

**PRELIMINARY OFFICIAL STATEMENT DATED JULY 1, 2003**

**NEW ISSUE  
BOOK-ENTRY ONLY  
Not Bank Qualified**

**RATINGS: Moody's "\_\_\_"  
S&P "\_\_\_"  
(See "Ratings" Herein)**

*In the opinion of Bond Counsel for the Series O Bonds, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the University, and subject to the conditions and limitations set forth herein under the caption "TAX EXEMPTION," interest on the Series O Bonds is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes. Interest on the Series O Bonds is exempt from Kentucky income tax and the Series O Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. See "TAX EXEMPTION" herein.*

**\$9,850,000\***

**WESTERN KENTUCKY UNIVERSITY  
CONSOLIDATED EDUCATIONAL BUILDINGS  
REFUNDING REVENUE BONDS, SERIES O**

**Dated: July 1, 2003**

**Due: May 1, as shown below**

The Series O Bonds will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series O Bonds. Purchasers will not receive certificates representing their ownership interest in the Series O Bonds purchased. So long as DTC or its nominee is the registered owner of the Series O Bonds, payments of the principal of and interest due on the Series O Bonds will be made directly to DTC. The Series O Bonds bear interest from July 1, 2003, payable semiannually, on May 1 and November 1, commencing November 1, 2003, at the rates, and shall mature serially on May 1 in each of the years 2004 through 2010, in the principal amounts, as follows:

<u>Year</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Price/Yield</u>	<u>Year</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Price/Yield</u>
2004	\$1,360,000			2008	\$1,425,000		
2005	1,330,000			2009	1,465,000		
2006	1,360,000			2010	1,520,000		
2007	1,390,000						

The Series O Bonds are not subject to optional redemption prior to their stated maturities.

The Series O Bonds constitute special obligations of Western Kentucky University and do not constitute a debt, liability or obligation of the Commonwealth of Kentucky nor a pledge of the full faith and credit of the Commonwealth. Principal of and interest on the Series O Bonds are payable solely from the revenues of the Consolidated Educational Building Project, as more fully described herein.

The Series O Bonds are issued subject to the approval of legality by Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Delivery of the Series O Bonds is expected on or about August 5, 2003.

**First Kentucky Securities Corporation**  
Financial Advisor

Dated: \_\_\_\_\_, 2003

\*Preliminary; subject to change.

This Preliminary Official Statement and information contained herein are subject to change, completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.



**WESTERN KENTUCKY UNIVERSITY**

**PRESIDENT**

Gary A. Ransdell

**BOARD OF REGENTS**

Kristen T. Bale	James B. Tennill, Jr.
Lois W. Gray	Beverly H. Wathen
Robert Earl Fischer	Howard E. Bailey, Staff Regent
Cornelius A. Martin	Jamie Sears, Student Regent
LaDonna G. Rogers	Robert Dietle, Faculty Regent
Ronald G. Sheffer	

**OFFICERS**

Lois W. Gray, Chair of the Board	K. Ann Mead, Treasurer
Cornelius A. Martin, Vice Chair of the Board	Elizabeth Esters, Secretary

**BOND COUNSEL**

Peck, Shaffer & Williams LLP  
Covington, Kentucky

**FINANCIAL ADVISOR**

First Kentucky Securities Corporation  
Frankfort, Kentucky

**PAYING AGENT, REGISTRAR AND TRUSTEE**

Branch Banking and Trust Company  
Wilson, North Carolina

## **REGARDING USE OF THIS OFFICIAL STATEMENT**

This Official Statement does not constitute an offering of any security other than the original offering of the Series O Bonds of Western Kentucky University identified on the cover page hereof. No person has been authorized by Western Kentucky University to give any information or to make any representation other than that contained in the Official Statement, and if given or made such other information or representation must not be relied upon as having been given or authorized by Western Kentucky University or the Financial Advisor. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series O Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Western Kentucky University since the date hereof.

Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency, except Western Kentucky University, will pass upon the accuracy or adequacy of this Official Statement or approve the Series O Bonds for sale (see "APPROVAL OF ISSUANCE OF SERIES O BONDS").

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## **OFFICIAL STATEMENT RELATING TO**

**\$9,850,000\***

### **WESTERN KENTUCKY UNIVERSITY CONSOLIDATED EDUCATIONAL BUILDINGS REFUNDING REVENUE BONDS, SERIES O**

#### **INTRODUCTORY STATEMENT**

This Official Statement, which includes the cover page and the Exhibits appended hereto, is being distributed by Western Kentucky University (the "University") to furnish pertinent information to all who may become owners of its Consolidated Educational Buildings Refunding Revenue Bonds, Series O (the "Series O Bonds") authorized to be issued pursuant to the provisions of Section 162.340, 162.380, and 58.010 to 58.140, inclusive, of the Kentucky Revised Statutes, and pursuant to the terms of a Basic Resolution (the "Resolution") adopted by the Board of Regents of the University (the "Board") on August 15, 1960, supplemented on July 28, 1971 and the Series O Resolution adopted by the Board on May 9, 2003.

The summaries and references to Sections of the Kentucky Revised Statutes, the Resolution, and the Series O Resolution included in this Official Statement, do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document.

#### **WESTERN KENTUCKY UNIVERSITY**

The University, located at Bowling Green, Warren County, Kentucky, was established by the Kentucky Legislature in 1906 when there was authorized the establishment of two schools in the State for the training of teachers. On January 1, 1907, the Southern Normal School was transferred to the State of Kentucky, and the President of that Institution became President of the Western Kentucky State Normal School. The Kentucky Legislature of 1922 changed the name of the institution to the Western Kentucky State Normal School and Teachers College, and passed an enabling act permitting the institution to confer degrees. In 1930 the name was changed to the Western Kentucky State Teachers College and in 1948 to the Western Kentucky State College. Pursuant to a 1966 Act of the General Assembly of Kentucky, the name of Western Kentucky State College has been officially changed to Western Kentucky University.

The Board of Regents of the University, a body corporate and an educational institution and agency of the Commonwealth and the governing body of the University, consists of eight members appointed by the Governor of Kentucky, one faculty member elected by the faculty, one student member elected by the student body and one staff member elected by the staff.

The University is authorized to offer the following programs as set forth in Kentucky Revised Statute Section 164.295: upon approval of the Council on Postsecondary Education associate and baccalaureate programs of instruction; upon approval of the Council on Postsecondary Education, graduate programs of instruction at the master's degree level in education, business, and the arts and sciences; educational requirements for teachers, school leaders, and other certified personnel; research and service programs directly related to the needs of its primary geographical area; and programs of a community college nature in its own community.

The University has been divided into colleges and other units to facilitate the offering of these programs and services. The colleges are: Gordon Ford College of Business; College of Education and Behavioral Sciences; Ogden College of Science and Engineering; Potter College of Arts, Humanities and Social Sciences; the Graduate College; the Community College, and College of Health and Human Services.

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\*Preliminary; subject to change.

The undergraduate offerings include degrees, associate degrees, and certificate programs. The University offers the Bachelor of Arts, Bachelor of Science, Bachelor of Music, Bachelor of Science in Nursing and Bachelor of Fine Arts with more than 80 areas of study available in all the major areas of study and in certain special areas. Preprofessional programs are also available in the following areas: chiropractic, dental, engineering, forestry, law, medicine, optometry, pharmacy, physical therapy, pediatric medicine, theology and veterinary. Associate degree programs are also offered leading to Associate of Arts, Associate of Science, and Associate of Liberal Studies degrees in 19 areas. One-year certificate programs are available in Real Estate and Agricultural Equipment Technology.

