

Western Kentucky University Foundation, Inc.

Financial Statements

December 31, 2012 and 2011

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 financial statements of Western Kentucky University Foundation, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Louisville, Kentucky
April 17, 2013

Louisville

2000 Meidinger Tower
462 South Fourth Street
Louisville, KY 40202

P 502.749.1900
F 502.749.1900

888.587.1719 | www.mcmcpa.com

Kentucky

Indiana

Ohio

Western Kentucky University Foundation, Inc.
Statements of Financial Position
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	\$ 6,496,024	\$ 3,979,486
Investments	50,442,395	47,712,977
Pledges receivable, net	9,059,172	12,211,874
Due from the WKU Real Estate Corporation	469,286	820,303
Due from the College Heights Foundation	39,250	-
Due from the Warren County Downtown Economic Development Authority	1,948,048	2,149,850
Other receivables	107,561	93,949
Prepaid expenses and other assets	66,969	91,233
Assets held for others	<u>17,546,457</u>	<u>17,148,621</u>
Total assets	<u>\$ 86,175,162</u>	<u>\$ 84,208,293</u>
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 120,356	\$ -
Bank notes payable	1,659,249	2,243,026
Due to the Hilltopper Athletic Foundation	269,147	382,997
Deferred gift liabilities	1,161,345	1,377,634
Liability for assets held for others	<u>17,546,457</u>	<u>17,148,621</u>
Total liabilities	<u>20,756,554</u>	<u>21,152,278</u>
Net assets		
Unrestricted	10,147,340	11,526,035
Temporarily restricted	18,671,057	15,628,584
Permanently restricted	<u>36,600,211</u>	<u>35,901,396</u>
Total net assets	<u>65,418,608</u>	<u>63,056,015</u>
Total liabilities and net assets	<u>\$ 86,175,162</u>	<u>\$ 84,208,293</u>

See accompanying notes

Western Kentucky University Foundation, Inc.
Statements of Activities
Years Ended December 31, 2012 and 2011

	2012			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Revenues, gains (losses), and other support				
Contributions	\$ 266,080	\$ 4,709,190	\$ 698,815	\$ 5,674,085
Investment income	227,419	1,889,918	-	2,117,337
Net unrealized and realized gains (losses) on investments	385,818	3,259,454	-	3,645,272
Net actuarial gain (loss) from deferred gift liabilities	-	(56,331)	-	(56,331)
Rental income	-	180,000	-	180,000
	<u>879,317</u>	<u>9,982,231</u>	<u>698,815</u>	<u>11,560,363</u>
Net assets released from restrictions	<u>6,939,758</u>	<u>(6,939,758)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses), and other support	<u>7,819,075</u>	<u>3,042,473</u>	<u>698,815</u>	<u>11,560,363</u>
Expenses				
Expenses on behalf of WKU programs				
Salaries/wages, payroll taxes, and benefits	1,428,312	-	-	1,428,312
Scholarships and honorariums	665,140	-	-	665,140
Gifts and donations	1,001,068	-	-	1,001,068
Capital expenditures	2,647,151	-	-	2,647,151
Professional fees and other services	156,613	-	-	156,613
Travel, meals, and entertainment	792,407	-	-	792,407
Dues/subscriptions and registrations	427,290	-	-	427,290
Printing, supplies, and other office expenses	308,119	-	-	308,119
Equipment rentals and maintenance	26,711	-	-	26,711
Interest expense	64,247	-	-	64,247
Other miscellaneous expenses	124,918	-	-	124,918
	<u>7,641,976</u>	<u>-</u>	<u>-</u>	<u>7,641,976</u>
Management and general				
Salaries/wages, payroll taxes, and benefits	517,414	-	-	517,414
Professional fees and other services	332,611	-	-	332,611
Travel, meals, and entertainment	11,050	-	-	11,050
Printing, supplies, and other office expenses	29,032	-	-	29,032
Other miscellaneous expenses	4,309	-	-	4,309
Provision for uncollectible interest	192,990	-	-	192,990
Provision for uncollectible pledges	450,892	-	-	450,892
	<u>1,538,298</u>	<u>-</u>	<u>-</u>	<u>1,538,298</u>
Fundraising				
Scholarships and honorariums	506	-	-	506
Gifts and donations	5,201	-	-	5,201
Travel, meals, and entertainment	4,410	-	-	4,410
Printing, supplies, and other office expenses	5,787	-	-	5,787
Other miscellaneous expenses	1,592	-	-	1,592
	<u>17,496</u>	<u>-</u>	<u>-</u>	<u>17,496</u>
Total expenses	<u>9,197,770</u>	<u>-</u>	<u>-</u>	<u>9,197,770</u>
Change in net assets	(1,378,695)	3,042,473	698,815	2,362,593
Net assets, beginning of year	<u>11,526,035</u>	<u>15,628,584</u>	<u>35,901,396</u>	<u>63,056,015</u>
Net assets, end of year	<u>\$ 10,147,340</u>	<u>\$ 18,671,057</u>	<u>\$ 36,600,211</u>	<u>\$ 65,418,608</u>

