

Western Kentucky University Foundation, Inc.

Financial Statements

December 31, 2011 and 2010

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, 2011 and 2010, 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, 2011 and 2010, 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.

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July 27, 2012

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Western Kentucky University Foundation, Inc.
Statements of Financial Position
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 3,412,967	\$ 3,145,612
Investments	48,279,496	49,567,277
Pledges receivable, net	12,211,874	14,724,906
Due from the WKU Real Estate Corporation	820,303	1,268,905
Due from the Warren County Downtown Economic Development Authority	2,149,850	1,986,893
Other receivables	93,949	71,426
Prepaid expenses and other assets	91,233	91,438
Assets held for others	<u>17,148,621</u>	<u>17,500,625</u>
Total assets	<u>\$ 84,208,293</u>	<u>\$ 88,357,082</u>
Liabilities and net assets		
Liabilities		
Accounts payable	\$ -	\$ 12,000
Bank notes payable	2,243,026	3,342,891
Due to the Hilltopper Athletic Foundation	382,997	504,013
Deferred gift liabilities	1,377,634	2,555,825
Liability for assets held for others	<u>17,148,621</u>	<u>17,500,625</u>
Total liabilities	<u>21,152,278</u>	<u>23,915,354</u>
Net assets		
Unrestricted	11,526,035	14,371,636
Temporarily restricted	15,628,584	14,893,369
Permanently restricted	<u>35,901,396</u>	<u>35,176,723</u>
Total net assets	<u>63,056,015</u>	<u>64,441,728</u>
Total liabilities and net assets	<u>\$ 84,208,293</u>	<u>\$ 88,357,082</u>

See accompanying notes

Western Kentucky University Foundation, Inc.
Statement of Activities
Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains (losses), and other support				
Contributions	\$ 565,143	\$ 5,040,980	\$ 724,673	\$ 6,330,796
Investment income	63,323	1,993,593	-	2,056,916
Net unrealized losses on investments	(1,135,147)	(2,096,169)	-	(3,231,316)
Net realized gains on sales of investments	241,959	713,648	-	955,607
Net actuarial gain from deferred gift liabilities	-	3,017	-	3,017
Rental income	-	180,000	-	180,000
	<u>(264,722)</u>	<u>5,835,069</u>	<u>724,673</u>	<u>6,295,020</u>
Net assets released from restrictions	<u>5,099,854</u>	<u>(5,099,854)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses), and other support	<u>4,835,132</u>	<u>735,215</u>	<u>724,673</u>	<u>6,295,020</u>
Expenses				
Expenses on behalf of WKU programs				
Salaries/wages, payroll taxes, and benefits	976,138	-	-	976,138
Scholarships and honorariums	1,034,860	-	-	1,034,860
Gifts and donations	515,539	-	-	515,539
Capital expenditures	1,768,115	-	-	1,768,115
Professional fees and other services	210,084	-	-	210,084
Travel, meals, and entertainment	693,152	-	-	693,152
Dues/subscriptions and registrations	365,623	-	-	365,623
Printing, supplies, and other office expenses	285,084	-	-	285,084
Equipment rentals and maintenance	24,018	-	-	24,018
Interest expense	104,563	-	-	104,563
Other miscellaneous expenses	227,482	-	-	227,482
	<u>6,204,658</u>	<u>-</u>	<u>-</u>	<u>6,204,658</u>
Management and general				
Salaries/wages, payroll taxes, and benefits	430,977	-	-	430,977
Professional fees and other services	257,664	-	-	257,664
Travel, meals, and entertainment	6,809	-	-	6,809
Printing, supplies, and other office expenses	19,028	-	-	19,028
Other miscellaneous expenses	3,491	-	-	3,491
Provision for uncollectible pledges	730,045	-	-	730,045
	<u>1,448,014</u>	<u>-</u>	<u>-</u>	<u>1,448,014</u>
Fundraising				
Gifts and donations	5,601	-	-	5,601
Travel, meals, and entertainment	15,735	-	-	15,735
Printing, supplies, and other office expenses	5,440	-	-	5,440
Other miscellaneous expenses	1,285	-	-	1,285
	<u>28,061</u>	<u>-</u>	<u>-</u>	<u>28,061</u>
Total expenses	<u>7,680,733</u>	<u>-</u>	<u>-</u>	<u>7,680,733</u>
Change in net assets	(2,845,601)	735,215	724,673	(1,385,713)
Net assets, beginning of year	<u>14,371,636</u>	<u>14,893,369</u>	<u>35,176,723</u>	<u>64,441,728</u>
Net assets, end of year	<u>\$ 11,526,035</u>	<u>\$ 15,628,584</u>	<u>\$ 35,901,396</u>	<u>\$ 63,056,015</u>