Graduate instruction is offered through the Graduate College at the master's and specialist's levels. At the master's level, the following degrees are offered: Master of Business Administration; Master of Music; Master of Public Services - (Option In) Counseling, City and Regional Planning, and Master of Public Administration; Master of Arts - Child Development and Family Living, English, Folk Studies, Humanities, History, Sociology, Psychology, and Communications; Master of Science - Agriculture, Biology, Chemistry, Computer Science, Geography, Health, Library Science, Mathematics, Physical Education, Recreation, Institutional and Home Environment - (Option In) Interior Design and Housing, Textiles and Clothing, Foods and Nutrition, and Master of Communication Disorders. The Specialist Degree is offered in education.

Two non-degree programs at the graduate level are the fifth-year program and the Rank I and Rank II Teacher Certificate program in the College of Education and Behavioral Sciences. Instruction is provided for students in joint doctoral programs in education with the University of Kentucky, in cooperative doctoral programs in aquatic biology and fossil fuel chemistry with University of Louisville and a cooperative master's degree in nursing at the University of Kentucky.

The academic year of the University is divided into two semesters of approximately 18 weeks each, and a summer session of eight weeks.

The main campus of the University is located on a site containing 180 acres and an additional 53 acres, located in the City of Bowling Green and the County of Warren, are used for recreational, instructional, and research purposes. The University also operates a farm of 789 acres for instructional and research purposes.

## **THE SERIES O BONDS**

### **General**

The Series O Bonds will be dated July 1, 2003, will be issued in fully registered form and in denominations of \$5,000 or any integral multiples thereof, will mature as to principal and will bear interest as set forth on the cover page of this Official Statement. The Series O Bonds shall bear interest payable semiannually on May 1 and November 1, commencing November 1, 2003, at such interest rate or rates fixed as a result of the advertised sale of the Series O Bonds, and shall mature serially on May 1 in each of the years 2004 through 2010.

### **Book Entry Only System**

The Series O Bonds initially will be issued solely in book-entry form to be held in the book-entry only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Series O Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners of Beneficial Ownership Interests, each as hereinafter defined, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Series O Bonds under the



Resolution and Series Resolution. For additional information about DTC and the book-entry only system see "APPENDIX E - Book Entry Only System."

### **Redemption Provisions**

*Optional Redemption.* The Series O Bonds are not subject to optional redemption prior to maturity.

### **DISPOSITION OF BOND PROCEEDS**

The Series O Bond proceeds will be applied as follows:

(a) The amount received from the purchaser(s) representing accrued interest from July 1, 2003, to the date of delivery, will immediately be deposited into the Bond Fund, as defined herein, to be maintained at Branch Banking and Trust Company, Wilson, North Carolina, the Trustee, Paying Agent, and Bond Registrar.

(b) There next will be set aside and deposited to the Western Kentucky University Consolidated Educational Buildings, Series O Escrow Account (the "Escrow Account"), the amount necessary to be held by the Escrow Agent to effect the refunding as more fully described under "PLAN OF REFUNDING".

(c) The amount of the proceeds of the Series O Bonds necessary to pay the costs of issuance of the Series O Bonds will be set aside into a "Costs of Issuance Account" to be maintained by the Trustee Bank and used to pay all expenses incident to the issuance, sale and delivery of the Series O Bonds, including the fee of the Financial Advisor, the rating fees and such other appropriate expenses as may be approved by the Board.

(d) Any unused balance will be deposited into the Bond Fund.

### **SECURITY FOR THE BONDS**

The Series O Bonds, together with the University's outstanding Consolidated Educational Buildings Revenue Bonds and any additional parity bonds, which may hereafter be issued and outstanding under the terms of the Resolution and subsequent Series Resolutions (collectively, "Bonds") will be payable from and will constitute a charge upon the revenues to be derived by the University from the operation of its Consolidated Educational Buildings Project. The fees imposed upon and collected from all students attending the University in Bowling Green, Kentucky for the services furnished by the Consolidated Educational Buildings Project are designated as the source of revenues of the Consolidated Educational Buildings Project. Such revenues are known as the Student Registration Fees and the Board covenants that the same will be fixed (and, if necessary, revised and increased from time to time) at such rates as may be required to pay the interest on and principal of the Bonds as they respectively mature, to provide reserves therefore and to pay the operating costs of the Consolidated Educational Buildings Project to the extent they are not otherwise provided. All collections of the Student Registration Fees are to be set aside, as received into the Consolidated Educational Buildings Project Revenue Fund, as defined herein, and are made subject to a first lien and paramount charge for the security and source of payment of all outstanding Bonds.

As further security for the Series O Bonds and all outstanding Bonds, there is created and granted by Sections 162.350 and 162.200 of the Kentucky Revised Statutes a statutory lien upon the Consolidated Educational Buildings Project of the University on a parity with all Bonds outstanding.

The Series O Bonds are additionally secured by the Debt Service Reserve Fund established with respect to the Bonds. The Resolution requires the establishment (within four years following the issuance

of a series of Bonds) and maintenance of a Debt Service Reserve Fund (defined herein) in the Bond Fund (defined herein) in an amount equal to the maximum aggregate principal, interest and bond fund charges in any future twelve month period. Upon issuance of the Series O Bonds, the total required reserve amount will be on deposit in the Debt Service Reserve Fund.

### **THE REFUNDING PLAN**

The University previously issued \$15,035,000 principal amount of its Consolidated Educational Buildings Refunding Revenue Bonds, Series L dated December 1, 1993 (the "Prior Bonds") of which there is currently outstanding \$9,325,000 in aggregate principal amount. The Prior Bonds were originally issued to refund Consolidated Educational Buildings Revenue Bonds, Series H and Series J that were issued to finance the construction of a new graduate center and library connected to the then existing library, constituting the Series H Project and to construct and to construct a student activity center, constituting the Series J Project. The Series O Bonds are being issued for the purpose of (i) refunding the Prior Bonds through the deposit in escrow of sufficient funds to redeem the Prior Bonds on November 1, 2003, at a redemption price equal to the principal amount thereof and (ii) paying the costs of issuing the Series O Bonds.

### **SOURCES AND USES OF FUNDS**

The sources and uses of funds in connection with the issuance of the Series O Bonds are as follows:

#### Sources of Funds

Principal Amount of Series O Bonds  
Transfer from Debt Service Reserve  
Net Original Issue [Premium][Discount]  
Accrued Interest  
Total Sources of Funds

#### Uses of Funds

Deposit to Escrow Fund  
Accrued Interest  
Underwriter's Discount  
Costs of Issuance  
Total Uses of Funds

### **CERTAIN PROVISIONS OF THE RESOLUTION AND SERIES O RESOLUTION**

On August 15, 1960, supplemented on July 28, 1971, the Board adopted the Resolution (the "Resolution") and authorized the issuance of its Consolidated Educational Buildings Revenue Bonds.

The following statements are intended to provide only brief summaries of selected pertinent provisions of the Resolution and the Series M, N and O Resolutions collectively, "Series Resolutions" and together with the Resolution, the "Resolutions." For detailed and complete information reference is hereby made to the Series Resolutions, copies of which are on file with the University and with Branch Banking and Trust Company, the Trustee for the outstanding Consolidated Educational Buildings Revenue Bonds. For purposes of the description in the following sections under the above styled general heading, previous bonds issued or any future bonds to be issued by the Series Resolutions will be referred to as the "Bonds." Additionally, for purpose of this description revenues of the Consolidated Educational Buildings Project will be referred to as "Revenues."

## **Application of Revenues**

There has been created and established a special fund known as the Consolidated Educational Buildings Revenue Fund in the custody of the Treasurer of the Board, separate and apart from other funds of the University. Such Consolidated Educational Buildings Revenue Fund (the "Revenue Fund") will be maintained so long as any of the Bonds are outstanding and unpaid as a trust fund in one or more banks which will be members of the Federal Deposit Insurance Corporation and will be expended and used by the Treasurer only in the manner specified in the Resolutions. Upon delivery of any Bonds issued pursuant to the Resolutions, all Revenues derived from the Consolidated Educational Buildings Project will be deposited as collected in the Revenue Fund to be held and administered by the Treasurer of the Board and will be paid out and applied for the uses and purposes set forth below.

