

FINANCIAL STATEMENTS

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

December 31, 2009 and 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 statements of financial position of Western Kentucky University Foundation, Inc. (a nonprofit organization) as of December 31, 2009 and 2008, 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, 2009 and 2008, 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, an error resulting in the overstatement of the previously reported net pledges receivable balance as of December 31, 2008 was discovered by management during the current year. Accordingly, an adjustment has been made to net assets of December 31, 2008 by revising the 2008 statement of activities as previously presented.

Mountjoy Chilton Medley LLP
Louisville, Kentucky
August 6, 2010

2000 Meidinger Tower
462 South Fourth Street
Louisville, KY 40202

502.749.1900 Phone
502.749.1930 Fax
www.mcmcpa.com

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WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 7,179,092	\$ 14,916,946
Investments	37,758,352	33,863,441
Net pledges receivable	14,900,125	15,085,067
Due from the WKU Real Estate Corporation	1,400,039	1,635,415
Due from the Warren County Downtown Economic Development Authority	3,800,000	-
Other receivables	50,034	95,034
Prepaid expenses and other assets	80,744	118,197
Assets held for others	<u>16,761,391</u>	<u>15,477,184</u>
Total assets	\$ <u>81,929,777</u>	\$ <u>81,191,284</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 89,652	\$ 96,450
Bank notes payable	2,874,174	3,224,624
Deferred gift liabilities	2,676,922	2,737,367
Liability for assets held for others	<u>16,761,391</u>	<u>15,477,184</u>
Total liabilities	<u>22,402,139</u>	<u>21,535,625</u>
Net assets		
Unrestricted	13,215,471	9,494,338
Temporarily restricted	13,268,054	19,341,217
Permanently restricted	<u>33,044,113</u>	<u>30,820,104</u>
Total net assets	<u>59,527,638</u>	<u>59,655,659</u>
Total liabilities and net assets	\$ <u>81,929,777</u>	\$ <u>81,191,284</u>

See accompanying notes to the financial statements

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains (losses), and other support				
Contributions	\$ 1,114,925	\$ 5,140,619	\$ 2,224,009	\$ 8,479,553
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>6,401,416</u>	<u>5,993,483</u>	<u>2,224,009</u>	<u>14,618,908</u>
Net assets released from restrictions	<u>12,066,646</u>	<u>(12,066,646)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses), and other support	<u>18,468,062</u>	<u>(6,073,163)</u>	<u>2,224,009</u>	<u>14,618,908</u>
Expenses				
Expenses on behalf of WKU programs				
Salaries/wages, payroll taxes, and benefits	679,468	-	-	679,468
Scholarships and honorariums	850,489	-	-	850,489
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	687,822	-	-	687,822
Dues/subscriptions and registrations	334,576	-	-	334,576
Printing, supplies, and other office expenses	277,624	-	-	277,624
Equipment rentals and maintenance	38,658	-	-	38,658
Other miscellaneous expenses	54,395	-	-	54,395
	<u>13,905,466</u>	<u>-</u>	<u>-</u>	<u>13,905,466</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>14,746,929</u>	<u>-</u>	<u>-</u>	<u>14,746,929</u>
Change in net assets	3,721,133	(6,073,163)	2,224,009	(128,021)
Net assets, beginning of year	<u>9,494,338</u>	<u>19,341,217</u>	<u>30,820,104</u>	<u>59,655,659</u>
Net assets, end of year	<u>\$ 13,215,471</u>	<u>\$ 13,268,054</u>	<u>\$ 33,044,113</u>	<u>\$ 59,527,638</u>