See accompanying notes

2011

	Unrestricted	Temporarily restricted	Permanently restricted	Total
\$	565,143	\$ 5,040,980	\$ 724,673	\$ 6,330,796
	63,323	1,993,593	-	2,056,916
	(893,188)	(1,382,521)	-	(2,275,709)
	-	3,017	-	3,017
	-	180,000	-	180,000
	(264,722)	5,835,069	724,673	6,295,020
	5,099,854	(5,099,854)	-	-
	<u>4,835,132</u>	<u>735,215</u>	<u>724,673</u>	<u>6,295,020</u>
	976,138	-	-	976,138
	1,034,860	-	-	1,034,860
	515,539	-	-	515,539
	1,768,115	-	-	1,768,115
	210,084	-	-	210,084
	693,152	-	-	693,152
	365,623	-	-	365,623
	285,084	-	-	285,084
	24,018	-	-	24,018
	104,563	-	-	104,563
	227,482	-	-	227,482
	<u>6,204,658</u>	<u>-</u>	<u>-</u>	<u>6,204,658</u>
	430,977	-	-	430,977
	257,664	-	-	257,664
	6,809	-	-	6,809
	19,028	-	-	19,028
	3,491	-	-	3,491
	-	-	-	-
	730,045	-	-	730,045
	<u>1,448,014</u>	<u>-</u>	<u>-</u>	<u>1,448,014</u>
	-	-	-	-
	5,601	-	-	5,601
	15,735	-	-	15,735
	5,440	-	-	5,440
	1,285	-	-	1,285
	<u>28,061</u>	<u>-</u>	<u>-</u>	<u>28,061</u>
	<u>7,680,733</u>	<u>-</u>	<u>-</u>	<u>7,680,733</u>
	(2,845,601)	735,215	724,673	(1,385,713)
	<u>14,371,636</u>	<u>14,893,369</u>	<u>35,176,723</u>	<u>64,441,728</u>
\$	<u>11,526,035</u>	<u>\$ 15,628,584</u>	<u>\$ 35,901,396</u>	<u>\$ 63,056,015</u>

