

Western Kentucky University Foundation, Inc.

Accountants' Report and Financial Statements

December 31, 2005 and 2004



Western Kentucky University Foundation, Inc.
December 31, 2005 and 2004

Contents

Independent Accountants' Report 1

Financial Statements

Statements of Financial Position 2
Statements of Activities 3
Statements of Cash Flows 4
Notes to Financial Statements 5

Independent Accountants' Report

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. (Foundation) as of December 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 the Foundation as of December 31, 2005 and 2004, 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.

/s/ **BKD, LLP**

May 1, 2006

Western Kentucky University Foundation, Inc.
Statements of Financial Position
December 31, 2005 and 2004

Assets

	2005	2004
Assets		
Cash and cash equivalents	\$ 4,548,428	\$ 1,838,298
Investments	31,998,542	29,078,716
Accounts receivable	58,526	58,798
Contributions receivable, net of allowance of \$194,000 for 2005 and \$100,000 for 2004	8,977,669	10,551,663
Beneficial interest in charitable remainder trusts	2,568,752	2,669,886
Prepaid expenses and other assets	2,682	2,682
Assets held for others	12,928,129	12,621,783
Total assets	\$ 61,082,728	\$ 56,821,826

Liabilities and Net Assets

Liabilities		
Accounts payable	\$ 185,024	\$ 325,995
Notes payable	873,277	994,106
Annuities payable	2,332,610	2,282,767
Assets held for others	12,928,129	12,621,783
Total liabilities	16,319,040	16,224,651
Net Assets		
Unrestricted	8,229,017	9,104,526
Temporarily restricted	10,548,007	10,334,198
Permanently restricted	25,986,664	21,158,451
Total net assets	44,763,688	40,597,175
Total liabilities and net assets	\$ 61,082,728	\$ 56,821,826

Western Kentucky University Foundation, Inc.
Statements of Activities
For the Years Ended December 31, 2005 and 2004

	2005			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Contributions	\$ 272,462	\$ 3,889,443	\$ 4,828,213	\$ 8,990,118
Investment return	168,076	(12,764)	—	155,312
Miscellaneous income	—	119,434	—	119,434
	440,538	3,996,113	4,828,213	9,264,864
Net assets released from restrictions	<u>3,782,304</u>	<u>(3,782,304)</u>	<u>—</u>	<u>0</u>
Total revenues, gains and other support	<u>4,222,842</u>	<u>213,809</u>	<u>4,828,213</u>	<u>9,264,864</u>
Expenses				
Payments made on behalf of Western Kentucky University programs				
Salaries, benefits and related expenses	365,985	—	—	365,985
Awards and scholarships	985,183	—	—	985,183
Travel and entertainment	485,593	—	—	485,593
Services and professional fees	331,537	—	—	331,537
Supplies and office expenses	187,882	—	—	187,882
Printing	105,254	—	—	105,254
Prizes, gifts and donations	706,344	—	—	706,344
Equipment rental and maintenance	43,397	—	—	43,397
Freight and delivery	16,815	—	—	16,815
Subscriptions, dues and registration	175,339	—	—	175,339
Capital purchases	683,876	—	—	683,876
Miscellaneous	38,495	—	—	38,495
	<u>4,125,700</u>	<u>0</u>	<u>0</u>	<u>4,125,700</u>
Management and general				
Salaries, benefits and related expenses	157,723	—	—	157,723
Services and professional fees	284,379	—	—	284,379
Interest	49,373	—	—	49,373
Real estate expenses	441,423	—	—	441,423
Miscellaneous	(13,260)	—	—	(13,260)
	<u>919,638</u>	<u>0</u>	<u>0</u>	<u>919,638</u>
Fundraising				
Travel and entertainment	17,164	—	—	17,164
Service and professional fees	930	—	—	930
Supplies and printing	5,621	—	—	5,621
Gifts and donations	22,278	—	—	22,278
Equipment rental	1,350	—	—	1,350
Capital purchases	3,143	—	—	3,143
Miscellaneous	2,527	—	—	2,527
	<u>53,013</u>	<u>0</u>	<u>0</u>	<u>53,013</u>
Total expenses	<u>5,098,351</u>	<u>0</u>	<u>0</u>	<u>5,098,351</u>
Change in Net Assets	(875,509)	213,809	4,828,213	4,166,513
Net Assets, Beginning of Year	<u>9,104,526</u>	<u>10,334,198</u>	<u>21,158,451</u>	<u>40,597,175</u>
Net Assets, End of Year	<u>\$ 8,229,017</u>	<u>\$ 10,548,007</u>	<u>\$ 25,986,664</u>	<u>\$ 44,763,688</u>

