

Western Kentucky University Foundation, Inc.

Accountants' Report and Financial Statements

December 31, 2006 and 2005



Western Kentucky University Foundation, Inc.
December 31, 2006 and 2005

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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, 2006 and 2005, 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, 2006 and 2005, 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.

BKD, LLP

July 9, 2007

Western Kentucky University Foundation, Inc.

Statements of Financial Position

December 31, 2006 and 2005

Assets

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$ 7,866,789	\$ 4,548,428
Investments	35,792,716	31,998,542
Accounts receivable	395,181	58,526
Contributions receivable, net of allowance of \$710,000 for 2006 and \$194,000 for 2005	10,113,811	8,977,669
Beneficial interest in charitable remainder trusts	2,708,894	2,568,752
Prepaid expenses and other assets	2,682	2,682
Assets held for others	<u>17,697,366</u>	<u>12,928,129</u>
Total assets	<u>\$ 74,577,439</u>	<u>\$ 61,082,728</u>

Liabilities and Net Assets

Liabilities		
Accounts payable	\$ 153,776	\$ 185,024
Notes payable	897,945	873,277
Annuities payable	2,382,892	2,332,610
Assets held for others	<u>17,697,366</u>	<u>12,928,129</u>
Total liabilities	<u>21,131,979</u>	<u>16,319,040</u>
Net Assets		
Unrestricted	13,087,737	8,229,017
Temporarily restricted	11,170,677	10,548,007
Permanently restricted	<u>29,187,046</u>	<u>25,986,664</u>
Total net assets	<u>53,445,460</u>	<u>44,763,688</u>
Total liabilities and net assets	<u>\$ 74,577,439</u>	<u>\$ 61,082,728</u>

Western Kentucky University Foundation, Inc.
Statements of Activities
Years Ended December 31, 2006 and 2005

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Contributions	\$ 2,627,408	\$ 3,503,017	\$ 3,200,382	\$ 9,330,807
Investment return	3,766,462	228,366	-	3,994,828
Miscellaneous income	-	276,217	-	276,217
	<u>6,393,870</u>	<u>4,007,600</u>	<u>3,200,382</u>	<u>13,601,852</u>
Net assets released from restrictions	3,384,930	(3,384,930)	-	-
	<u>9,778,800</u>	<u>622,670</u>	<u>3,200,382</u>	<u>13,601,852</u>
Expenses				
Payments made on behalf of				
Western Kentucky University programs				
Salaries, benefits and related expenses	304,723	-	-	304,723
Awards and scholarships	848,889	-	-	848,889
Travel and entertainment	424,233	-	-	424,233
Services and professional fees	166,046	-	-	166,046
Supplies and office expenses	233,793	-	-	233,793
Printing	126,127	-	-	126,127
Prizes, gifts and donations	272,044	-	-	272,044
Equipment rental and maintenance	72,384	-	-	72,384
Freight and delivery	15,743	-	-	15,743
Subscriptions, dues and registration	330,271	-	-	330,271
Capital purchases	1,156,585	-	-	1,156,585
Miscellaneous	37,396	-	-	37,396
	<u>3,988,234</u>	<u>-</u>	<u>-</u>	<u>3,988,234</u>
Management and general				
Salaries, benefits and related expenses	175,047	-	-	175,047
Services and professional fees	339,786	-	-	339,786
Interest	85,690	-	-	85,690
Real estate expenses	238,286	-	-	238,286
Miscellaneous	20,205	-	-	20,205
	<u>859,014</u>	<u>-</u>	<u>-</u>	<u>859,014</u>
Fundraising				
Travel and entertainment	32,637	-	-	32,637
Service and professional fees	20,800	-	-	20,800
Supplies and printing	10,178	-	-	10,178
Gifts and donations	2,821	-	-	2,821
Equipment rental	-	-	-	-
Capital purchases	6,396	-	-	6,396
Miscellaneous	-	-	-	-
	<u>72,832</u>	<u>-</u>	<u>-</u>	<u>72,832</u>
Total expenses	<u>4,920,080</u>	<u>-</u>	<u>-</u>	<u>4,920,080</u>
Change in Net Assets	4,858,720	622,670	3,200,382	8,681,772
Net Assets, Beginning of Year	<u>8,229,017</u>	<u>10,548,007</u>	<u>25,986,664</u>	<u>44,763,688</u>
Net Assets, End of Year	<u>\$ 13,087,737</u>	<u>\$ 11,170,677</u>	<u>\$ 29,187,046</u>	<u>\$ 53,445,460</u>