Western Kentucky University Foundation, Inc.
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ 2,362,593	\$ (1,385,713)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net unrealized and realized (gains) losses on investments	(3,645,272)	2,275,709
Provision for uncollectible interest	192,990	-
Provision for uncollectible pledges	450,892	730,045
Net actuarial (gain) loss from deferred gift liabilities	56,331	(3,017)
Changes in assets and liabilities		
Net pledges receivable	2,701,810	1,782,987
Due from the College Heights Foundation	(39,250)	-
Other receivables	(13,612)	(22,523)
Prepaid expenses and other assets	24,264	205
Accounts payable	<u>120,356</u>	<u>(12,000)</u>
Net cash provided by operating activities	<u>2,211,102</u>	<u>3,365,693</u>
Cash flows from investing activities		
Proceeds from the sales and maturities of investments	35,207,232	38,159,991
Repayments of the amount due from the WKU Real Estate Corporation	351,017	508,456
Reduction of the amount due from the Warren County Downtown Economic Development Authority	8,812	-
Purchases of investments	(34,291,378)	(38,581,400)
Additions to the amount due from the WKU Real Estate Corporation	-	(59,854)
Additions to the amount due from the Warren County Downtown Economic Development Authority	-	(162,957)
Net cash provided by (used in) investing activities	<u>1,275,683</u>	<u>(135,764)</u>
Cash flows from financing activities		
Payments on bank notes payable	(583,777)	(1,099,865)
Payments on the amount due to the Hilltopper Athletic Foundation	(113,850)	(121,016)
Net reduction of deferred gift liabilities	<u>(272,620)</u>	<u>(1,175,174)</u>
Net cash used in financing activities	<u>(970,247)</u>	<u>(2,396,055)</u>
Change in cash and cash equivalents	2,516,538	833,874
Cash and cash equivalents, beginning of year	<u>3,979,486</u>	<u>3,145,612</u>
Cash and cash equivalents, end of year	<u>\$ 6,496,024</u>	<u>\$ 3,979,486</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 64,247</u>	<u>\$ 104,563</u>

See accompanying notes

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements
December 31, 2012 and 2011

Note A--Nature of the Organization

Western Kentucky University Foundation, Inc. (the 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 has 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 Accounting Standards Codification (ASC) as produced by the Financial Accounting Standards Board (FASB) is the sole source of authoritative GAAP for non-governmental entities. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

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 GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

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

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, equity securities, 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 and the Research Foundation (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.

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.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

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

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.

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 2009 through 2012 tax years remain open and subject to examination.

11. Reclassifications

Certain amounts for 2011 have been reclassified to conform with the 2012 presentation. These reclassifications had no effect on the previously reported 2011 change in net assets or net assets as of December 31, 2011.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

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

12. 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.

Note C--Concentrations of Credit Risk

The federal deposit insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC) currently amounts to \$250,000 per depositor at each FDIC insured U.S. depository institution.

At various times throughout the year the Foundation may have balances, including with respect to certificates of deposit, in excess of FDIC insurance limits. The balances of the Foundation's money market funds (cash equivalents) are uninsured.

Note D--Investments

At December 31, 2012 and 2011, investments consist of the following (see also Note K):

	<u>2012</u>	<u>2011</u>
Certificates of deposit	\$ 2,940,402	\$ 4,245,108
Mutual funds	27,589,752	30,494,856
U.S. government and government agency obligations	6,228,499	8,542,335
Corporate bonds/notes and other fixed income securities	7,376,929	5,536,239
Exchange traded funds	4,168,445	276,259
Equity securities	12,737,411	11,870,636
Real estate and other alternative investments	<u>6,947,414</u>	<u>3,896,165</u>
	67,988,852	64,861,598
Less: investments included above which are held for WKU (see also Note H)	16,864,166	16,259,524
Less: investments included above which are held for the Research Foundation (see also Note H)	<u>682,291</u>	<u>889,097</u>
	<u>\$ 50,442,395</u>	<u>\$ 47,712,977</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.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

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

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. The carrying value of the related real estate investment is \$1,509,500 at December 31, 2012 and 2011, which approximates fair value.

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 at 7.00%, on a monthly basis until paid in-full (approximately August 2013). The carrying value of the net outstanding advances is \$108,319 and \$269,870 at December 31, 2012 and 2011, respectively which approximates fair value.