*Bond and Interest Sinking Fund.* There is created and established a special account known as the Consolidated Educational Buildings Bond and Interest Sinking Fund (the "Bond Fund") which is maintained by and in the custody of the Trustee so long as any Bonds are outstanding and unpaid. The Bond Fund will be used by the Trustee to pay interest on the Bonds as the same become due from time to time and to pay and retire the Bonds as they become due, or as otherwise provided in the Resolutions. From and after the delivery of any Bonds issued pursuant to the Resolution, and thereafter commencing on May 1 of each year, the Treasurer will transfer from the Revenue Fund, and deposit to the credit of the Bond Fund all the Revenues as and when the same are received and deposited into the Revenue Fund, until there has been so deposited and paid into the Bond Fund an amount equal to the total interest and principal becoming due on or prior to the succeeding May 1, on the Bonds then outstanding.

*Debt Service Reserve Fund.* A debt service reserve in the Bond Fund (the "Debt Service Reserve Fund") is required to be maintained in an amount equal to the Maximum Aggregate Principal, Interest and Bond Fund Charges on the Bonds outstanding. Initially, and as any series of Bonds are issued, the amount to be set aside into the Bond Fund will be 125% of the amount set forth above until the required amount is so accumulated and thereafter the same will be resumed and continued whenever and so long as required to restore and maintain such reserve. Aggregate Principal, Interest and Bond Fund Charges is defined "as of any particular date of computation and with respect to a particular twelve month period, an amount of money equal to the aggregate of the amount required by the provisions of the Resolution and all Series Resolutions, to be paid into the Bond Fund in such twelve month period, for account of the interest on all outstanding Bonds becoming due during such twelve month period and to accomplish the retirement of the principal of any Bonds outstanding at or prior to the maturity thereof."

Moneys in the Bond Fund in excess of the Aggregate Principal, Interest and Bond Fund Charges and the prescribed reserve may be used to purchase or redeem Bonds in advance of maturity.

When all required payments into the Bond Fund have been made in any particular twelve month period ending May 1, any moneys remaining in the Revenue Fund may be used by the Board in its discretion to pay the operating costs of the Consolidated Educational Buildings Project to the extent that such costs are not otherwise provided, or may be used for the purchase or retirement of Bonds in advance of maturity, or for any other lawful purpose.

## **Additional Bonds**

The Board covenants and agrees that it will not hereafter create or permit the creation of or issue any bonds which will have a priority over the charge on the Revenues or the payments to be made into the Bond Fund.

Additional bonds ranking on a parity with the Bonds outstanding may be issued only for the purpose of erecting and completing educational buildings and necessary appurtenances which will become and constitute a part of the Consolidated Educational Buildings Project; provided:

(a) That at the time of the issuance of the additional Bonds there is no deficiency in the amount required to be paid into the Bond Fund, and;

(b) That the average of the annual Revenues from the Consolidated Educational Buildings Project for the two fiscal years immediately proceeding the issuance of the additional Bonds, as indicated in a statement by the Treasurer of the Board to be filed with the Trustee, was equal to not less than 1.25 times, the maximum Aggregate Principal, Interest and Bond Fund Charges in any succeeding twelve month period ending May 1 on the Bonds then outstanding and the additional Bonds proposed to be issued. For the purpose of computing average annual Revenues, the Treasurer shall make an adjustment in the amount of annual Revenues to reflect any increase or decrease in the Student Registration Fees being imposed at the time for the services of the Consolidated Educational Buildings Project.

The issuance of such additional Bonds shall be pursuant to the terms of an appropriate Series Resolution by the Board in accordance with the provisions of the Resolution.

### **Default and Remedies**

The Resolution defines an event of default, which includes: failure to pay principal when due or failure to pay any installment of interest when same become due or within 30 days thereafter; the Board being rendered incapable of fulfilling its obligations under the Resolution; any building representing a part of the Consolidated Educational Buildings Project being destroyed or damaged and not being repaired or replaced and insurance proceeds not being deposited in the Bond Fund; an order or decree being entered appointing a receiver of all or part of the Consolidated Educational Buildings Project or Revenues therefrom; and failure after written notice by the Trustee (who is required to give such notice at the written request of the owners of 15% in aggregate amount of the outstanding Bonds) to perform any covenant in the Resolution or any Series Resolution, in each case within or for the specified period of grace, if any.

Upon the happening and continuance of any event of default, then and in every such case the Trustee may, and upon the written request of the owners of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding, will give notice in writing to the Board, declaring the principal of all Bonds outstanding to be due and payable immediately, and upon such declaration the same will become and be immediately due and payable, anything contained in the Resolution or any Series Resolution to the contrary notwithstanding; provided, however, that if at any time after the principal of the Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, moneys will have been accumulated in the Bond Fund sufficient to pay all arrears of interest, if any, upon the Bonds then outstanding (except the interest accrued on such Bonds since the last interest payment date), and the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and all other amounts then payable by the Board under the Resolution will have been paid or a sum sufficient to pay the same will have been deposited with the Trustee, and every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Bonds or in the Resolution or any Series Resolution (other than a default in the payment of the principal of such Bonds then due only because of a declaration of default) shall have been remedied to the satisfaction of the Trustee, then and in every such case the Trustee may, and upon the written request of the owners of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding shall, by written notice to the Board, rescind and annul such declaration and its consequences, but no such recession or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Upon the happening and continuance of any event of default, then and in every such case the Trustee may proceed, and upon the written request of the owners of not less than fifteen percent (15%) in

principal amount of the Bonds then outstanding under the Resolution will proceed to protect and enforce its rights and the rights of the bondholders under the laws of the Commonwealth of Kentucky or under the Resolution or any Series Resolution by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant or agreement contained in the Resolution or in aid or execution of any power therein granted or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, will deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Resolution, the Trustee will be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Board for principal, interest, or otherwise under any of the provisions of the Resolution or any Series Resolution or the Bonds and unpaid together with any and all costs and expenses of collection and of all proceedings under the Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the bondholders, and to recover and enforce judgment or decree against the Board, but solely as provided in the Resolution and in such, for any portion of such amount remaining unpaid, with interest, costs and expenses, and to collect (solely from moneys from the Bond Fund and the Revenues of the Consolidated Educational Buildings Project pledged to the payment of the Bonds by the Resolution) in any manner provided by law, the moneys adjudged or decreed to be payable.

Anything in the Resolution to the contrary notwithstanding, the holders of a majority in principal amount of the outstanding Bonds shall have the right, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee thereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to bondholders not parties to such direction.

No holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for any remedy afforded by the Resolution unless such holder shall have previously given to the Trustee written notice of any event of default as in the Resolution provided, nor unless also the holders of 25% in principal amount of the outstanding Bonds shall have made written request to the Trustee and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Resolution or to institute such action, suit or proceeding in its or their name, nor unless also there shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, it being understood and intended that no one or more holders of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Resolution except in the manner provided in the Resolution.