See Notes to Financial Statements

	2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	\$ 4,815,361	\$ 2,079,697	\$ 1,579,230	\$ 8,474,288
Investment return	(2,536,741)	2,376,749	—	(159,992)
Miscellaneous income	—	291,438	—	291,438
	<u>2,278,620</u>	<u>4,747,884</u>	<u>1,579,230</u>	<u>8,605,734</u>
Net assets released from restrictions	<u>2,986,930</u>	<u>(2,986,930)</u>	<u>—</u>	<u>0</u>
Total revenues, gains and other support	<u>5,265,550</u>	<u>1,760,954</u>	<u>1,579,230</u>	<u>8,605,734</u>
Expenses				
Payments made on behalf of Western				
Kentucky University programs				
Salaries, benefits and related expenses	453,683	—	—	453,683
Awards and scholarships	742,347	—	—	742,347
Travel and entertainment	596,163	—	—	596,163
Services and professional fees	168,403	—	—	168,403
Supplies and office expenses	150,654	—	—	150,654
Printing	143,930	—	—	143,930
Prizes, gifts and donations	149,276	—	—	149,276
Equipment rental and maintenance	42,881	—	—	42,881
Freight and delivery	12,629	—	—	12,629
Subscriptions, dues and registration	333,838	—	—	333,838
Capital purchases	697,356	—	—	697,356
Miscellaneous	27,758	—	—	27,758
	<u>3,518,918</u>	<u>0</u>	<u>0</u>	<u>3,518,918</u>
Management and general				
Salaries, benefits and related expenses	148,460	—	—	148,460
Services and professional fees	252,896	—	—	252,896
Interest	70,910	—	—	70,910
Real estate expenses	114,472	—	—	114,472
Miscellaneous	5,733	—	—	5,733
	<u>592,471</u>	<u>0</u>	<u>0</u>	<u>592,471</u>
Fundraising				
Travel and entertainment	22,155	—	—	22,155
Service and professional fees	—	—	—	0
Supplies and printing	314	—	—	314
Gifts and donations	3,693	—	—	3,693
Equipment rental	3,073	—	—	3,073
Capital purchases	12,595	—	—	12,595
Miscellaneous	904	—	—	904
	<u>42,734</u>	<u>0</u>	<u>0</u>	<u>42,734</u>
Total expenses	<u>4,154,123</u>	<u>0</u>	<u>0</u>	<u>4,154,123</u>
Change in Net Assets	1,111,427	1,760,954	1,579,230	4,451,611
Net Assets, Beginning of Year	<u>7,993,099</u>	<u>8,573,244</u>	<u>19,579,221</u>	<u>36,145,564</u>
Net Assets, End of Year	<u>\$ 9,104,526</u>	<u>\$ 10,334,198</u>	<u>\$ 21,158,451</u>	<u>\$ 40,597,175</u>

Western Kentucky University Foundation, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2005 and 2004

