship funds	\$ 611,466
Other program support	<u>18,729,751</u>
	<u>\$ 19,341,217</u>

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

Scholarship funds	\$ 11,175,529
Other program support	<u>19,644,575</u>
	<u>\$ 30,820,104</u>

NOTE J--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.

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	\$ 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>	<u>Temporarily restricted</u>	<u>Permanently 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				
Investment income	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>

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

December 31, 2008

NOTE K--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, contributions under KERS and KTRS made on behalf of eligible employees represent 10.01% and 13.84% of annual covered wages, respectively. Employer contributions made under KERS and KTRS on behalf of Foundation employees total approximately \$16,900 for the year ended December 31, 2008.

NOTE L--DEFERRED COMPENSATION ARRANGEMENT

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.

NOTE M--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 2008, the Foundation advanced the Corporation \$143,690, while the Corporation repaid a total of \$198,030. As of December 31, 2008, the amount due from the Corporation totals \$1,633,415.

In addition to advances to the Corporation, during 2008, the Foundation contributed \$99,356 to the Corporation.

Accounts payable as of December 31, 2008, includes amounts payable to WKU. Such accounts payable totals \$37,419 as of year-end.

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 amount 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 term under which expires in January 2010, the Foundation receives \$700 per month (\$8,400 annually). Accordingly, rental income (included within other income per the accompanying statement of activities) from WKU for the year ended December 31, 2008 totals \$188,400.

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.

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

December 31, 2008

NOTE N--PRIOR PERIOD ADJUSTMENT

During 2008, 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. Net assets as of January 1, 2008 per the accompanying statement of activities have been adjusted as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
As previously reported	\$ 19,377,138	\$ 18,844,685	\$ 29,187,046	\$ 67,408,869
Prior period adjustment	<u>-</u>	<u>940,037</u>	<u>(343,296)</u>	<u>596,741</u>
As restated	<u>\$ 19,377,138</u>	<u>\$ 19,784,722</u>	<u>\$ 28,843,750</u>	<u>\$ 68,005,610</u>