### **Other Covenants of the Board**

The Board covenants with the owners of the Bonds outstanding, among other things, the following:

- (a) That it will establish, maintain and collect, as long as any Bonds are outstanding, such Student Registration Fees for the services of the Consolidated Educational Buildings Project as may be necessary (a) to pay the interest on and principal of the Bonds as they respectively mature, to provide reserves therefore and (b) to pay the operating costs of the Consolidated Educational Buildings Project to the extent they are not otherwise provided. In order to assure full and continuous performance of this covenant with a margin for contingencies and temporary unanticipated reduction in Revenues the Board further covenants and agrees to establish, maintain and collect such Student Registration Fees as will produce Revenues, in each twelve month period ending May 1, equal to at least 110% of the current Aggregate Principal, Interest and Bond Fund Charges;

(b) That it will, except as herein before set forth under "Application of Revenues", pay the current operating costs Consolidated Educational Buildings Project from available funds other than the Revenues derived from the Consolidated Educational Buildings Project;

(c) That it will procure and maintain to the extent available, fire and extended coverage insurance on the Consolidated Educational Buildings Project in amount sufficient to provide for not less than full recovery whenever the loss from causes covered by such insurance does not exceed 80% of the full insurable value of the Consolidated Educational Buildings Project. All insurance moneys (except property insurance proceeds in amounts of less than ten thousand dollars (\$10,000), which shall be paid over to the Board) received by the Trustee shall be held by the Trustee as substituted security and used for the purpose of paying the reasonable costs or repairing or replacing part or all of the property damaged or destroyed or the reasonable costs of substitute facilities; provided, however, that the Board shall have furnished, in addition to the proceeds of such insurance, such moneys as may be required to complete such repairs, replacements or substitute facilities and said insurance moneys shall be paid out by the Trustee only when the same shall be fully sufficient to complete such repairs, replacement or substitute facilities as shown by a certificate of an architect or engineer. If insurance proceeds shall remain after the completion of the repairs, replacement or substitute facilities, or in the event of a failure to repair or replace the property damaged or destroyed, or to construct substitute facilities, the Trustee shall deposit such moneys in the Bond Fund and such moneys, to the extent of any excess over the required balance in the Bond Fund, shall be applied to the retirement of the Bonds;

(d) That unless provision is otherwise made by law for disposition by the Commonwealth of Kentucky of claims made against the University for bodily injury and/or death which may arise from operations of the Board, it will, if such insurance is not already in force, procure and maintain public liability insurance with limits of not less than \$50,000/\$100,000 to protect the Board from claims for bodily injury and/or death which may arise from the operation of the Board, including any use or occupancy of its grounds, structures, and vehicles;

(e) That it will keep accurate financial records and proper books relating to the Consolidated Educational Buildings Project; that such records and books shall be open to inspection by the Bondholder and their agents and representatives; and that not later than 90 days after the close of each fiscal year it will furnish to the Trustee; and to any bondholders who shall request the same in writing, copies of audit reports prepared by an independent certified public accountant or a firm of such accountants, who shall be satisfactory to the Trustee, or by an appropriate state auditing official, reflecting in reasonable detail the financial condition and record of operation of the University, the Consolidated Educational Buildings Project, and the pledged Revenues during the preceding fiscal year (July 1/June 30);

(f) That it will at all times maintain, preserve and keep the Consolidated Educational Buildings Project and every part thereof in good condition, repair and working order; and will from time to time make all needful and proper repairs, replacements, additions, betterments and improvements so that the operations and business of the Consolidated Educational Buildings Project shall at all times be conducted efficiently, properly and advantageously;

(g) That whenever any portion of the Consolidated Educational Buildings Project shall have been worn out or destroyed or shall have become obsolete, inefficient or otherwise unfit for use, the Board will procure and install substitutes of at least equal value, utility and efficiency, so that the value and efficiency of the Consolidated Educational Buildings Project will at all times be fully maintained; and

(h) That it will faithfully observe, do and perform all of its agreements and obligations provided for by the Bonds and the Resolutions.

## BOARD AND ADMINISTRATIVE OFFICERS

### Governing Board

The Governing Body of the University is the Board of Regents of Western Kentucky University, (the "Board"), consisting of eight members appointed by the Governor of Kentucky, one faculty member elected by the faculty, one student member elected by students and one staff member elected by the staff. The government of the University is vested in the Board, and the Board has general supervision of lands, buildings and other properties of the University and, subject to the statutes of the Commonwealth of Kentucky, control of all expenses therefore.

### Administrative Officers

The President and chief administrative officer of the University is Dr. Gary A. Ransdell. Dr. Barbara G. Burch is Provost and Vice President for Academic Affairs; Ms. K. Ann Mead is Treasurer and Chief Financial Officer; Dr. Gerald E. Tice is Vice President for Student Affairs and Campus Services and Mr. Thomas S. Hiles is Vice President for Institutional Advancement. Their biographies follow:

#### Dr. Gary A. Ransdell, President of Western Kentucky University

Gary A. Ransdell was named the ninth president of the University on Sept. 12, 1997. Dr. Ransdell, 50, received his bachelor's degree from the University in 1973 in mass communications, a master of public service degree in public administration in 1974, and a doctor of education degree from Indiana University in 1978. Dr. Ransdell joined the University after serving as Vice President for Administration and Advancement at Clemson University, where he amassed a successful record in a broad range of administrative responsibilities, including financial affairs, facilities management, legislative relations, public relations, and fund raising. During Dr. Ransdell's 11-year term at Clemson, the endowment grew from \$22 million to \$168 million. Dr. Ransdell served as Director of Alumni Relations at Southern Methodist University from 1981 until 1987. His previous professional experiences at the University also include service as a field representative in the Office of University School Relations from 1974 to 1976 and as Associate Director of Alumni Affairs from 1978 to 1981. Dr. Ransdell serves on the Distance Learning Advisory Committee for the Kentucky Virtual University. In July 2000, Governor Paul Patton appointed Dr. Ransdell to a four-year term on the Southern Regional Education Board.

#### Dr. Barbara G. Burch, Provost and Vice President for Academic Affairs

Dr. Burch received her B.A. from Western Kentucky University in English, her M.S. from Indiana University in education and her Ed.D. from Indiana University in curriculum development. She has also attended the Harvard University Institute for Educational Management. She has served as Provost and Vice President for Academic Affairs since 1996. Prior to that, she served in several capacities at Memphis State University, including Interim Dean of the College of Education, Associate Dean and Director of Graduate Studies, Director of the Center of Excellence in Teacher Education and Assistant Vice President for Academic Affairs and Dean for Nursing and Professor, Department of Curriculum and Instruction. Dr. Burch has also been a public school teacher and held administrative positions in public school systems. She has received several honors, including "Outstanding Dean of Education," University of Dayton *Study of Successful Educational Leadership* and the Christa McAuliffe Showcase for Excellence Award, American Association of State Colleges & Universities. She is the author/co-author of more than fifty published journal articles, book chapters, monographs and papers. She is a past president and board member of the American Association of Colleges of Teacher Education, Member and chair of the NCATE Accreditation team and also chair of the Unit Accreditation Board. She

has been the principal writer and/or project director for grants totaling more than \$1.7 million and a contributing writer, consultant and/or participant in more than 25 additional grants.

Ms. K. Ann Mead, Treasurer and Chief Financial Officer

K. Ann Mead is the Chief Financial Officer, Treasurer and Assistant to the President for Economic Development at the University. Her primary duties include directing the Financial Affairs Division, serving as a liaison with the community, representing the President on advisory councils and assisting with the implementation of the Kentucky Innovation Act and the Central Region's Economic Development Strategic Plan. Ms. Mead has been with the University since 1994, also serving as Director of Budget and Management Information and Director of Institutional Research. She also spent 10 years as Director of Finance with the Kentucky Council on Higher Education (now the Council on Postsecondary Education) and four years at the University of Kentucky in the Planning and Budget Office. Ms. Mead has a bachelor's degree in commerce from the University of Louisville and a master's of business administration from the University of Kentucky. She is also a graduate of the College Business Management Institute.

Dr. Gerald E. Tice, Vice President for Student Affairs and Campus Services

Dr. Tice received his B.A. from Muskingum College in economics and business administration, his M.A. from the University of Alabama in college student personnel and his Ph.D. from the University of Alabama in counseling and guidance. He has served as Vice President for Student Affairs and Campus Services at the University since August, 2000. Prior to coming to the University, he held various positions at Mississippi State University, including Associate Vice President for Student Affairs, Assistant Vice President for Student Affairs, Assistant Professor of Counselor Education and Director of Housing and Residence Life. He served as Associate Director of Housing for Residential Life and Director of Housing Operations at University of Alabama, prior to his time at Mississippi State University. He has also consulted with various colleges and universities regarding housing and campus security issues. His professional associations include the National Association of Student Personnel Administrators, where he has held several committee and board positions; the Association of College and University Housing Officers; the Southeastern Association of Housing Officers; and the Southern Association of College Student Affairs, where he has held the positions of Chair, SACSA Scholars Chair, Foundation Board and President.