	2005	2004
Operating Activities		
Change in net assets	\$ 4,166,513	\$ 4,451,611
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized gain on investments	(700,857)	(508,252)
Net unrealized losses on investments	1,866,795	1,457,673
Net realized/unrealized losses (gains) on charitable remainder trust investments	105,211	(88,798)
Actuarial loss on annuity obligations	442,722	206,557
Changes in		
Accounts receivable	272	(16,878)
Contributions receivable	1,573,994	(233,500)
Accounts payable	(140,971)	22,426
Assets held for others	306,346	598,909
Net cash provided by operating activities	7,620,025	5,889,748
Investing Activities		
Purchases of investments	(24,024,927)	(46,328,070)
Disposals of investments	19,939,163	35,433,305
Purchases of investments – charitable remainder trusts	(200,145)	(159,597)
Proceeds from sales of investments – charitable remainder trusts	196,068	2,024
Proceeds from sale of land – charitable remainder trusts	—	400,500
Change in assets held for others	(306,346)	(598,909)
Net cash used in investing activities	(4,396,187)	(11,250,747)
Financing Activities		
Payments of annuities	(392,879)	(206,557)
Proceeds from notes payable to bank	113,448	281,023
Payment of notes payable to bank	(234,277)	(187,648)
Net cash used in financing activities	(513,708)	(113,182)
Increase (Decrease) In Cash and Cash Equivalents	2,710,130	(5,474,181)
Cash and Cash Equivalents, Beginning of Year	1,838,298	7,312,479
Cash and Cash Equivalents, End of Year	\$ 4,548,428	\$ 1,838,298
Supplemental Cash Flows Information		
Interest paid	\$ 49,373	\$ 70,910

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2005 and 2004

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Western Kentucky University Foundation, Inc. (Foundation) is a charitable corporation established for the exclusive benefit of Western Kentucky University (WKU). The Foundation's primary source of revenue is contributions.

During 2001, the Foundation assumed an agency relationship on behalf of the Hilltopper Athletic Foundation (HAF) and Western Kentucky University Alumni Association (AA) whereby the Foundation provides bookkeeping services and safekeeping of assets for these entities, however, HAF and AA continue to maintain separate management control and oversight of these functions. Assets held for HAF and AA totaled \$1,717,673 and \$2,096,908 at December 31, 2005 and 2004, respectively and are included in assets held for others in the statement of financial position.

During 2005, the Foundation assumed an agency relationship on behalf of the WKU Research Foundation (WKURF), whereby the Foundation provides safekeeping of some of its assets. WKURF continues to maintain separate management control and oversight of these functions. Assets held for WKURF totaled \$500,000 at December 31, 2005, and are included in assets held for others in the statement of financial position.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2005 and 2004, the Foundation's cash accounts exceeded federally insured limits by approximately \$3,480,000 and \$1,740,000, respectively.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost or fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value and realized gains and losses on other investments.

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2005 and 2004

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The investments of the Foundation are commingled with certain investments held for WKU, HAF and AA. Interest and dividend income and unrealized and realized gains and losses are allocated between the Foundation, WKU, HAF and AA based on the percentage of each fund's average balance to the total investments for the period.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are recorded at the present value of estimated future cash flows. The resulting discount is computed using risk-free interest rates applicable to the years in which the promises are received. Amortization using the level-yield method is included in contribution revenue. Conditional gifts are not included as support until the conditions are substantially met.

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2005 and 2004

In-kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions of goods and services from various donors. The Foundation does not record the estimated fair value of in-kind donations, as such contributions are transferred to WKU. For years ended December 31, 2005 and 2004, \$589,164 and \$325,690, respectively, in goods and services were received as in-kind contributions.

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fund raising categories based on actual expenditures and other methods.

Self Insurance

Employee health and accident benefits are covered under WKU's insurance plan. WKU has elected to self insure certain costs related to these programs. The Foundation pays WKU for the estimated self-insured costs of its employees.

Reclassifications

Certain 2004 amounts have been reclassified to conform with the 2005 financial statement presentation. These reclassifications had no effect on the change in net assets.

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2005 and 2004

Note 2: Investments and Investment Return

Investments held at December 31, were as follows:

	2005	2004
Common equity fund	\$ 13,534,248	\$ 8,669,483
Common fixed income fund	12,862,773	11,937,809
Mutual funds	1,100,409	4,114,248
Stock funds	13,268,872	12,896,759
Stock	43,795	45,452
Taxable bonds	704,944	718,240
Growth index	1,366,855	1,036,864
Certificates of deposit	700,000	600,000
	43,581,896	40,018,855
Investment held for HAF and AA included above	(372,898)	(415,264)
Investments held for WKU included above	(10,710,456)	(10,524,875)
Investments held for the WKURF included above	(500,000)	—
	\$ 31,998,542	\$ 29,078,716

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors. At December 31, 2005 and 2004, the fair value of all of the assets of these funds was more than the level required by donor stipulation or law.