See accompanying notes to the financial statements

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2008

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains (losses), 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	-	189,085	-	189,085
	<u>(7,261,823)</u>	<u>4,597,761</u>	<u>1,976,354</u>	<u>(687,708)</u>
Net assets released from restrictions	5,041,266	(5,041,266)	-	-
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
Printing, supplies, and other office expenses	7,273	-	-	7,273
Interest expense	103,917	-	-	103,917
Other miscellaneous expenses	4,480	-	-	4,480
Provision for uncollectible pledges	1,038,422	-	-	1,038,422
	<u>1,688,833</u>	<u>-</u>	<u>-</u>	<u>1,688,833</u>
Fundraising				
Gifts and donations	5,360	-	-	5,360
Travel, meals, and entertainment	26,693	-	-	26,693
Printing, supplies, and other office expenses	26,432	-	-	26,432
Other miscellaneous expenses	1,405	-	-	1,405
	<u>59,890</u>	<u>-</u>	<u>-</u>	<u>59,890</u>
Total expenses	<u>7,662,243</u>	<u>-</u>	<u>-</u>	<u>7,662,243</u>
Change in net assets	(9,882,800)	(443,505)	1,976,354	(8,349,951)
Net assets, beginning of year	<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>\$ 9,494,338</u>	<u>\$ 19,341,217</u>	<u>\$ 30,820,104</u>	<u>\$ 59,655,659</u>

See accompanying notes to the financial statements

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Change in net assets	\$ (128,021)	\$ (8,349,951)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Provision for uncollectible pledges	11,400	1,038,422
Net unrealized (gains) losses on investments	(5,088,479)	10,791,279
Net realized losses on investments	240,504	507,697
Net actuarial (gain) loss from deferred gift liabilities	361,837	(307,459)
Changes in assets and liabilities		
Net pledges receivable	173,542	(1,855,487)
Other receivables	45,000	(37,275)
Prepaid expenses and other assets	37,453	(114,097)
Assets held for others	(1,284,207)	4,199,882
Accounts payable	(6,798)	92,196
Liability for assets held for others	<u>1,284,207</u>	<u>(4,199,882)</u>
Net cash provided by (used in) operating activities	<u>(4,353,562)</u>	<u>1,765,325</u>
Cash flows from investing activities		
Repayments of the advances to the WKU Real Estate Corporation	296,358	198,031
Proceeds from sales and maturities of investments	52,276,541	18,100,899
Advances to the WKU Real Estate Corporation	(60,982)	(145,690)
Loan to the Warren County Downtown Economic Development Authority	(3,800,000)	-
Purchases of investments	<u>(51,323,477)</u>	<u>(19,462,045)</u>
Net cash used in investing activities	<u>(2,611,560)</u>	<u>(1,308,805)</u>
Cash flows from financing activities		
Proceeds from bank notes payable	-	800,000
Payments on bank notes payable	(350,450)	(181,364)
Payments on deferred gift liabilities	<u>(422,282)</u>	<u>(423,087)</u>
Net cash provided by (used in) financing activities	<u>(772,732)</u>	<u>195,549</u>
Change in cash and cash equivalents	(7,737,854)	652,069
Cash and cash equivalents, beginning of year	<u>14,916,946</u>	<u>14,264,877</u>
Cash and cash equivalents, end of year	<u>\$ 7,179,092</u>	<u>\$ 14,916,946</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 123,536</u>	<u>\$ 103,917</u>

See accompanying notes to the financial statements

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009 and 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 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.

Basis of Accounting

The 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 now 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, with no significant impact to the accompanying financial statements.

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.

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.

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009 and 2008

**NOTE A--NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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 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 statements of activities.

Net Pledges Receivable

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.

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.

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009 and 2008

NOTE A--NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2009 and 2008, 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 C) 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 H). 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.

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.

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009 and 2008

**NOTE A--NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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 FASB issued new standards, contained in the ASC, clarifying the accounting for uncertainty in taxes recognized in annual financial statements for fiscal years beginning after December 15, 2008. These standards require recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach. The Foundation adopted these standards, believing there is no significant impact to the accompanying financial statements.

Subsequent Events

The Foundation has evaluated events occurring between the end of its most recent fiscal year (December 31, 2009) and August 6, 2010, the date the accompanying financial statements were available to be issued.

Reclassifications

Certain amounts for 2008 have been reclassified to conform with the 2009 presentation. These reclassifications had no effect on the previously reported change in net assets.