See accompanying notes

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains (losses), and other support				
Contributions	\$ 466,011	\$ 6,535,314	\$ 1,423,227	\$ 8,424,552
Investment income	312,214	1,863,455	-	2,175,669
Net unrealized gains on investments	1,518,059	989,702	-	2,507,761
Net realized gains on sales of investments	198,579	163,370	-	361,949
Net actuarial loss from deferred gift liabilities	-	(316,604)	-	(316,604)
Rental income	-	186,300	-	186,300
	<u>2,494,863</u>	<u>9,421,537</u>	<u>1,423,227</u>	<u>13,339,627</u>
Net assets released from restrictions	<u>7,021,742</u>	<u>(7,021,742)</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>
Expenses				
Expenses on behalf of WKU programs				
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
Interest expense	104,527	-	-	104,527
Other miscellaneous expenses	247,506	-	-	247,506
	<u>5,971,307</u>	<u>-</u>	<u>-</u>	<u>5,971,307</u>
Management and general				
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
Other miscellaneous expenses	2,911	-	-	2,911
Provision for uncollectible pledges	835,448	-	-	835,448
	<u>1,525,758</u>	<u>-</u>	<u>-</u>	<u>1,525,758</u>
Fundraising				
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.
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ (1,385,713)	\$ 5,806,570
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Provision for uncollectible pledges	730,045	835,448
Net unrealized losses (gains) on investments	3,231,316	(2,507,761)
Net realized gains on investments	(955,607)	(361,949)
Net actuarial (gain) loss from deferred gift liabilities	(3,017)	316,604
Changes in assets and liabilities		
Net pledges receivable	1,782,987	(1,552,709)
Other receivables	(22,523)	(21,392)
Prepaid expenses and other assets	205	(10,694)
Accounts payable	(12,000)	(77,652)
Net cash provided by operating activities	<u>3,365,693</u>	<u>2,426,465</u>
Cash flows from investing activities		
Proceeds from the sales and maturities of investments	37,593,472	16,435,086
Repayments of the amount due from the WKU Real Estate Corporation	508,456	154,476
Repayments of the amount due from the Warren County Downtown Economic Development Authority	-	2,130,583
Purchases of investments	(38,581,400)	(25,374,301)
Additions to the amount due from the WKU Real Estate Corporation	(59,854)	(23,342)
Additions to the amount due from the Warren County Downtown Economic Development Authority	(162,957)	(317,476)
Net cash used in investing activities	<u>(702,283)</u>	<u>(6,994,974)</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	(1,099,865)	(531,022)
Payments on the amount due to the Hilltopper Athletic Foundation	(121,016)	-
Net reduction of deferred gift liabilities	(1,175,174)	(437,701)
Net cash (used in) provided by financing activities	<u>(2,396,055)</u>	<u>535,029</u>
Change in cash and cash equivalents	267,355	(4,033,480)
Cash and cash equivalents, beginning of year	<u>3,145,612</u>	<u>7,179,092</u>
Cash and cash equivalents, end of year	<u>\$ 3,412,967</u>	<u>\$ 3,145,612</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 104,563</u>	<u>\$ 104,527</u>
Supplemental disclosure of non-cash investing and financing activities		
Bank note payable refinanced with a new lender	<u>\$ -</u>	<u>\$ 1,967,661</u>

See accompanying notes

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements
December 31, 2011 and 2010

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

1. 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 (GAAP). The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the sole source of authoritative GAAP for non-governmental entities.

2. 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.

3. 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, 2011 and 2010

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

4. 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.

5. Investments

The Foundation's investments are generally administered as pools of commingled assets held in custodial investment accounts managed by professional investment advisors. The Foundation invests in a combination of cash equivalent funds (money market funds), certificates of deposit, mutual funds, fixed income securities, exchange traded funds, equities, and real estate and other alternative investments (see Note D). Fixed income securities principally include U.S. government and government agency securities and corporate bonds/notes.