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 three limited partnerships. One of the limited partnerships invests primarily in marketable securities with a readily determinable fair value. The other two limited partnerships invest primarily in securities for which there is no public market or readily determinable fair value. The Foundation is a limited partner in all of these investments. None of the investments 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, 2012 and 2011, net pledges receivable consist of the following:

	<u>2012</u>	<u>2011</u>
Estimated to be collected in less than one year	\$ 4,618,430	\$ 5,229,739
Estimated to be collected in one to five years	5,223,716	7,211,382
Estimated to be collected thereafter	<u>1,551,065</u>	<u>2,163,173</u>
	11,393,211	14,604,294
Less: allowance for uncollectible pledges	<u>1,408,600</u>	<u>1,165,800</u>
	9,984,611	13,438,494
Less: discounts to net present value	<u>925,439</u>	<u>1,226,620</u>
	<u>\$ 9,059,172</u>	<u>\$ 12,211,874</u>

Discount rates on outstanding pledges due in more than one year range from 1.01% to 7.00%.

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 2012 and 2011, the Foundation raised \$94,930 and \$150,000, respectively, of matching funds. Accordingly, during 2012 and 2011, the donor funded \$94,930 and \$150,000 of the conditional pledge, respectively. The remaining \$255,070 as of December 31, 2012 will subsequently be recognized as support when the Foundation raises the additional \$255,070 of matching funds.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

Note G--Due from the Warren County Downtown Economic Development Authority

In 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 12A 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 has pledged as security for the loan the TIF revenue generated from “blocks 12A and 14.” The Authority did not make the scheduled semi-annual interest payments that were due to be paid during 2011 or 2012.

In 2012, the Foundation and the Authority formally renegotiated the loan’s repayment terms under the terms of a “forbearance agreement.” As a result, interest only payments have been deferred until October 1, 2014, at which time all unpaid accrued interest will be due and payable. Thereafter, the Authority is required to make quarterly interest only payments beginning January 1, 2015. Repayments of the outstanding principal amount are due to the extent the TIF revenue received by the Authority exceeds the amounts otherwise first applied to the interest under the loan.

Effective January 1, 2012, the Foundation placed the loan on non-accrual status. Accordingly, the unpaid interest accrued of \$192,990 through December 31, 2011 was expensed during 2012 as a provision for uncollectible interest in the accompanying 2012 statement of activities. Subsequent interest income under the loan will be recognized only to the extent interest is collected by the Foundation.

At December 31, 2012 and 2011, the amount due from the Authority totals \$1,948,048 and \$2,149,850, respectively.

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, 2012 and 2011, assets held for others consist of the following:

	<u>2012</u>	<u>2011</u>
WKU - Regional University Excellence Trust Fund	\$ 13,192,758	\$ 12,698,942
WKU - self-insurance program funds	3,671,408	3,560,582
Research Foundation - quasi-endowment funds	<u>682,291</u>	<u>889,097</u>
	<u>\$ 17,546,457</u>	<u>\$ 17,148,621</u>

Accordingly, the accompanying statements of financial position as of December 31, 2012 and 2011 reflect a liability for assets held for others in the amount of \$17,546,457 and \$17,148,621, respectively.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

Note I--Bank Notes Payable

At December 31, 2012 and 2011, bank notes payable consist of the following:

	<u>2012</u>	<u>2011</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	\$ 1,055,845	\$ 1,367,599
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	541,508	707,710
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	61,896	109,667
Bank note payable bearing interest at a fixed rate of 5.25%, quarterly interest and principal payments totaling \$17,152 through maturity (June 2013), collateralized by a security interest in a bank certificate of deposit, paid in-full during 2012	<u>-</u>	<u>58,050</u>
	<u>\$ 1,659,249</u>	<u>\$ 2,243,026</u>

The Foundation has access to borrowings under a \$100,000 bank line of credit. At December 31, 2012 and 2011, no borrowings are outstanding under the line of credit. When applicable, outstanding borrowings under the line of credit bear interest at the prime rate minus .50%, not to result in an interest rate of less than 3.25%. Interest is paid quarterly. If applicable, the outstanding principal amount, and the unpaid interest accrued thereon, is due at maturity (December 2013). The line of credit is subject to a \$100,000 compensating balance requirement.