Mr. Thomas S. Hiles, Vice President for Institutional Advancement

Thomas S. Hiles serves as the University's Vice President for Institutional Advancement. He came to the University in 1998 as Vice President for Development and Alumni Relations, with responsibility for public relations/marketing, publications, and media relations. In addition, his responsibilities include the supervision and direction of all development and alumni relation's functions, and he and his staff have planned and developed support for Western's first comprehensive campaign. The early results from that campaign include a more than 300% increase of the endowment and a 400% increase in cash donations. He began his career in higher education at DePaul University, where he served from 1985 to 1988 in the offices of Annual Giving and Corporate and Foundation Relations. From 1988-1995, he served at the University of Maryland at College Park as Director of Development for the College of Behavioral and Social Sciences, Director of Corporate and Foundation Relations, and Director of Prospect Tracking/Assistant Director of Campaign for Maryland. During his tenure as Director, corporate and foundation giving rose from \$7 million to \$16 million. Immediately prior to coming to the University, he served at Rice University as Director of Development for Strategy and Prospect Management (from 1995 to 1996 and as Director of Campaigns (from 1996 until 1998), where he was responsible for coordinating strategy and planning for Rice's \$500 million *Next Century* Campaign. Mr. Hiles received his undergraduate degree from Graceland College, and he completed his master's degree in Education Administration at DePaul University in 1990.



## **FUTURE DEBT**

The State may authorize other projects at the University to be funded from proceeds of additional bonds issued by the University. In future years, the University may request approval to issue additional debt of the University.

## **TAX EXEMPTION**

### **General**

In the opinion of Bond Counsel for the Series O Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series O Bonds is excludable from gross income for Federal income tax purposes and interest on the Series O Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Series O Bonds is of the opinion that interest on the Series O Bonds is exempt from income taxation by the Commonwealth and the Series O Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the Series O Bonds is set forth in Appendix D, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Series O Bonds. The University has covenanted to comply with certain restrictions designed to ensure that interest on the Series O Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Series O Bonds being includable in gross income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Series O Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series O Bonds may adversely affect the tax status of the interest on the Series O Bonds.

Certain requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series O Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series O Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Series O Bonds has rendered an opinion that interest on the Series O Bonds is excludable from gross income for Federal income tax purposes and that interest on the Series O Bonds is excludable from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series O Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Series O Bonds on the tax liabilities of the individual or entity.

For example, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative

minimum tax owed. Similarly, tax-exempt interest may also increase the amount of any environmental tax owed under Section 59 of the Code, which is based on the alternative minimum taxable income of any corporation subject to that tax. Ownership or disposition of the Series O Bonds may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, and increasing the federal tax liability of certain individual recipients of social security or Railroad Retirement benefits, under Section 86 of the Code. Ownership of any Series O Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Series O Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Series O Bonds.

The University has not designated the Series O Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

### **Original Issue Premium**

"Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Series O Bonds that bear an interest rate that is higher than the yield (as shown on the cover page hereof), are being initially offered and sold to the public at an Acquisition Premium (the "Premium Bonds"). For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Series O Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Series O Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

### **Original Issue Discount**

The Series O Bonds that bear an interest rate that is lower than the yield (as shown on the cover page hereof) are being offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon (the "Discount Bonds"). OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the "yield to maturity"). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Bond is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical

effect, is treated as stated interest, which is excludable from gross income for federal income tax purposes.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

### **CONTINUING DISCLOSURE**

In accordance with Securities and Exchange Commission Rule 15c2-12 (the "Rule"), the University (the "Obligated Person") will agree, pursuant to a Continuing Disclosure Agreement dated as of July 1, 2003 (the "Disclosure Agreement"), to be delivered on the date of delivery of the Series O Bonds, to cause the following information to be provided:

(a) to each nationally recognized municipal securities information repository ("NRMSIR") and, if one is established for the Commonwealth, to its state information depository ("SID"), certain annual financial information and operating data, including audited financial statements prepared in accordance with generally accepted accounting principles, generally consistent with the information contained in Appendices A and C; such information shall be provided no later than nine months after the fiscal year ending on the preceding June 30, commencing with the fiscal year ending June 30, 2003;

(b) to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to the SID, notice of the occurrence of certain events, if material, with respect to the Series O Bonds, which events are as follows; and

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of security;
- (7) Modifications to rights of security holders;
- (8) Bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of the event;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing repayment of the securities;
- (11) Rating changes;
- (12) The cure, in the manner provided under the Resolutions, of any payment or nonpayment related default under the Resolutions; and
- (13) The issuance of any additional Consolidated Educational Buildings Revenue Bonds or other indebtedness on a parity with the Bonds.

(c) to each NRMSIR or to the MSRB and to the SID, notice of a failure (of which the Obligated Persons have knowledge) of an Obligated Person to provide the required Annual Financial Information on or before the date specified in the Disclosure Agreement.

The Disclosure Agreement provides holder of the Series O Bonds, including beneficial owners of the Series O Bonds, with certain enforcement rights in the event of a failure by the University to comply

with the terms thereof; however, default under the Disclosure Agreement does not constitute an event of default under the Resolutions. The Disclosure Agreement may also be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Holders of the Series O Bonds are advised that the Disclosure Agreement, the form of which is obtainable from the Financial Advisor, should be read in its entirety for more complete information regarding its contents.

Financial information regarding the University may be obtained from the Chief Financial Officer, Western Kentucky University, 1 Big Red Way, Bowling Green, Kentucky 42101-3576.

### **PENDING LITIGATION**

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Series O Bonds, or in any way contesting or affecting the validity of the Series O Bonds or any proceedings of the University taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series O Bonds or the due existence or powers of the University.

### **APPROVAL OF LEGALITY**

Legal matters incident to the authorization, issuance, sale and delivery of the Series O Bonds are subject to the approval of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel to the University. The approving legal opinion of Bond Counsel will be printed on the Series O Bonds and will contain a statement of tax exemption as represented herein. Bond Counsel has reviewed the information herein pertaining to the Series O Bonds under the headings "The Series O Bonds", "Security for the Bonds", "Certain Provisions of the Resolution" and "Tax Exemption", and is of the opinion that such information is a fair summary of the principal provisions of the instruments and information therein described. Said firm has not otherwise participated in the preparation of the Official Statement or the Appendices attached hereto and has not verified the accuracy or completeness of the information contained under any heading other than those stated above, nor of any financial information, enrollment numbers, projections, or computations relating thereto, and therefore, can make no representation with respect to such information. A certification as to the matters set forth under "Pending Litigation" will be delivered by the University with the Series O Bonds.

### **FINANCIAL ADVISOR**

First Kentucky Securities Corporation, Frankfort, Kentucky, has acted as Financial Advisor to the University in connection with the issuance of the Series O Bonds and will receive a fee, payable from Bond proceeds, for their services.

### **APPROVAL OF ISSUANCE OF SERIES O BONDS**

Pursuant to Chapter 42 of the Kentucky Revised Statutes, issuance of the Series O Bonds must be approved by the Kentucky Finance and Administration Cabinet, Office of Financial Management.

### **FINANCIAL STATEMENTS**

The financial statements of the University as of June 30, 2002 are attached as Appendix C.

### **CERTIFICATE CONCERNING OFFICIAL STATEMENT**

Concurrently with the delivery of the Series O Bonds, the Treasurer of the Board of Regents will certify that, to the best of her knowledge, the Official Statement did not, as of the date of delivery of the Series O Bonds, contain any untrue statements of a material fact or omit to state a material fact which should be included therein for the purpose for which the Official Statement is to be used, or which is

necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading in any material respect.