NOTE B--CONCENTRATIONS OF CREDIT RISK

In October 2008, the federal deposit insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC) temporarily increased from \$100,000 to \$250,000. In October 2008, the FDIC also enacted the Transaction Account Guarantee Program (Program) which fully guarantees any non-interest bearing account for the account's entire balance. The Program terminated on January 1, 2010 (through December 31, 2009), however the FDIC has since extended the Program through December 31, 2010 to the extent the financial institution has not opted-out of participating in the Program effective with the January 1, 2010 extension period. The financial institutions at which the Foundation maintains its cash deposits opted-out of participating in the Program after December 31, 2009. In July 2010, the federal deposit insurance coverage was permanently increased to \$250,000.

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 guaranteed that investors would receive one dollar for each money market fund share held in a participating fund as of the close of business on September 19, 2008. Through September 18, 2009, when the Temporary Guarantee Program was terminated, the Foundation's money market funds were eligible to be covered under the Temporary Guarantee Program, however as of December 31, 2009, such money market funds are uninsured.

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009 and 2008

NOTE C--INVESTMENTS

At December 31, 2009 and 2008, investments consist of the following:

	<u>2009</u>	<u>2008</u>
Certificates of deposit	\$ 2,225,238	\$ 10,367,830
Mutual funds	28,357,901	14,268,154
U.S. government and government agency obligations	12,616,145	12,098,996
Corporate bonds/notes and other fixed income securities	6,300,224	5,867,193
Equities and exchange traded funds	2,242,856	4,697,528
Real estate	2,129,270	2,271,802
Other	<u>582,500</u>	<u>-</u>
	54,454,134	49,571,503
Investments included above which are held for WKU (see also Note F)	(15,731,814)	(14,693,746)
Investments included above which are held for the Research Foundation (see also Note F)	(549,447)	(487,406)
Investments included above which are held for the WKUAA and the HAF (see also Note F)	<u>(414,521)</u>	<u>(526,910)</u>
	<u>\$ 37,758,352</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 statements of financial position.

At December 31, 2009 and 2008, 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, 2009	<u>\$ 54,454,134</u>	<u>\$ 32,825,995</u>	<u>\$ 18,916,369</u>	<u>\$ 2,711,770</u>
December 31, 2008	<u>\$ 49,571,503</u>	<u>\$ 29,333,512</u>	<u>\$ 17,966,189</u>	<u>\$ 2,271,802</u>

At December 31, 2009 and 2008, investments included above under Level 2 represent investments in U.S. government/government agency obligations, corporate bonds/notes, and other fixed income securities.

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009 and 2008

NOTE C--INVESTMENTS (CONTINUED)

At December 31, 2009 and 2008, investments included above under Level 3 principally represent three investments in real estate. The year ended December 31, 2009 activity with respect to such investments is as follows:

Beginning of the year	\$ 2,271,802
Net additional investments	439,968
Transfers in/out of Level 3	-
End of the year	<u>\$ 2,711,770</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 at December 31, 2009 and 2008) of the related real estate investments to approximate fair value as of December 31, 2009 and 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 (\$600,770 and \$743,302 at December 31, 2009 and 2008, respectively) of the net outstanding advances to approximate fair value as of December 31, 2009 and 2008.

NOTE D--NET PLEDGES RECEIVABLE

At December 31, 2009 and 2008, net pledges receivable consist of the following:

	<u>2009</u>	<u>2008</u>
Estimated to be collected in less than one year	\$ 3,914,634	\$ 3,423,939
Estimated to be collected in one to five years	10,654,914	10,662,584
Estimated to be collected thereafter	<u>3,553,122</u>	<u>4,759,195</u>
	18,122,670	18,845,718
Less allowance	<u>(1,137,500)</u>	<u>(1,041,300)</u>
	16,985,170	17,804,418
Less discounts to net present value	<u>(2,085,045)</u>	<u>(2,719,351)</u>
	<u>\$ 14,900,125</u>	<u>\$ 15,085,067</u>

Discount rates with respect to all outstanding pledges as of December 31, 2009 range from 1.98% to 7.00% (3.29% to 7.00% as of December 31, 2008).

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009 and 2008

NOTE E--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 (the outstanding principal balance as of December 31, 2009) 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;" see also Note N). 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.