Investment return during the years ended December 31, consisted of the following:

	2005	2004
Interest and dividends	\$ 1,105,663	\$ 789,429
Net realized and unrealized gains on investments reported at fair value	(950,351)	(949,421)
	\$ 155,312	\$ (159,992)

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2005 and 2004

Note 3: Contributions Receivable

Contributions receivable at December 31, consisted of the following unconditional promises to give:

	2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due in less than one year	\$ —	\$ 1,019,760	\$ 1,284,200	\$ 2,303,960
Due in one to five years	—	2,294,295	2,322,522	4,616,817
Due in more than five years	—	1,238,994	3,305,488	4,544,482
	0	4,553,049	6,912,210	11,465,259
Less				
Allowance for doubtful accounts	—	134,000	60,000	194,000
Unamortized discount	—	616,915	1,676,675	2,293,590
	\$ 0	\$ 3,802,134	\$ 5,175,535	\$ 8,977,669
	2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due in less than one year	\$ —	\$ 926,271	\$ 2,156,893	\$ 3,083,164
Due in one to five years	—	2,574,993	3,406,900	5,981,893
Due in more than five years	—	1,260,063	3,431,600	4,691,663
	0	4,761,327	8,995,393	13,756,720
Less				
Allowance for doubtful accounts	—	80,000	20,000	100,000
Unamortized discount	—	774,157	2,330,900	3,105,057
	\$ 0	\$ 3,907,170	\$ 6,644,493	\$ 10,551,663

Discount rates for all outstanding pledges ranged from 4.33% to 7.00% at December 31, 2005.

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2005 and 2004

Note 4: Beneficial Interest in Charitable Remainder Trusts

The Foundation's beneficial interest in charitable remainder trusts at December 31, were as follows:

	<u>2005</u>	<u>2004</u>
Investments	\$ 1,040,252	\$ 1,065,386
Real property	<u>1,528,500</u>	<u>1,604,500</u>
	<u>\$ 2,568,752</u>	<u>\$ 2,669,886</u>

Note 5: Assets Held for Others

Assets held for others represent resources in the possession of, but not under the control of, the Foundation. Assets held for others were as follows as of December 31:

	<u>2005</u>	<u>2004</u>
WKU – regional University Excellence Trust Fund	\$ 10,309,288	\$ 10,524,875
WKU – self-insurance fund	401,168	—
WKURF – endowment	500,000	—
HAF and AA – cash, investments and other assets	<u>1,717,673</u>	<u>2,096,908</u>
	<u>\$ 12,928,129</u>	<u>\$ 12,621,783</u>

The Regional University Excellence Trust Fund of the Commonwealth of Kentucky endowment program, commonly known as “Bucks for Brains”, provides state matching funds to WKU, which in turn, places these funds with the Foundation for investment purposes until they are needed for program purposes.

Note 6: Notes Payable

	<u>2005</u>	<u>2004</u>
WKU (A)	\$ 44,504	\$ 44,504
National City Bank (B)	654,530	878,942
U.S. Bank (C)	60,795	70,660
National City Bank (D)	<u>113,448</u>	<u>—</u>
	<u>\$ 873,277</u>	<u>\$ 994,106</u>

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2005 and 2004

- (A) Represents a demand note payable bearing interest at 3.00%.
- (B) Represents a draw down on a \$1,047,250 line of credit. Interest varies with the bank's prime rate minus 1.50% per annum (6.50% at December 31, 2005), and is payable quarterly. Principal and interest is due on or before December 31, 2007; the note is unsecured. The Foundation receives an annual donation from a donor for the principal portion of this note. The College Heights Foundation, Inc. (College Heights), an affiliate of WKU, is required to maintain a compensatory balance equal to the outstanding balance of the Foundation's line of credit with National City Bank and the Foundation is required to maintain a compensatory balance at U.S. Bank related to debt held by College Heights.
- (C) Represents the outstanding balance on the Foundation's \$100,000 line of credit. Interest varies with the bank's prime rate, minus 1.50% annum (5.75% at December 31, 2005), and is payable quarterly. The principal is due on or before September 30, 2006. The note is secured by a direct deposit account held by the Foundation. The Foundation receives an annual donation from a donor for the principal portion of this note.
- (D) Represents a draw down on a \$300,000 line of credit. Interest varies with the bank's prime rate minus 1.00% per annum (6.50% at December 31, 2005), and is payable quarterly. Principal and interest is due on or before November 30, 2006; the note is unsecured. The Foundation receives an annual donation from a donor for the principal portion of this note.