At December 31, 2012, the aggregate maturities required on the bank notes payable are as follows:

<u>Year Ending December 31</u>	
2013	\$ 773,312
2014	626,380
2015	<u>259,557</u>
	<u>\$ 1,659,249</u>

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

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. Such split-interest 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 \$135,853 and \$155,363 as of December 31, 2012 and 2011, 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, 2012 and 2011, cash, cash equivalents, and investments relative to charitable gift annuities total \$146,214 and \$276,575, 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 \$1,025,492 and \$1,222,271 as of December 31, 2012 and 2011, respectively, relative to the estimated present value of the future obligations calculated using discount rates ranging from 6.00% to 7.20%. At December 31, 2012 and 2011, cash, cash equivalents, and investments relative to charitable remainder trusts total \$2,499,259 and \$2,592,561, 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 of the deferred gift liabilities estimates fair value and is calculated using Level 3 inputs. See Note K.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

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, 2012 and 2011.

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.

Equity securities: 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, 2012 and 2011

Note K--Fair Value Measurements (Continued)

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

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 partnerships invest primarily in securities for which there is no public market or readily determinable fair value. Therefore, the fair values of such limited partnerships are estimated based on the initial cost of the investments adjusted for changes in the general partners’ estimates of the fair values of the underlying assets, and are equivalent to net asset values.

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. See Note J.

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, 2012 and 2011

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, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 2,940,402	\$ -	\$ -	\$ 2,940,402
Mutual funds				
Equities	16,856,483	-	-	16,856,483
Fixed income	<u>10,733,269</u>	<u>-</u>	<u>-</u>	<u>10,733,269</u>
	<u>27,589,752</u>	<u>-</u>	<u>-</u>	<u>27,589,752</u>
U.S. government and government agency obligations				
Rated Aaa	-	2,415,612	-	2,415,612
Not rated	<u>-</u>	<u>3,812,887</u>	<u>-</u>	<u>3,812,887</u>
	<u>-</u>	<u>6,228,499</u>	<u>-</u>	<u>6,228,499</u>
Corporate bonds/notes and other fixed income securities				
Rated Aaa	-	732,348	-	732,348
Rated Aa1 to Aa3	-	1,243,632	-	1,243,632
Rated A1 to A3	-	2,900,502	-	2,900,502
Rated Baa1 to Baa3	-	988,680	-	988,680
Rated C	-	15	-	15
Not rated	<u>-</u>	<u>1,511,752</u>	<u>-</u>	<u>1,511,752</u>
	<u>-</u>	<u>7,376,929</u>	<u>-</u>	<u>7,376,929</u>
Exchange traded funds	<u>4,168,445</u>	<u>-</u>	<u>-</u>	<u>4,168,445</u>
Equity securities				
Consumer discretionary	1,372,886	-	-	1,372,886
Consumer staples	1,040,077	-	-	1,040,077
Energy	1,023,489	-	-	1,023,489
Financial	2,606,816	-	-	2,606,816
Health care	1,176,433	-	-	1,176,433
Industrials	1,610,130	-	-	1,610,130
Information technology	1,775,603	-	-	1,775,603
Materials	435,473	-	-	435,473
Telecommunication services	360,785	-	-	360,785
Utilities	648,570	-	-	648,570
Other	<u>687,149</u>	<u>-</u>	<u>-</u>	<u>687,149</u>
	<u>12,737,411</u>	<u>-</u>	<u>-</u>	<u>12,737,411</u>
Real estate and other alternative investments				
Real estate	-	-	1,617,819	1,617,819
Marketable alternatives	-	4,526,483	-	4,526,483
Limited partnership - marketable securities	-	-	285,650	285,650
Limited partnerships - private equity	<u>-</u>	<u>-</u>	<u>517,462</u>	<u>517,462</u>
	<u>-</u>	<u>4,526,483</u>	<u>2,420,931</u>	<u>6,947,414</u>
	<u>\$ 47,436,010</u>	<u>\$ 18,131,911</u>	<u>\$ 2,420,931</u>	<u>\$ 67,988,852</u>