All investment securities are subject to the risks common to financial markets, including interest rate risk, credit risk, and overall market risk. Due to the level of risk associated with all 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 financial statements.

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. One such charitable remainder annuity trust is invested in real estate. Management considers the carrying value of this and all other real estate investments to approximate fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note K for a discussion of fair value measurements.

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.

Investment income includes both interest and dividend income. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized gains (losses) represent the gains (losses) on investments sold during the year. Net unrealized gains (losses) represent the gains (losses) on investments held throughout the year. Unrealized gains (losses) are included in the change in net assets in the accompanying statements of activities.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

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

6. 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.

7. 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 donors or other designated beneficiaries during the terms of the respective split-interest agreements.

8. 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.

9. Functional Allocation of Expenses

The costs of providing the various 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.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

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

10. 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. Additionally, 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.

When applicable, the Foundation recognizes uncertain income tax positions using the “more-likely-than-not” approach as defined in the ASC. No such uncertain tax positions have been reflected in the accompanying financial statements. The Foundation’s 2008 through 2011 tax years remain open and subject to examination.

11. 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.

12. Reclassifications

Certain amounts for 2010 have been reclassified to conform with the 2011 presentation. These reclassifications had no effect on the previously reported change in net assets.

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, 2011, the Foundation’s one non-interest bearing cash account is fully insured under the Act. At December 31, 2011, uninsured balances with respect to the Foundation’s interest bearing accounts (including certificates of deposit) total approximately \$4,500,000. At December 31, 2011, the Foundation’s money market funds are uninsured.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note D--Investments

At December 31, 2011 and 2010, investments consist of the following (see also Note K):

	<u>2011</u>	<u>2010</u>
Certificates of deposit	\$ 4,811,627	\$ 4,171,111
Mutual funds	30,494,856	40,847,339
U.S. government and government agency obligations	8,542,335	8,061,450
Corporate bonds/notes and other fixed income securities	5,536,239	5,465,900
Exchange traded funds	276,259	47,165
Equities	11,870,636	4,078,389
Real estate and other alternative investments	<u>3,896,165</u>	<u>4,392,408</u>
	65,428,117	67,063,762
Less: investments included above which are held for WKU (see also Note H)	16,259,524	16,256,833
Less: investments included above which are held for the Research Foundation (see also Note H)	889,097	866,261
Less: investments included above which are held for the WKUAA and the HAF (see also Note H)	<u>-</u>	<u>373,391</u>
	<u>\$ 48,279,496</u>	<u>\$ 49,567,277</u>

Note E--Real Estate and Other Alternative Investments

Real estate and other alternative investments include investments in real estate, marketable alternatives, and limited partnerships.

Real estate: Management considers the carrying value of the two real estate investments to approximate fair value as of year-end.

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. One such charitable remainder annuity trust is invested in real estate. Management considers the carrying value (\$1,528,500 at December 31, 2011 and 2010) of the related real estate investment to approximate fair value as of December 31, 2011 and 2010.

During 2008, the Foundation funded leasehold improvements on behalf of a lessee of certain office space located within the building owned by the charitable remainder annuity trust 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 (\$269,870 and \$447,934 at December 31, 2011 and 2010, respectively) of the net outstanding advances to approximate fair value as of December 31, 2011 and 2010.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note E--Real Estate and Other Alternative Investments (Continued)

Marketable alternatives: The Foundation is invested in marketable alternatives, investments for which fair value is determined using the net asset value, as provided by the respective “fund,” and that are considered to have sufficient activity or liquidity within the respective “fund.”

Limited partnerships: The Foundation is invested in two limited partnerships. One of the limited partnerships invests primarily in marketable securities with a readily determinable fair value. The other limited partnership invests primarily in securities for which there is no public market or readily determinable fair value. The Foundation is a limited partner in both of these investments. Neither investment is considered to have sufficient activity or liquidity within the respective “fund.” Under the terms of the respective limited partnership agreements, the limited partners are only liable for losses to the extent of their capital invested.

The Foundation’s methodologies for determining the fair values of its investments in each of these alternative investments are described in Note K.