See Notes to Financial Statements

	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	3,782,304	(3,782,304)	-	-
Total revenues, gains and other support	4,222,842	213,809	4,828,213	9,264,864
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
	4,125,700	-	-	4,125,700
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)
	919,638	-	-	919,638
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
	53,013	-	-	53,013
Total expenses	5,098,351	-	-	5,098,351
Change in Net Assets	(875,509)	213,809	4,828,213	4,166,513
Net Assets, Beginning of Year	9,104,526	10,334,198	21,158,451	40,597,175
Net Assets, End of Year	\$ 8,229,017	\$ 10,548,007	\$ 25,986,664	\$ 44,763,688

Western Kentucky University Foundation, Inc.
Statements of Cash Flows
Years Ended December 31, 2006 and 2005

	2006	2005
Operating Activities		
Change in net assets	\$ 8,681,772	\$ 4,166,513
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized gain on investments	(1,250,119)	(700,857)
Net unrealized (gains) losses on investments	(1,092,435)	1,866,795
Net realized/unrealized losses (gains) on charitable remainder trust	(85,217)	105,211
Actuarial loss on annuity obligations	362,470	442,722
Changes in		
Accounts receivable	(336,655)	272
Contributions receivable	(1,136,142)	1,573,994
Accounts payable	(31,248)	(140,971)
Assets held for others	4,769,237	306,346
	<u>9,881,663</u>	<u>7,620,025</u>
Investing Activities		
Purchases of investments	(20,288,159)	(24,024,927)
Disposals of investments	18,836,539	19,939,163
Purchases of investments – charitable remainder trusts	(558,317)	(200,145)
Proceeds from sales of investments – charitable remainder trusts	503,392	196,068
Change in assets held for others	(4,769,237)	(306,346)
	<u>(6,275,782)</u>	<u>(4,396,187)</u>
Financing Activities		
Payments of annuities	(312,188)	(392,879)
Proceeds from notes payable to bank	361,552	113,448
Payment of notes payable to bank	(336,884)	(234,277)
	<u>(287,520)</u>	<u>(513,708)</u>
Increase in Cash and Cash Equivalents	3,318,361	2,710,130
Cash and Cash Equivalents, Beginning of Year	<u>4,548,428</u>	<u>1,838,298</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,866,789</u>	<u>\$ 4,548,428</u>
Supplemental Cash Flows Information		
Interest paid	\$ 85,690	\$ 49,373

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2006 and 2005

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.

The Foundation has also assumed an agency relationship on behalf of the WKU Research Foundation (WKURF) and WKU, whereby the Foundation provides safekeeping of certain of those organizations' assets. WKURF and WKU, respectively, continue to maintain separate management control and oversight of these functions.

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, 2006 and 2005, the Foundation's cash accounts exceeded federally insured limits by approximately \$4,259,000 and \$3,480,000, 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.

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.

Western Kentucky University Foundation, Inc.
Notes to Financial Statements
December 31, 2006 and 2005

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.

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 the years ended December 31, 2006 and 2005, \$296,630 and \$589,164, respectively, in goods and services were received as in-kind contributions.

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2006 and 2005

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.