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

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	\$ 4,245,108	\$ -	\$ -	\$ 4,245,108
Mutual funds				
Equities	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	<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>
Equity securities				
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>\$ 46,886,859</u>	<u>\$ 15,623,335</u>	<u>\$ 2,351,404</u>	<u>\$ 64,861,598</u>

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

Note K--Fair Value Measurements (Continued)

The 2012 and 2011 activity with respect to the assets (investments) included above under Level 3 is as follows:

	<u>2012</u>	<u>2011</u>
Beginning of the year	\$ 2,351,404	\$ 2,686,265
Purchases	336,614	73,631
Sales	(255,933)	(444,772)
Net unrealized and realized appreciation (depreciation)	(11,154)	36,280
End of the year	<u>\$ 2,420,931</u>	<u>\$ 2,351,404</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, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 376,648	\$ 376,648
Annuity trusts	-	-	648,844	648,844
Charitable gift annuities	-	-	135,853	135,853
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,161,345</u>	<u>\$ 1,161,345</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	-	-	155,363	155,363
	<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, 2012 and 2011

Note K--Fair Value Measurements (Continued)

The 2012 and 2011 activity with respect to the liabilities (deferred gift liabilities) included above under Level 3 is as follows:

	<u>2012</u>	<u>2011</u>
Beginning of the year	\$ 1,377,634	\$ 2,555,825
New deferred gifts	-	39,848
Payment obligations	(260,364)	(882,505)
Reduction attributable to death of donors	(12,256)	(332,517)
Net actuarial (gain) loss	56,331	(3,017)
End of the year	<u>\$ 1,161,345</u>	<u>\$ 1,377,634</u>

The following table provides additional information at December 31, 2012 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	\$ 2,491,821	\$ -	monthly	30 days
Marketable alternatives	2,034,662	-	quarterly	95 days
Limited partnership - marketable securities	285,650	-	quarterly	30 days
Limited partnership - private equity	277,997	1,200,000	N/A	N/A
Limited partnership - private equity	239,465	6,250	N/A	N/A

Note L--Restricted Net Assets

At December 31, 2012 and 2011, temporarily restricted net assets consist of the following:

	<u>2012</u>	<u>2011</u>
Academic support/WKU programs	\$ 16,390,382	\$ 14,271,792
Athletics	1,116,022	99,989
Public services	920,904	905,458
Scholarship funds	243,749	351,345
	<u>\$ 18,671,057</u>	<u>\$ 15,628,584</u>

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

Note L--Restricted Net Assets (Continued)

At December 31, 2012 and 2011, permanently restricted net assets consist of the following:

	<u>2012</u>	<u>2011</u>
Academic support/WKU programs	\$ 20,579,275	\$ 11,740,662
Scholarship funds	4,388,981	12,415,031
Professorships	<u>11,631,955</u>	<u>11,745,703</u>
	<u>\$ 36,600,211</u>	<u>\$ 35,901,396</u>

Note M--Endowment Funds

In 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 provided 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 improved disclosures about an organization's endowment funds, both donor restricted endowment funds and board designated endowment funds.

In 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.