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, 2009 and 2008, assets held for others consist of the following:

	<u>2009</u>	<u>2008</u>
WKU - Regional University Excellence Trust Fund	\$ 11,441,495	\$ 10,756,418
WKU - self-insurance program funds	4,290,319	3,937,328
Research Foundation - quasi-endowment funds	549,447	487,406
WKUAA and HAF - certain cash and investment funds	<u>480,130</u>	<u>296,032</u>
	<u>\$ 16,761,391</u>	<u>\$ 15,477,184</u>

Accordingly, the accompanying statements of financial position as of December 31, 2009 and 2008 reflect a liability for assets held for others in the amount of \$16,761,391 and \$15,477,184, respectively.

NOTE G--BANK NOTES PAYABLE

At December 31, 2009 and 2008, bank notes payable consist of the following:

	<u>2009</u>	<u>2008</u>
Bank note payable bearing interest at the prime rate (3.25% at December 31, 2009) minus 1.375%, interest paid quarterly, principal and unpaid interest accrued thereon due at maturity (January 2011), collateralized by a security interest in a bank certificate of deposit	\$ 12,309	\$ 12,309
\$100,000 bank line of credit bearing interest at the prime rate (3.25% at December 31, 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 (A) below	58,757	58,757

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009 and 2008

NOTE G--BANK NOTES PAYABLE (CONTINUED)

	<u>2009</u>	<u>2008</u>
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 (B) below	2,149,337	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	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>193,771</u>	<u>250,322</u>
	<u>\$ 2,874,174</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) 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 2010 as indicated in the below schedule of aggregate maturities (a current liability as of December 31, 2009).

At December 31, 2009, the aggregate maturities required on the bank notes payable are as follows:

<u>Year Ending December 31</u>	
2010	\$ 2,343,108
2011	71,066
2012	-
2013	<u>460,000</u>
	<u>\$ 2,874,174</u>

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009 and 2008

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 statements of financial position reflect liabilities totaling \$240,247 and \$253,675 as of December 31, 2009 and 2008, 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, 2009 and 2008, cash, cash equivalents, and investments relative to charitable gift annuities total \$291,061 and \$279,471, 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 \$2,436,675 and \$2,483,692 as of December 31, 2009 and 2008, respectively, relative to the estimated present value of the future obligations calculated using discount rates ranging from 5.59% to 9.33%. At December 31, 2009 and 2008, cash, cash equivalents, and investments relative to charitable remainder trusts total \$3,562,556 and \$3,426,452, 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 year ended December 31, 2009 activity with respect to deferred gift liabilities is as follows:

Beginning of the year	\$ 2,737,367
New deferred gifts	-
Net actuarial loss	361,837
Payment obligations	(422,282)
Transfers in/out of Level 3	-
End of the year	<u>\$ 2,676,922</u>

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009 and 2008

NOTE I--RESTRICTED NET ASSETS

At December 31, 2009 and 2008, temporarily restricted net assets consist of the following:

	<u>2009</u>	<u>2008</u>
Scholarship funds	\$ 659,225	\$ 611,466
Other WKU programs support	<u>12,608,829</u>	<u>18,729,751</u>
	<u>\$ 13,268,054</u>	<u>\$ 19,341,217</u>

At December 31, 2009 and 2008, permanently restricted net assets consist of the following:

	<u>2009</u>	<u>2008</u>
Scholarship funds	\$ 11,186,550	\$ 11,175,529
Other WKU programs support	<u>21,857,563</u>	<u>19,644,575</u>
	<u>\$ 33,044,113</u>	<u>\$ 30,820,104</u>

NOTE J--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 has not yet evaluated the impact that such legislation will have on its financial statements as of and for the year ended December 31, 2010.