Note F--Pledges Receivable, Net

At December 31, 2011 and 2010, net pledges receivable consist of the following:

	<u>2011</u>	<u>2010</u>
Estimated to be collected in less than one year	\$ 5,229,739	\$ 5,418,282
Estimated to be collected in one to five years	7,211,382	9,986,269
Estimated to be collected thereafter	<u>2,163,173</u>	<u>2,879,001</u>
	14,604,294	18,283,552
Less: allowance for uncollectible pledges	<u>1,165,800</u>	<u>1,930,800</u>
	13,438,494	16,352,752
Less: discounts to net present value	<u>1,226,620</u>	<u>1,627,846</u>
	<u>\$ 12,211,874</u>	<u>\$ 14,724,906</u>

Discount rates with respect to all outstanding pledges as of December 31, 2011 range from 1.44% to 7.00% (1.83% to 7.00% as of December 31, 2010).

During 2011, the Foundation received a conditional pledge in the amount of up to \$500,000. The receipt of such funds, temporarily restricted to be used for a specific program, is conditional upon the Foundation raising matching funds. During 2011, the Foundation raised \$150,000 of matching funds. Accordingly, the donor funded \$150,000 of the conditional pledge during 2011. The remaining \$350,000 will subsequently be recognized as support when the Foundation raises the additional \$350,000 of matching funds.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note G--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 (TIF) district." The loan bears interest at a fixed rate of 8.00%. Semi-annual interest payments began in April 2010. The Authority did not however make the scheduled semi-annual interest payments that were due to be paid during 2011. The outstanding principal amount, and the unpaid interest accrued thereon, is currently due at maturity (June 30, 2016). The Authority has pledged as security for the loan the TIF revenue generated from blocks 12 and 14. At December 31, 2011 and 2010, the amount due from the Authority totals \$2,149,850 and \$1,986,893, respectively.

The Foundation and the Authority are currently renegotiating the loan's repayment terms.

Note H--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, 2011 and 2010, assets held for others consist of the following:

	<u>2011</u>	<u>2010</u>
WKU - Regional University Excellence Trust Fund	\$ 12,698,942	\$ 12,820,687
WKU - self-insurance program funds	3,560,582	3,436,146
Research Foundation - quasi-endowment funds	889,097	866,261
WKUAA and HAF - certain cash and investment funds	<u>-</u>	<u>377,531</u>
	<u>\$ 17,148,621</u>	<u>\$ 17,500,625</u>

Accordingly, the accompanying statements of financial position as of December 31, 2011 and 2010 reflect a liability for assets held for others in the amount of \$17,148,621 and \$17,500,625, respectively.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note I--Bank Notes Payable

At December 31, 2011 and 2010, bank notes payable consist of the following:

	<u>2011</u>	<u>2010</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) below	\$ 1,367,599	\$ 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 (A) below	707,710	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	109,667	209,667
Bank note payable bearing interest at a fixed rate of 5.25%, the note is payable in-full upon demand of the bank, otherwise quarterly interest and principal payments totaling \$17,152 through maturity (June 2013), collateralized by a security interest in a bank certificate of deposit	58,050	121,501
\$100,000 bank line of credit bearing interest at the prime rate (3.25% at December 31, 2011 and 2010) 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, \$100,000 compensating balance requirement, see (A) and (B) below	<u>-</u>	<u>44,323</u>
	<u>\$ 2,243,026</u>	<u>\$ 3,342,891</u>

(A) The 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.

(B) The Foundation has access to borrowings under the bank line of credit through December 2013.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note I--Bank Notes Payable (Continued)

At December 31, 2011, the aggregate maturities required on the bank notes payable are as follows:

<u>Year Ending December 31</u>	
2012	\$ 642,417
2013	714,672
2014	626,380
2015	<u>259,557</u>
	<u>\$ 2,243,026</u>

Note J--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.

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 \$155,363 and \$215,433 as of December 31, 2011 and 2010, respectively, relative to the estimated present value of the future annuity obligations calculated using discount rates ranging from 1.53% to 7.96%. At December 31, 2011 and 2010, cash, cash equivalents, and investments relative to charitable gift annuities total \$276,575 and \$263,346, 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 \$1,222,271 and \$2,340,392 as of December 31, 2011 and 2010, 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, 2011 and 2010, cash, cash equivalents, and investments relative to charitable remainder trusts total \$2,592,561 and \$3,563,751, 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 of the contribution. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age (and life expectancies using the applicable mortality tables), the date of the gift, the fair value of the amount gifted, the estimated 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 also Note K.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note K--Fair Value Measurements

The ASC provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as described below:

- 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. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- 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.