### **COMPLETENESS OF OFFICIAL STATEMENT**

The Board of Regents has approved and caused this Official Statement to be executed and delivered by its Chairman. This Official Statement is deemed final by the Board for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) as of the date hereof.

The financial information supplied by the Board of Regents and reported herein is represented by the Board to be correct. Only accounts required by Federal and State laws, rules and regulations to be audited annually by independent certified public accountants have been so audited and the financial information extracted from their annual audits and presented herein is incomplete to the degree that accounts not required to be so audited have not been included in the annual audits contained in Appendix C.

### **RATINGS**

As noted on the cover page of this Official Statement, Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") have assigned their municipal bond ratings of "\_\_\_" and "\_\_\_", respectively, to the Series O Bonds. Such ratings reflect only the view of said organizations. Any explanation of the significance of such ratings may only be obtained from the rating agencies at the following addresses: Moody's Investors Service at 99 Church Street, New York, New York 10007, (212) 553-0300; Standard & Poor's Rating Services at 55 Water Street, New York, New York 10041-0003, (212) 438-2124. There is no assurance that the ratings will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Series O Bonds.

### **MISCELLANEOUS**

All quotations from, and summaries and explanations of, the Kentucky Revised Statutes and the Resolution, contained herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Resolution may be obtained from First Kentucky Securities Corporation, 305 Ann Street, Suite 400, Frankfort, Kentucky 40602, Attention: Mr. R. Strand Kramer, Jr. phone: (502) 875-4611.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. Except when otherwise indicated, the information set forth herein has been obtained from the University and has not been verified as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or Bond Counsel. This Official Statement is not to be construed as a contract or agreement between the University and the purchasers or owners of any of the Series O Bonds.

**WESTERN KENTUCKY UNIVERSITY**

By: /s/ \_\_\_\_\_  
Chair, Board of Regents

Attest:

**WESTERN KENTUCKY UNIVERSITY**

By: /s/ \_\_\_\_\_  
Secretary

**APPENDIX A**

**WESTERN KENTUCKY UNIVERSITY  
CONSOLIDATED EDUCATIONAL BUILDINGS REFUNDING REVENUE BONDS  
SERIES O**

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The University and the Consolidated Educational Building Project

**WESTERN KENTUCKY UNIVERSITY  
STATE APPROPRIATIONS**

The General Assembly of the Commonwealth of Kentucky, based on an initial request from the Governor, approves a biennial budget which includes appropriations for all the Commonwealth's public universities. The following are the state appropriations for Western Kentucky University for the past ten years:

<u>Fiscal Year</u>	<u>Appropriation</u>
1994-95	51,598,795
1995-96	53,003,298
1996-97	54,646,500
1997-98	56,545,000
1998-99	57,972,500
1999-00	59,589,500
2000-01	64,328,400
2001-02	66,137,600
2002-03	70,427,100
2003-04	72,040,100

The amount of funds so appropriated has been based in part on the debt service on the University's outstanding Consolidated Educational Buildings Revenue Bonds. The University presently intends, but is not obligated, to continue to seek to have funds appropriated by the General Assembly to partially support the operations of the University. THE GENERAL ASSEMBLY IS NOT NOW OBLIGATED, NOR WILL THERE BE IN THE FUTURE, AN OBLIGATION TO MAKE APPROPRIATIONS TO THE UNIVERSITY. IN ADDITION, THERE CAN BE NO ASSURANCE THAT IN THE PERFORMANCE OF HIS OR HER OBLIGATION TO BALANCE THE STATE BUDGET ANNUALLY, THE GOVERNOR WILL NOT REDUCE OR ELIMINATE ANY APPROPRIATIONS WHICH ARE MADE. THE BONDS ARE SECURED BY AND PAYABLE SOLELY FROM THE REVENUES FROM THE CONSOLIDATED EDUCATIONAL BUILDINGS PROJECT, AND NOT BY ANY APPROPRIATIONS.

**FISCAL YEAR BUDGET**

The 2003-04 fiscal year unrestricted fund budget for Western Kentucky University is \$148,624,000, an increase of \$15,764,000 compared to fiscal year 2002-03. The budget increase is primarily the result of increased tuition and fee revenues, state appropriations and increase in indirect cost recovery on grants and contracts.

**OPERATIONS**

**Enrollment**

The following schedule indicates the Fall Semester head count and full-time equivalent enrollment at the University for each of the academic years 1994-95 through 2003-04. The full-time enrollment calculation is made in accordance with the method used by the Kentucky Council on Postsecondary Education.



<u>Academic Year</u>	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total Head Count</u>	<u>Full-Time<sup>1</sup> Equivalent</u>
1994-95	12,709	2,056	14,765	11,149
1995-96	12,654	2,067	14,721	11,111
1996-97	12,475	2,138	14,613	10,992
1997-98	12,338	2,205	14,543	11,028
1998-99	12,713	2,169	14,882	11,304
1999-00	12,921	2,202	15,123	11,536
2000-01	13,270	2,246	15,516	11,787
2001-02	14,135	2,444	16,579	12,659
2002-03	15,234	2,584	17,818	13,680
2003-04 <sup>2</sup>	15,934	2,584	18,518	13,832

<sup>1</sup> Full-time and part-time enrollment equated to full-time enrollment.

<sup>2</sup> Estimated.

Source: Western Kentucky University

Approximately 18% of students enrolled at the University are nonresidents of Kentucky and in the judgment of the University the percentage should remain constant. Using regional and national surveys of future college age population and historic enrollment data, and taking into consideration the policies of the Kentucky Council on Postsecondary Education relating to the enrollment requirements, the University has estimated 2003-04 through 2007-08 fall semester full-time equivalent enrollment at the University as follows:

<u>Academic Year</u>	<u>Estimated Fall Semester Student Enrollment (Head Count)</u>	<u>Estimated Fall Semester Student Enrollment (Full-Time Equivalent<sup>1</sup>)</u>
2004-05	18,400	13,984
2005-06	18,600	14,136
2006-07	18,800	14,288
2007-08	19,000	14,440
2008-09	19,200	14,592

<sup>1</sup> Full-time and part-time enrollment equated to full-time enrollment.

Source: Western Kentucky University

### **Admissions Information - Fall Semester Undergraduate Admissions**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Number of Applications	6540	6720	7078	7737	8510
Number Approved for Enrollment	5390	5712	6132	6846	7530
Number Enrolled	3308	3264	3590	3963	4101
Average ACT Scores	21	21	21	21	21

## Student Registration Fees

The Board of Regents, with the approval of the Kentucky Council on Postsecondary Education, has established a schedule of Student Registration Fees to be imposed, charged and collected for services of the Consolidated Educational Buildings Project from all students attending the University. The schedules of fees, effective for the periods, May 1, 2001, May 1, 2002 and May 1, 2003 are as follows:

	Schedule of Fees <u>2001-02</u>	Schedule of Fees <u>2002-03</u>	Schedule of Fees <u>2003-04</u>
<u>Registration Fee Per Semester Full Time</u>			
Undergraduate			
Resident	\$1,422	\$1,560	\$1,825
Non-Resident	3,712	3,996	4,249
Graduate			
Resident	1,522	1,719	1,999
Non-Resident	3,607	4,154	2,179*
<u>Registration Fee Per Hour Summer Term/Part-Time</u>			
Undergraduate			
Resident	117	130	152
Non-Resident	308	333	354
Graduate			
Resident	167	191	222
Non-Resident	399	210	242

\*2001-2003, scholarships were allotted to all students with a net fee charged. The practice was discontinued for 2003-04.