Currently, 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, 2009 and 2008, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<u>December 31, 2009</u>				
Board designated endowment funds	\$ 13,486,936	\$ -	\$ -	\$ 13,486,936
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>33,044,113</u>	<u>33,044,113</u>
	<u>\$ 13,486,936</u>	<u>\$ -</u>	<u>\$ 33,044,113</u>	<u>\$ 46,531,049</u>
<u>December 31, 2008</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>

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009 and 2008

NOTE J--ENDOWMENT FUNDS (CONTINUED)

Changes in endowment net assets during the year ended December 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of the year	\$ 15,088,216	\$ -	\$ 30,820,104	\$ 45,908,320
Contributions	247,750	-	2,224,009	2,471,759
Investment return				
Investment income	664,388	-	-	664,388
Net depreciation (unrealized and realized)	(1,104,131)	-	-	(1,104,131)
Appropriation of endowment assets for expenditure	(1,409,287)	-	-	(1,409,287)
End of the year	<u>\$ 13,486,936</u>	<u>\$ -</u>	<u>\$ 33,044,113</u>	<u>\$ 46,531,049</u>

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 (the rates in effect as of December 31, 2009), contributions under KERS and KTRS made on behalf of eligible employees represent 11.61% and 13.84% of annual covered wages, respectively. Employer contributions made under KERS and KTRS on behalf of Foundation employees total approximately \$18,900 and \$16,900 for the years ended December 31, 2009 and 2008, respectively.

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 2009, the Foundation advanced the Corporation \$60,982, while the Corporation repaid a total of \$296,358. During 2008, the Foundation advanced the Corporation \$145,690, while the Corporation repaid a total of \$198,031. As of December 31, 2009 and 2008, the amount due from the Corporation totals \$1,400,039 and \$1,635,415, respectively.

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009 and 2008

NOTE M--RELATED PARTY TRANSACTIONS (CONTINUED)

In addition to advances to the Corporation, during 2009 and 2008, the Foundation contributed to the Corporation approximately \$85,500 and \$99,400, respectively.

Accounts payable as of December 31, 2009 and 2008 includes amounts payable to WKU. Such accounts payable total approximately \$53,700 and \$37,400 as of December 31, 2009 and 2008, respectively.

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 term under which expires in January 2015, the Foundation receives \$700 per month (\$8,400 annually). Accordingly, rental income (included within other income per the accompanying statements of activities) from WKU for the years ended December 31, 2009 and 2008 totals \$188,400. Rental income under the two leases for 2010 through 2014 will also total \$188,400 per year (\$855,700 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 N--SUBSEQUENT EVENT

Subsequent to year-end, the Foundation entered into a "letter of intent" which confirms and sets forth certain terms and conditions with respect to the development of "blocks 12 and 14 in the WKU Gateway to Downtown Bowling Green tax increment financing district" (see also Note E). In conjunction with this development, the Foundation would lease space (one floor) in the constructed alumni/conference center (a part of the development in its entirety) at an annual lease amount of \$100,000 payable semi-annually for 30 years. This lease would be under the terms of a sub-lease between the Foundation and WKU.

In addition, as outlined within the "letter of intent," the terms of the promissory note between the Foundation and the Warren County Downtown Economic Development Authority (see Note E) were proposed to be modified as follows:

- The Warren County Downtown Economic Development Authority would make a \$2,000,000 principal payment at the closing of the New Markets Tax Credits transaction (NMTC closing).
- No later than three years from the date of the NMTC closing, both parties would agree upon an acceptable amortization schedule to repay the remaining outstanding principal balance.
- At the NMTC closing, the Foundation would release any mortgages securing the promissory note. The promissory note would then be secured by the pledged tax increment financing revenue generated in "blocks 12 and 14."

All parties to the "letter of intent" acknowledge there are certain variables that could impact the financial viability of the proposed development. As such, the "letter of intent" may ultimately be terminated under the conditions listed within the "letter of intent."

WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009 and 2008

NOTE O--PRIOR PERIOD ADJUSTMENT

During 2009, management recognized that an individual pledge receivable had been misstated as of December 31, 2008. Accordingly, net assets as previously reported (as of December 31, 2008) decreased from \$60,462,236 to \$59,655,659. The \$806,577 adjustment to unrestricted net assets represents the portion of the pledge receivable estimated as being overstated (not collectible) as of December 31, 2008, as discounted to its net present value. The 2008 statement of activities has been revised to correct the misstatement (the 2008 provision for uncollectible pledges increased from \$231,845 to \$1,038,422).