The following is a description of the valuation methodologies used for the assets and liabilities measured at fair value. There have been no changes in the methodologies used to determine fair value at December 31, 2011 and 2010.

Certificates of deposit: Carried at cost adjusted for accumulated interest earned through year-end, which approximates fair value.

Mutual funds: Valued at the net asset value of the shares held by the Foundation at year-end.

U.S. government and government agency obligations: Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

Corporate bonds/notes and other fixed income securities: Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

Exchange traded funds: Valued at the quoted market price of the shares held by the Foundation at year-end.

Equities: Valued at the quoted market price of the shares held by the Foundation at year-end.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note K--Fair Value Measurements (Continued)

Real estate: Valued at the carrying values of the respective real estate investments, which approximate fair value.

Marketable alternatives: Valued at the net asset value as provided by the “fund” portfolio at year-end.

Limited partnerships: The estimated fair values are based on information provided by the general partners of each of the respective partnerships. One of the limited partnerships invests primarily in marketable securities with a readily determinable fair value. The fair value of this limited partnership is determined by allocating the aggregate fair values of the underlying securities to each limited partner based on the number of units held by the partner. The other limited partnership invests primarily in securities for which there is no public market or readily determinable fair value. Therefore, the fair value of this limited partnership is estimated based on the initial cost of the investment, adjusted for changes in the general partners’ estimates of the fair values of the underlying assets and are equivalent to net asset value.

Deferred gift liabilities: The estimated fair value is based on the present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements. The actuarial related assumptions used in calculating the respective present values include the beneficiary’s age (and life expectancies using the applicable mortality tables), the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note K--Fair Value Measurements (Continued)

The following table sets forth by level within the fair value hierarchy, the Foundation's assets (investments) at fair value at December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 4,811,627	\$ -	\$ -	\$ 4,811,627
Mutual funds				
Equity	19,428,567	-	-	19,428,567
Fixed income	<u>11,066,289</u>	<u>-</u>	<u>-</u>	<u>11,066,289</u>
	<u>30,494,856</u>	<u>-</u>	<u>-</u>	<u>30,494,856</u>
U.S. government and government agency obligations				
Rated Aaa	-	3,862,823	-	3,862,823
Not rated (see (1) below)	<u>-</u>	<u>4,679,512</u>	<u>-</u>	<u>4,679,512</u>
	<u>-</u>	<u>8,542,335</u>	<u>-</u>	<u>8,542,335</u>
Corporate bonds/notes and other fixed income securities				
Rated Aaa	-	52,979	-	52,979
Rated Aa1 to Aa3	-	1,455,111	-	1,455,111
Rated A1 to A3	-	1,841,753	-	1,841,753
Rated Baa1 to Baa3	-	1,970,649	-	1,970,649
Rated Ba1 to Ba3	-	38,440	-	38,440
Rated C	-	15	-	15
Not rated	<u>-</u>	<u>177,292</u>	<u>-</u>	<u>177,292</u>
	<u>-</u>	<u>5,536,239</u>	<u>-</u>	<u>5,536,239</u>
Exchange traded funds	<u>276,259</u>	<u>-</u>	<u>-</u>	<u>276,259</u>
Equities				
Consumer discretionary	1,210,976	-	-	1,210,976
Consumer staples	768,255	-	-	768,255
Energy	1,168,450	-	-	1,168,450
Financial	2,313,582	-	-	2,313,582
Health care	908,201	-	-	908,201
Industrials	1,441,949	-	-	1,441,949
Information technology	1,734,402	-	-	1,734,402
Materials	292,101	-	-	292,101
Telecommunication services	331,116	-	-	331,116
Utilities	851,103	-	-	851,103
Other	<u>850,501</u>	<u>-</u>	<u>-</u>	<u>850,501</u>
	<u>11,870,636</u>	<u>-</u>	<u>-</u>	<u>11,870,636</u>
Real estate and other alternative investments				
Real estate	-	-	1,798,370	1,798,370
Marketable alternatives	-	1,544,761	-	1,544,761
Limited partnership - marketable securities	-	-	258,209	258,209
Limited partnership - private equity	<u>-</u>	<u>-</u>	<u>294,825</u>	<u>294,825</u>
	<u>-</u>	<u>1,544,761</u>	<u>2,351,404</u>	<u>3,896,165</u>
	<u>\$ 47,453,378</u>	<u>\$ 15,623,335</u>	<u>\$ 2,351,404</u>	<u>\$ 65,428,117</u>

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note K--Fair Value Measurements (Continued)

(1) Securities that are issued by the U.S. Treasury or U.S. government agencies (investments in U.S. government and government agency obligations) are generally not rated by credit rating agencies (Moody's Investors Services, Inc. or Standard & Poor's Corporation).