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## COMPARATIVE REPORT OF STUDENT FINANCIAL AID

A summary of the University's student financial aid is presented for the most recent three year period:

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03*</u>
<u>Scholarships &amp; Grants</u>			
<u>Federal Grants</u>			
Pell	\$8,909,896	\$11,503,458	\$13,296,618
Supplemental Educational Opportunity	375,431	405,481	445,107
College Work Study	970,573	877,193	697,013
<u>Institutional Scholarships and Awards</u>			
General	3,215,493	3,515,945	4,039,739
Student Employment	3,082,538	2,616,210	2,253,373
Athletic	1,472,200	1,620,251	1,822,174
State Grants (KHEEA)	5,316,615	7,203,224	9,404,942
<u>Aid from Outside Agencies</u>			
State Grants	245,645	298,451	235,202
Agency Scholarships	<u>1,798,810</u>	<u>2,017,008</u>	<u>2,290,425</u>
Subtotal Scholarships and Grants	\$25,387,201	\$30,057,221	\$34,484,593
<u>Loans</u>			
Perkins Student Loans	\$939,294	\$934,053	\$906,844
Guaranteed Student Loans	22,334,445	24,447,715	27,091,743
PLUS Loans	802,204	1,118,534	1,576,004
Law Access Loans	0	0	0
Schmidlapp Loans	0	0	0
Supplemental Loans for Students	<u>224,149</u>	<u>259,016</u>	<u>494,693</u>
Subtotal Loans	\$24,300,092	\$26,759,318	\$30,069,284
<b>TOTAL STUDENT FINANCIAL AID</b>	<u><b>\$49,687,293</b></u>	<u><b>\$56,816,539</b></u>	<u><b>\$64,553,877</b></u>

\*Estimated.

Source: Western Kentucky University

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**FIVE-YEAR HISTORY OF PRIVATE DONATIONS (OR CONTRIBUTIONS)**

<u>Fiscal Year</u>	<u>Number of Donors Participating</u>	<u>Total Voluntary Support</u>
1997-98	11,711	4,269,865
1998-99	12,135	5,724,292
1999-00	11,789	8,202,376
2000-01	11,811	9,831,085
2001-02	14,254	12,324,882
2002-03	15,500*	11,703,041*

\*As of June 15, 2003.

Source: Western Kentucky University

**SUMMARY OF INCOME FROM  
STUDENT REGISTRATION FEES**

The following table shows student registration fees collected by fiscal year, without adjustment for tuition and scholarship discounting required by GASB 34.

<u>Fiscal Year</u>	<u>Fees Collected</u>
1993-94	28,249,318
1994-95	28,883,402
1995-96	30,470,820
1996-97	30,851,806
1997-98	34,383,716
1998-99	36,883,238
1999-00	39,754,460
2000-01	40,504,568
2001-02	47,880,424
2002-03	52,797,375 *

\*Estimated.

Source: Western Kentucky University

**ESTIMATED COVERAGE OF DEBT SERVICE REQUIREMENTS**

This calculation of coverage of debt service requirements as set forth below is based on the schedule of annual debt service for the Bonds as shown herein.

2001-02 Adjusted Revenues	\$47,880,424
2002-03 Adjusted Revenues	<u>52,797,375</u>
Total	\$100,677,799
Average Annual Revenues	\$50,338,900
Maximum Annual Debt Service Requirement	<u>3,337,786</u>
Times Maximum Debt Service Covered	15.08 x

**OUTSTANDING BONDS OF THE UNIVERSITY**

<u>Consolidated Educational Building Revenue Bonds</u>	<u>Year of Issue</u>	<u>Amount of Issue</u>	<u>Amount Outstanding</u>	<u>Year of Final Maturity</u>
Series M	1997	\$6,625,000	\$3,410,000	2007
Series N	2002	<u>6,110,000</u>	<u>5,565,000</u>	2012
TOTAL		<u>\$12,735,000</u>	<u>\$8,975,000</u>	

Source: Western Kentucky University and Financial Advisor.

In June 2000, the University sold its housing facilities to WKU Student Life Foundation, Inc., a Kentucky nonprofit corporation, created as a "supporting organization" of the Western Kentucky University Foundation, for a purchase price equal to the appraised value of the facilities. The University used those funds to defease all its outstanding housing and dining bonds. The University continued ownership of certain housing facilities and was obligated to pay \$3,037,115 to WKU Student Life Foundation, Inc. over a period ending December 2008. The current outstanding amount is \$1,983,979. The amounts required to make those payments are generated by revenues from auxiliary services of the University and not from student registration fees.

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**APPENDIX B**

**Western Kentucky University  
Consolidated Educational Buildings Refunding Revenue Bonds  
Series O**

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Estimated Total Annual Debt Service Requirements

**WESTERN KENTUCKY UNIVERSITY  
CONSOLIDATED EDUCATIONAL BUILDINGS REFUNDING REVENUE BONDS**

**ESTIMATED TOTAL ANNUAL DEBT SERVICE REQUIREMENTS**

Year Ending <u>June 30</u>	Existing Debt <sup>1</sup> <u>Service</u>	Series O			Total Debt <u>Service</u>
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2004	\$1,783,275	\$1,360,000	\$164,791	\$1,524,791	\$3,308,066
2005	1,782,150	1,330,000	197,961	1,527,961	3,310,111
2006	1,788,510	1,360,000	176,681	1,536,681	3,325,191
2007	1,794,905	1,390,000	152,881	1,542,881	3,337,786
2008	831,700	1,425,000	123,344	1,548,344	2,380,044
2009	539,350	1,465,000	87,719	1,552,719	2,092,069
2010	545,100	1,520,000	45,600	1,565,600	2,110,700
2011	544,631	-	-	-	544,631
2012	<u>553,056</u>	-	-	-	<u>553,056</u>
<b>TOTAL</b>	<b>\$10,162,677</b>	<b>\$9,850,000</b>	<b>\$948,977</b>	<b>\$10,798,977</b>	<b>\$20,961,654</b>

<sup>1</sup>Existing debt service does not include debt service requirements on the Series L Bonds due on May 1, 2004 and thereafter, as these Bonds will be refunded by the Series O Bonds.

Source: Western Kentucky University and Financial Advisor

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**APPENDIX C**

**WESTERN KENTUCKY UNIVERSITY  
CONSOLIDATED EDUCATIONAL BUILDINGS REFUNDING REVENUE BONDS  
SERIES O**

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Financial Statements as of June 30, 2002

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# **Western Kentucky University**

Accountants' Report and Financial Statements

June 30, 2002



**Western Kentucky University**  
**June 30, 2002**

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## **Independent Accountants' Report on Financial Statements and Supplementary Information**

President Gary A. Ransdell and  
Board of Regents  
Western Kentucky University  
Bowling Green, Kentucky

We have audited the accompanying basic financial statements of Western Kentucky University (University), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Kentucky University as of June 30, 2002, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, in 2002 the University adopted the provisions of the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Universities*, as of July 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2002, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

President Gary A. Ransdell and  
Board of Regents  
Western Kentucky University  
Page Two

Our audit was conducted for the purpose of forming an opinion on the University's basic financial statements. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

November 21, 2002

# Western Kentucky University

## Management's Discussion and Analysis

### June 30, 2002

#### **Overview**

Management's Discussion and Analysis (MD&A) of Western Kentucky University's financial statements is intended to provide an overview of the financial position, changes in financial position and cash flows of the University as of and for the fiscal year ended June 30, 2002. MD&A, in addition to the financial statements and the footnote disclosures, is the responsibility of University management.

All financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

An independent audit, performed by **BKD, LLP**, provides an opinion on the basic financial statements taken as a whole. BKD has expressed an unqualified opinion on the financial statements stating that such statements present fairly, in all material respects, the financial position of Western Kentucky University as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended. Furthermore, BKD has issued a report required by *Government Auditing Standards* that addresses their consideration of the University's internal control over financial reporting and tests of the University's compliance with certain provisions of laws, regulations, contracts and grants.

A schedule of expenditures of federal awards required by U.S. Office of Management and Budget and Budget Circular A-133 is presented for purposes of additional analysis and is not a required part of the basic financial statements. BKD has issued reports on that schedule, on its consideration of the University's internal control over compliance and on the University's compliance with specified requirements applicable to major federal awards programs.