Note 2: Investments and Investment Return

Investments held at December 31 were as follows:

	<u>2006</u>	<u>2005</u>
Common equity fund	\$ 15,903,559	\$ 13,534,248
Common fixed income fund	15,156,931	12,862,773
Mutual funds	1,369,248	1,100,409
Stock funds	15,939,713	13,268,872
Stock	143,973	43,795
Taxable bonds	656,379	704,944
Growth index	2,306,538	1,366,855
Certificates of deposit	1,150,533	700,000
	<u>52,626,874</u>	<u>43,581,896</u>
Beneficial interest in trusts	(1,165,216)	-
Investment held for HAF and AA included above	(498,913)	(372,898)
Investments held for WKU included above	(14,594,822)	(10,710,456)
Investments held for the WKURF included above	(575,207)	(500,000)
	<u>\$ 35,792,716</u>	<u>\$ 31,998,542</u>

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2006 and 2005

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors. At December 31, 2006 and 2005, 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:

	2006	2005
Interest and dividends	\$ 1,652,274	\$ 1,321,250
Net realized and unrealized gains (losses) on investments reported at fair value	2,342,554	(1,165,938)
	\$ 3,994,828	\$ 155,312

Note 3: Contributions Receivable

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

	2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due in less than one year	\$ -	\$ 1,350,729	\$ 1,167,814	\$ 2,518,543
Due in one to five years	-	2,390,512	3,396,663	5,787,175
Due in more than five years	-	1,129,108	4,302,720	5,431,828
	-	4,870,349	8,867,197	13,737,546
Less				
Allowance for doubtful accounts	-	690,123	20,000	710,123
Unamortized discount	-	586,446	2,327,166	2,913,612
	\$ -	\$ 3,593,780	\$ 6,520,031	\$ 10,113,811

	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
	-	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
	\$ -	\$ 3,802,134	\$ 5,175,535	\$ 8,977,669

Discount rates for all outstanding pledges ranged from 4.33% to 7.00% at December 31, 2006.

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2006 and 2005

Note 4: Beneficial Interest in Charitable Remainder Trusts

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

	<u>2006</u>	<u>2005</u>
Cash and investments	\$ 1,180,394	\$ 1,059,252
Real property	<u>1,528,500</u>	<u>1,509,500</u>
	<u>\$ 2,708,894</u>	<u>\$ 2,568,752</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>2006</u>	<u>2005</u>
WKU – Regional University Excellence Trust Fund	\$ 11,423,460	\$ 10,309,288
WKU – self-insurance fund	3,634,351	401,168
WKURF – endowment	575,207	500,000
HAF and AA – cash, investments and other assets	<u>2,064,348</u>	<u>1,717,673</u>
	<u>\$ 17,697,366</u>	<u>\$ 12,928,129</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.

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2006 and 2005

Note 6: Notes Payable

	2006	2005
WKU (A)	\$ -	\$ 44,504
National City Bank (B)	430,121	654,530
U.S. Bank (C)	58,757	60,795
National City Bank (D)	300,000	113,448
National City Bank (E)	109,067	-
	\$ 897,945	\$ 873,277

- (A) Represented a demand note payable bearing interest at 3.00%. Such note was repaid during 2006.
- (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 (6.75% at December 31, 2006), 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. This line of credit was subsequently repaid on April 16, 2007 (see Note 8).
- (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 (6.75% at December 31, 2006), and is payable quarterly. The principal is due on or before September 30, 2007.
- (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 (7.25% at December 31, 2006), and is payable quarterly. Principal and interest is due on or before November 30, 2007; the note is unsecured. The Foundation receives an annual donation from a donor for the principal portion of this note. This line of credit was subsequently repaid on April 16, 2007, (see Note 8).
- (E) Represents a draw down on a \$175,000 line of credit. Interest varies with the bank's prime rate minus 1.375% per annum (6.875% at December 31, 2006), and is payable quarterly. Principal and interest is due on or before January 10, 2011; the note is unsecured. The Foundation receives an annual donation from five donors for the principal portion of this note.