The following table sets forth by level within the fair value hierarchy, the Foundation's assets (investments) at fair value at December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 4,171,111	\$ -	\$ -	\$ 4,171,111
Mutual funds	40,847,339	-	-	40,847,339
U.S. government and government agency obligations	-	8,061,450	-	8,061,450
Corporate bonds /notes and other fixed income securities	-	5,465,900	-	5,465,900
Exchange traded funds	47,165	-	-	47,165
Equities	4,078,389	-	-	4,078,389
Real estate and other alternative investments	<u>-</u>	<u>1,706,143</u>	<u>2,686,265</u>	<u>4,392,408</u>
	<u>\$ 49,144,004</u>	<u>\$ 15,233,493</u>	<u>\$ 2,686,265</u>	<u>\$ 67,063,762</u>

The 2011 and 2010 activity with respect to the assets (investments) included above under Level 3 is as follows:

	<u>2011</u>	<u>2010</u>
Beginning of the year	\$ 2,686,265	\$ 2,711,770
Purchases	73,631	67,428
Sales	(444,772)	(170,041)
Net unrealized and realized appreciation	36,280	77,108
End of the year	<u>\$ 2,351,404</u>	<u>\$ 2,686,265</u>

The following table sets forth by level within the fair value hierarchy, the Foundation's liabilities (deferred gift liabilities) at fair value at December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 372,598	\$ 372,598
Annuity trusts	-	-	849,673	849,673
Charitable gift annuities	<u>-</u>	<u>-</u>	<u>155,363</u>	<u>155,363</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,377,634</u>	<u>\$ 1,377,634</u>

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note K--Fair Value Measurements (Continued)

The following table sets forth by level within the fair value hierarchy, the Foundation's liabilities (deferred gift liabilities) at fair value at December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 407,141	\$ 407,141
Annuity trusts	-	-	1,933,251	1,933,251
Charitable gift annuities	-	-	215,433	215,433
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,555,825</u>	<u>\$ 2,555,825</u>

The 2011 and 2010 activity with respect to the liabilities (deferred gift liabilities) included above under Level 3 is as follows:

	<u>2011</u>	<u>2010</u>
Beginning of the year	\$ 2,555,825	\$ 2,676,922
New deferred gifts	39,848	-
Payment obligations	(882,505)	(402,030)
Reduction attributable to death of donors	(332,517)	(35,671)
Net actuarial (gain) loss	(3,017)	316,604
End of the year	<u>\$ 1,377,634</u>	<u>\$ 2,555,825</u>

The following table sets forth the fair values at December 31, 2011 relative to alternative investments for which the fair values are determined using a net asset value per share (or its equivalent):

	<u>Fair value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Marketable alternatives	\$ 966,995	\$ -	annually	90 days
Marketable alternatives	577,766	-	monthly	30 days
Limited partnership - marketable securities	258,209	-	quarterly	30 days
Limited partnership - private equity	294,825	37,500	N/A	N/A

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note L--Restricted Net Assets

At December 31, 2011 and 2010, temporarily restricted net assets consist of the following:

	<u>2011</u>	<u>2010</u>
Academic support/WKU programs	\$ 14,271,792	\$ 12,777,793
Scholarship funds	351,345	717,771
Public services	905,458	923,927
Athletics	<u>99,989</u>	<u>473,878</u>
	<u>\$ 15,628,584</u>	<u>\$ 14,893,369</u>

At December 31, 2011 and 2010, permanently restricted net assets consist of the following:

	<u>2011</u>	<u>2010</u>
Academic support/WKU programs	\$ 13,820,850	\$ 14,261,100
Scholarship funds	12,415,031	12,591,816
Professorships	<u>9,665,515</u>	<u>8,323,807</u>
	<u>\$ 35,901,396</u>	<u>\$ 35,176,723</u>