At December 31, 2012, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board designated	\$ 5,521,744	\$ -	\$ -	\$ 5,521,744
Donor restricted	<u>-</u>	<u>3,184,537</u>	<u>36,600,211</u>	<u>39,784,748</u>
	<u>\$ 5,521,744</u>	<u>\$ 3,184,537</u>	<u>\$ 36,600,211</u>	<u>\$ 45,306,492</u>

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>

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

Note M--Endowment Funds (Continued)

Changes in endowment net assets during 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of the year	\$ 7,405,805	\$ -	\$ 35,901,396	\$ 43,307,201
Contributions	159,724	-	698,815	858,539
Investment return				
Investment income	190,215	1,715,032	-	1,905,247
Net appreciation	199,876	2,815,807	-	3,015,683
Appropriation for expenditure	<u>(2,433,876)</u>	<u>(1,346,302)</u>	<u>-</u>	<u>(3,780,178)</u>
End of the year	<u>\$ 5,521,744</u>	<u>\$ 3,184,537</u>	<u>\$ 36,600,211</u>	<u>\$ 45,306,492</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	35,336	1,627,782	-	1,663,118
Net depreciation	(893,188)	(1,627,782)	-	(2,520,970)
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>

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

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, 2012 and 2011.

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:

Effective July 1, 2012, the Foundation's annual distribution goal is 3.00% of the endowment fund's trailing twelve-month calendar quarter moving market value average (prior to July 1, 2012, the annual distribution goal was 4.50%). The annual distribution goal for an individual endowment in its initial year shall be 3.00% 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.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

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. At December 31, 2012, contributions under KERS and KTRS made on behalf of eligible employees represent 23.61% and 14.84% of annual covered wages, respectively (19.82% and 14.84% at December 31, 2011, respectively). Employer contributions made under KERS and KTRS on behalf of Foundation employees total approximately \$24,000 and \$22,000 for the years ended December 31, 2012 and 2011, respectively.

Note O--Deferred Compensation Arrangement

In 2008, the Foundation implemented a non-qualified deferred compensation plan whereby the President of WKU 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 2012, the Foundation did not make any advances to the Corporation, while the Corporation repaid a total of \$351,017. During 2011, the Foundation advanced the Corporation \$59,854, while the Corporation repaid a total of \$508,456. At December 31, 2012 and 2011, the amount due from the Corporation totals \$469,286 and \$820,303, respectively.

During 2012, the Foundation deeded to the Corporation certain real estate with an estimated fair value of approximately \$400,000. Additionally, during 2012, the Corporation gifted approximately \$165,100 to the Foundation. During 2011, the Foundation gifted to the Corporation approximately \$258,300.

At December 31, 2012, \$39,250 is due to the Foundation from the College Heights Foundation, a separate WKU related foundation. No such amount is due from the College Heights Foundation as of December 31, 2011.

During 2010, the Foundation advanced \$30,000 to a WKU employee (the amount outstanding at December 31, 2012 and 2011). The non-interest bearing advance, reflected as an other receivable per the accompanying statements of financial position as of December 31, 2012 and 2011, was repaid in-full by the employee in January 2013.

Western Kentucky University Foundation, Inc.
Notes to the Financial Statements (Continued)
December 31, 2012 and 2011

Note P--Related Party Transactions (Continued)

Accounts payable as of December 31, 2012 include approximately \$10,400 which is payable to WKU. There are no such accounts payable to WKU as of December 31, 2011.

During 2010, the Hilltopper Athletic Foundation (HAF) advanced to the Foundation a total of \$504,013 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 uncollateralized/unsecured. During 2012 and 2011, the Foundation repaid the HAF \$113,850 and \$121,016, respectively. Accordingly, at December 31, 2012 and 2011, the amount due to the HAF totals \$269,147 and \$382,997, respectively.

The Foundation leases to WKU the real estate owned by a charitable remainder annuity trust, for which the Foundation is the trustee and the remainder beneficiary. Under the lease, the amount of the quarterly rent payments represents the quarterly payments to the donor or to others designated by the donors under the trust agreement. Under the lease, the Foundation annually receives \$180,000 (\$45,000 each quarter) of rental income. This lease expires in September 2019. Accordingly, rental income from WKU for the years ended December 31, 2012 and 2011 totals \$180,000 per year and is recognized as rental income in the accompanying statements of activities. Rental income under the lease for 2013 through 2017 totals \$180,000 annually (\$315,000 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. Management believes there is no objective basis for determining the value of the donated office space.