Western Kentucky University Foundation, Inc.
Notes to Financial Statements
December 31, 2006 and 2005

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, 2006 and 2005, of \$227,304 and \$177,022, 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, 2006 and 2005, 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.

Note 8: Related-party Transactions

Accounts receivable at December 31, 2006 and 2005, include \$370,691 and \$5,103, respectively, from the WKU Real Estate Corporation (WKUREC).

Accounts payable include \$18,611 and \$83,809 payable to WKU at December 31, 2006 and 2005, 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.

During 2006 and 2005, respectively, the Foundation contributed approximately \$340,444 and \$261,000 to the WKUREC.

On April 16, 2007, the Foundation obtained a note payable in the amount of \$2,636,523, of which \$1,434,074 was obtained on behalf of the WKUREC. With the proceeds of this note, the Foundation repaid two of its notes payable that were outstanding on December 31, 2006. The note payable matures on April 5, 2012, and bears interest at 4.50%, with interest payable quarterly. The note is unsecured. The Foundation receives an annual donation from a donor for repayment of this note.

Western Kentucky University Foundation, Inc.

Notes to Financial Statements

December 31, 2006 and 2005

Note 9: Net Assets

Temporarily Restricted Net Assets

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

	<u>2006</u>	<u>2005</u>
Scholarships	\$ 498,291	\$ 534,525
Other program support	<u>10,672,386</u>	<u>10,013,482</u>
	<u>\$ 11,170,677</u>	<u>\$ 10,548,007</u>

Permanently Restricted Net Assets

Permanently restricted net assets at December 31 were restricted to:

	<u>2006</u>	<u>2005</u>
Scholarships	\$ 10,730,263	\$ 10,523,786
Other program support	<u>18,456,783</u>	<u>15,462,878</u>
	<u>\$ 29,187,046</u>	<u>\$ 25,986,664</u>

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

	<u>2006</u>	<u>2005</u>
Satisfaction of program restrictions	<u>\$ 3,384,930</u>	<u>\$ 3,782,304</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 \$10,325 and \$8,218, respectively, for the years ended December 31, 2006 and 2005.



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

In planning and performing our audit of the financial statements of Western Kentucky University Foundation, Inc. (Foundation) as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control. As such, our consideration of internal control would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the Foundation's annual or interim financial statements on a timely basis. A control deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective is not always met. A control deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the Foundation's ability to initiate, authorize, record, process or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Foundation's annual or interim financial statements that is more than inconsequential (clearly immaterial) will not be prevented or detected.

A material weakness is a significant deficiency or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Foundation's annual or interim financial statements will not be prevented or detected.

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. Previously we made observations as a result of our 2005 audit engagement in a letter dated May 1, 2006.

Material Weakness

Year End Audit and Passed Adjustments

During the audit process, substantial adjustments were recorded to pledges receivable including the discount and allowance accounts relating to these receivables, assets held for others and various investment income account balances. In addition, there were several adjustments proposed relating to annuity liabilities, accounts payable and investment income which management determined were not material individually or in the aggregate and as a result, were not recorded in the financial statements as of December 31, 2006.

Management is responsible for establishing and maintaining effective internal control over financial reporting. Certain individuals with the Foundation have incompatible duties in certain financial statement reporting transaction cycles. Duties in these transaction cycles are not adequately segregated to safeguard the Foundation's assets. Management has implemented compensating controls for these issues to help mitigate the risk of material misstatement. These compensating controls are more detective than preventative in nature. Following is a summary of various incompatible duties we identified:

Significant Deficiencies

Segregations of Duties – Accounts Payable and Cash Disbursements

The trust accountant has the ability to issue a purchase order, issue a check, authorize payment, sign checks, change computer master files, make journal entries and reconcile bank balances to the general ledger.