Note 7: Annuities and Trusts Payable

The Foundation has been the recipient of several gift annuities, which require future payments to the contributors or their designated beneficiaries. The assets received from the donors are recorded at fair value (see Note 4). The Foundation has recorded a liability at December 31, 2005 and 2004, of \$177,022 and \$127,179, which represents the estimated present value of the future annuity obligations. The liability has been determined using discount rates ranging from 3.82% to 7.96%.

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the future interest of the Foundation is recorded in the statement of activities as temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the Foundation's statement of financial position (see Note 4). On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The Foundation has recorded a liability at December 31, 2005 and 2004, of \$2,155,588, which represents the present value of the future distributions to beneficiaries. The present value of the estimated future payments is calculated using discount rates ranging from 6.20% to 9.33% and applicable mortality tables.

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2005 and 2004

Note 8: Related-party Transactions

Accounts receivable at December 31, 2005 and 2004, include \$5,103 and \$31,474, respectively, from the WKU Real Estate Corporation.

Accounts payable include \$83,809 and \$71,218 payable to WKU at December 31, 2005 and 2004, respectively, for program expenses including salaries, benefits and other expenses.

The Foundation leases real estate from a charitable remainder trust from which it is a remainder beneficiary. The Foundation leases the real estate for \$700 per month and sublets the property to WKU for the same amount.

WKU provides the facilities in which the Foundation offices are located. The Foundation has no objective basis for determining the value of these donated facilities and, accordingly, does not recognize revenue or expense related to these transactions.

On March 25, 2005, the Foundation contributed approximately \$261,000 to the WKU Real Estate Corporation (WKUREC).

Note 9: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, were available for the following purposes:

	<u>2005</u>	<u>2004</u>
Scholarships	\$ 534,525	\$ 398,245
Other program support	<u>10,013,482</u>	<u>9,935,953</u>
	<u>\$ 10,548,007</u>	<u>\$ 10,334,198</u>

Permanently Restricted Net Assets

Permanently restricted net assets at December 31, were restricted to:

	<u>2005</u>	<u>2004</u>
Scholarships	\$ 10,523,786	\$ 8,136,047
Other program support	<u>15,462,878</u>	<u>13,022,404</u>
	<u>\$ 25,986,664</u>	<u>\$ 21,158,451</u>

Western Kentucky University Foundation, Inc.
Notes to Financial Statements
December 31, 2005 and 2004

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2005	2004
Satisfaction of program restrictions	\$ <u>3,782,304</u>	\$ <u>2,986,930</u>

Note 10: Pension Plans

Through WKU, the Foundation participates in two multi-employer pension plans maintained by the state of Kentucky. The plans provide defined benefits to eligible employees of the Foundation. The Foundation reimburses WKU for the Foundation's share of the actuarially determined contributions to the plans, which are currently established at 13.84% and 5.89% of the covered payroll of eligible employees. Contributions made to the plans on behalf of Foundation employees were \$8,218 and \$9,397, respectively, for the years ended December 31, 2005 and 2004.

Note 11: Commitments and Contingencies

On August 16, 2005, the Foundation and WKUREC, obtained a \$600,000 line of credit with a bank, the proceeds of which will be used by WKUREC to construct the Clinical Education Complex (CEC). Interest payments at the bank's prime rate less 1.375% will be paid by WKUREC and are due monthly on the outstanding balance and principal is due on August 29, 2010. The Foundation is required by the covenants to maintain specified amounts of unrestricted cash balances. There were no amounts outstanding under the line of credit at December 31, 2005.