Note M--Endowment Funds

In August 2008, the FASB issued ASC 958-205-45-28, *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*. This pronouncement 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). The pronouncement also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

In March 2010, the state of Kentucky enacted UPMIFA legislation, the effective date of which was July 15, 2010. Accordingly, the Foundation adopted the enacted state of Kentucky UPMIFA legislation for the year ending December 31, 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.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note M--Endowment Funds (Continued)

At December 31, 2011, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board designated	\$ 7,405,805	\$ -	\$ -	\$ 7,405,805
Donor restricted	<u>-</u>	<u>-</u>	<u>35,901,396</u>	<u>35,901,396</u>
	<u>\$ 7,405,805</u>	<u>\$ -</u>	<u>\$ 35,901,396</u>	<u>\$ 43,307,201</u>

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	\$ 10,449,554	\$ -	\$ -	\$ 10,449,554
Donor restricted	<u>-</u>	<u>-</u>	<u>35,176,723</u>	<u>35,176,723</u>
	<u>\$ 10,449,554</u>	<u>\$ -</u>	<u>\$ 35,176,723</u>	<u>\$ 45,626,277</u>

Changes in endowment net assets during 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of the year	\$ 10,449,554	\$ -	\$ 35,176,723	\$ 45,626,277
Contributions	368,432	-	724,673	1,093,105
Investment return				
Investment income	35,338	1,627,782	-	1,663,120
Net depreciation	(893,190)	(1,627,782)	-	(2,520,972)
Appropriation for expenditure	<u>(2,554,329)</u>	<u>-</u>	<u>-</u>	<u>(2,554,329)</u>
End of the year	<u>\$ 7,405,805</u>	<u>\$ -</u>	<u>\$ 35,901,396</u>	<u>\$ 43,307,201</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	1,336,542	-	1,614,439
Net appreciation	1,716,599	519,083	-	2,235,682
Appropriation for expenditure	<u>(534,535)</u>	<u>(1,855,625)</u>	<u>-</u>	<u>(2,390,160)</u>
End of the year	<u>\$ 10,449,554</u>	<u>\$ -</u>	<u>\$ 35,176,723</u>	<u>\$ 45,626,277</u>

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note M--Endowment Funds (Continued)

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets when they occur. There are no such deficiencies as of December 31, 2011 and 2010.

Return objectives and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through the diversification of asset classes. The current long-term return objective is to return 8.00% net of related investment management fees. Actual returns in any given year may vary from this objective.

Strategies employed for achieving return objectives:

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on mutual funds and equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Spending policy and how the investment objectives relate to the 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.

The Foundation's objective is to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns.

Effective July 1, 2012, the Foundation's Board of Trustees revised the spending policy, decreasing the annual distribution goal from 4.50% to 3.00%.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note N--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 19.82% and 14.84% of annual covered wages, respectively. Employer contributions made under KERS and KTRS on behalf of Foundation employees total approximately \$22,000 and \$26,000 for the years ended December 31, 2011 and 2010, respectively.

Note O--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 P--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 2011, the Foundation advanced the Corporation \$59,854, while the Corporation repaid a total of \$508,456. During 2010, the Foundation advanced the Corporation \$23,342, while the Corporation repaid a total of \$154,476. At December 31, 2011 and 2010, the amount due from the Corporation totals \$820,303 and \$1,268,905, respectively.

In addition to advances to the Corporation, during 2011 and 2010, the Foundation contributed to the Corporation approximately \$258,300 and \$178,400, respectively.

During 2010, the Foundation advanced \$30,000 to a WKU employee (the amount outstanding at December 31, 2011 and 2010). The non-interest bearing advance, reflected as an other receivable per the accompanying statements of financial position as of December 31, 2011 and 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 consists of \$12,000 which is payable to WKU. There are no such accounts payable to WKU as of December 31, 2011.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2011 and 2010

Note P--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. During 2011, the Foundation repaid the HAF \$121,016. Accordingly, at December 31, 2011, the amount due to the HAF totals \$382,997.

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 from WKU for the years ended December 31, 2011 and 2010 totals \$180,000 and \$186,300, respectively. Rental income under the one remaining lease for 2012 through 2016 totals \$180,000 annually (\$495,000 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.