Control Deficiencies

Segregations of Duties – Accounts Payable and Cash Disbursements

- The accounts payable clerk has the ability to access signed checks, change on-line files and reconcile accounts payable to the general ledger.
- The part-time accounts payable clerk has the ability to generate a payment, access signed checks, record accounts payable, record checks issued and change computer master files.

Segregations of Duties – Accounts Receivable and Cash Receipts

- The trust accountant can receive evidence of contribution commitments, prepare or send donor acknowledgments, authorize reclassification of contribution commitments, initiate and record the write-off of uncollectible commitments, make journal entries to adjust contributions receivable, cash and net asset releases, and has the responsibility to reconcile the contributions receivable balance detail to the general ledger and the responsibility to review the classifications of amounts classified as temporarily restricted net assets.
- The accounts receivable clerk has the ability to receive payments and is the custodian of currency, checks or other contributed assets, has the ability to make a computer entry to record contributions, prepares the cash receipts list and has the responsibility to reconcile the cash receipts list to the general ledger and the responsibility to reconcile the bank balances to the general ledger.
- The executive director has the ability to receive evidence of contribution commitments, authorize reclassification of contribution commitments, receive payments in currency, checks or other contributed assets and has the ability to initiate and approve the write-off of uncollectible commitments.

Management should evaluate the costs vs. the benefits of further segregating these duties or adding additional preventative compensating controls.

Other Control Deficiencies

Transaction Recording

The Foundation records its transactions for internal financial records utilizing the cash method for accounting. For external reporting, the Foundation is required under accounting principles generally accepted in the United States of America to utilize the accrual method of accounting. Since the Foundation records its transactions for internal financial records under the cash method, the pledges receivable, accounts payable, accrued expenses, annuities payable and charitable remainder trusts must be adjusted annually to the accrual method of accounting during the financial statement audit.

Accounts Payable Cut-off

Accounts payable was cut-off on January 30, 2007. Due to invoices slow to come into the Foundation, several invoices were found that should have been recorded in accounts payable. BKD suggests keeping accounts payable open until a later date to ensure all payables are captured as of year end.

* * * * *

Board of Trustees
July 9, 2007
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This communication is intended solely for the information and use of the board of trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

BSKCCCP

July 9, 2007



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

As part of our audit of the financial statements of Western Kentucky University Foundation, Inc. (Foundation) as of and for the year ended December 31, 2006, we wish to communicate the following to you.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

Significant Accounting Policies

The Foundation's significant accounting policies are described in Note 1 of the audited financial statements.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Contributions receivable
- Annuities payable

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas, in which adjustments were proposed, including those which management recorded, include:

- Cash
- Investments
- Contributions receivable
- Assets held for others
- Investment return
- Beneficial interest in charitable remainder trusts
- Net asset classifications
- Fundraising expenses

Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. These include:

- Contributions receivable
- Accounts payable
- Annuities payable
- Assets held for others
- Interest earned on investments

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Disagreements with Management

No matters are reportable.

Difficulties Encountered in Performing the Audit

No matters are reportable.

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This communication is intended solely for the information and use of the board of trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

BKD, cce

July 9, 2007

Western Kentucky University Foundation, Inc.
ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Adjusted for Misstatements	% Change
Total Assets	74,577,439	58,857	74,636,296	0.08%
Total Liabilities	(21,131,979)	(55,233)	(21,187,212)	0.26%
Current Ratio	3.529		3.523	-0.17%
Total Assets	74,577,439		74,577,439	
Net Assets	(53,445,460)	(93,961)	(53,539,421)	0.18%
Total Equity	(53,445,460)	(3,624)	(53,449,084)	0.01%
Revenues & Income	(13,601,852)	(274,550)	(13,876,402)	2.02%
Costs & Expenses	4,920,080	(62,127)	4,857,953	-1.26%
Change in Net Assets	(8,681,772)	(336,677)	(9,018,449)	3.88%
Change in Net Assets - Three-Year Average	(5,766,632)	(336,677)	(6,103,309)	5.84%