BKD has applied certain limited procedures consisting principally of inquiries of management regarding the methods of measurement and presentation of MD&A, which the Governmental Accounting Standards Board has determined to be supplementary information required to accompany but not be part of the basic financial statements. BKD, however, did not audit such information and did not express an opinion on it.

#### **A Year of Change**

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Statement No. 34 requires a comprehensive look at the entity as a whole instead of by fund. In November 1999, GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies these new standards to public colleges and universities. Statement No. 35 supersedes the *AICPA Audit Guide for Colleges and Universities* thereby eliminating the separate reporting model for public colleges and universities prescribed by that Guide that was used in presenting the University's financial statements in previous years. Previous financial reports

# **Western Kentucky University**

## **Management's Discussion and Analysis**

### **June 30, 2002**

prepared by Western Kentucky University were presented in accordance with the principles of "fund accounting." This is the process by which resources for various purposes are classified for accounting and reporting purposes into funds based on the activities and objectives specified. More specifically, the balance sheet, the statement of changes in fund balances, and the statement of current funds, revenues, expenditures, and other changes reflected the grouping of financial activity into Current Funds, Loan Funds, Plant Funds, and Agency Funds.

Beginning in fiscal 2002, the financial statements included in this report are presented on an entity-wide perspective allowing the reader to review data in a manner more similar to corporate financial statements. For example, fund balances are now categorized as net assets and assets and liabilities are classified as current or long term.

The financial statements now consist of a Statement of Net Assets, Statement of Revenue, Expenses and Changes in Net Assets and Statement of Cash Flows together with the Notes to the Financial Statements. The financial statements for fiscal 2002 focus on the financial position, changes in financial position, and cash flows of the University as a whole, with resources classified, for accounting and reporting purposes, into four net asset categories: invested in capital assets, net of related debt; restricted-nonexpendable; restricted-expendable; and unrestricted.

Another significant change relates to the reporting of revenues and expenses. Revenues and expenses are now categorized as either operating or nonoperating. Significant sources of support, including state appropriations (operating and capital), gifts, and investment income, are classified as nonoperating revenue, per GASB Statement No. 35. Thus, most public colleges and universities will show "operating losses" due to the dependence on nonoperating revenues to maintain the financial viability of public postsecondary education.

Western Kentucky University is reporting as a single-purpose Business Type Activity (BTA) as defined by GASB No. 35. BTAs are activities that are financed in whole or part by fees charged to external parties for goods and services, *e.g.*, tuition and fees charged students for educational goods and services.

Other changes to note include the following:

- Depreciation of capital assets is reported in the financial statements as an operating expense.
- Summer semester revenues and expenses are prorated between fiscal years instead of being recognized in the fiscal year in which the predominate part of the semester occurs.
- Tuition revenue is reported net of discounts and allowances including scholarship allowances, gift scholarships and institutional aid.
- Unexpended state capital appropriations are recorded as deferred revenue.

The requirement to provide prior year data for comparative purposes in MD&A based on the new reporting standard is not effective for fiscal 2002. Fiscal 2003's MD&A will include comparative data and allow for baseline trend data to assess the continuing financial viability of Western Kentucky University.



# Western Kentucky University

## Management's Discussion and Analysis

### June 30, 2002

#### **Reporting Entity**

The Commonwealth of Kentucky has adopted the new GASB standards effective for 2002. As a component unit of the Commonwealth of Kentucky, Western Kentucky University is required to adopt the new standards at the same time as the Commonwealth. Thus, the University's fiscal 2002 financial statements have been prepared in accordance with GASB Statement No. 35. The financial statements of Western Kentucky University include the University and its blended component unit, the Western Kentucky University Research Foundation.

The financial statements do not include certain other entities that provide support to the University and its activities because those entities do not meet the criteria established by GASB for inclusion in the University's reporting entity. One such entity is the WKU Foundation, which principally seeks contributions from resource providers and holds the resulting resources to support and further achievement of the objectives of the University.

#### **Fiscal 2002 Highlights**

The financial viability of a public university is a function of a secure and preferably growing enrollment base, solid and preferably growing private giving and state funding. It is noted that a majority of the assets of the WKU Foundation are held and expended through the Foundation and are not recognized in the financial statements. Per state requirements, the "Bucks for Brains" state-funded endowment funds flow through the University, but are transferred to the Foundation for investment and management purposes.

With the absence of comparative financial data this year, the following data are provided to help assess the financial viability of Western Kentucky University:

<b><u>Enrollment Base (Headcount)</u></b>	<b><u>Fall 2001</u></b>	<b><u>Fall 2000</u></b>
Applications	7,078	6,720
Admissions	6,132	5,712
First-time Freshmen	2,710	2,565
Total Undergraduate Enrollment	14,135	13,270
Total Graduate Enrollment	2,444	2,246
Total Enrollment	16,579	15,516

<b><u>WKU Foundation Capital Campaign</u></b>	<b><u>June 30, 2002</u></b>	<b><u>June 30, 2001</u></b>
Total Gifts and Pledges	\$79.7 million	\$62.8 million
Total Endowed Faculty Positions*	20	17
Total Cash Receipts	\$12.3 million	\$9.8 million

\*Earnings from endowments that are transferred to the University to support filled faculty positions are recognized as part of the University's nonoperating revenue.

**Western Kentucky University**  
**Management's Discussion and Analysis**  
**June 30, 2002**

<u>State Appropriations</u>	<b>June 30, 2002</b>	<b>June 30, 2001</b>
General nonoperating revenue	\$ 63,873,700	\$ 61,499,500
Retirement of Debt Obligations	<u>2,263,900</u>	<u>2,828,900</u>
Total	<u>\$ 66,137,600</u>	<u>\$ 64,328,400</u>

**Statement of Net Assets**

The Statement of Net Assets presents the financial position of Western Kentucky University as of the end of the fiscal year and includes all assets and liabilities. Readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the University. The change in net assets is an indicator of whether the overall financial position has improved or worsened during the year and over time. One can think of net assets as one method to measure the University's financial strength. Many nonfinancial factors, such as strategic planning assessments, the trend in admissions, applications, and student retention, the condition of the University's capital assets, and the quality of the faculty also need to be considered to assess the overall health of the University.

Restricted net assets are subject to externally imposed restrictions governing their use. The corpus of nonexpendable restricted resources is only available for investment purposes. Although unrestricted net assets are not subject to externally imposed stipulations, a significant portion of these assets has been internally designated to fund encumbrances brought forward from prior fiscal year, working capital requirements, emergency reserve, and specific support of academic and support programs. Allocations of net assets are set by University policy or approved by the Board of Regents.

A summary of the University's assets, liabilities and net assets, as of June 30, 2002, is as follows:

**Statement of Net Assets (in Thousands)**

<b>Assets</b>	
Current assets	\$ 34,337
Capital assets, net	100,407
Other noncurrent assets	<u>81,791</u>
Total assets	<u>216,535</u>
 <b>Liabilities</b>	
Current liabilities	50,740
Noncurrent liabilities	<u>52,976</u>
Total liabilities	<u>103,716</u>

**Western Kentucky University**  
**Management's Discussion and Analysis**  
**June 30, 2002**

**Net Assets**

Invested in capital assets, net of related debt	\$ 45,826
Restricted	
Nonexpendable	6,541
Expendable	44,074
Unrestricted	<u>16,378</u>
 Total net assets	 <u>\$ 112,819</u>

It is noted that liabilities included pledges payable to the City of Bowling Green (City) in the amount of \$31,620,543 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$20,705,000 with final payments on the bonds scheduled for 2012.

***Statement of Revenues, Expenses and Changes in Net Assets***

The Statement of Revenue, Expenses and Changes in Net Assets summarizes all financial transactions that increase or decrease net assets. The purpose of the statement is to present the revenues from providing goods and services, expenses incurred to acquire and deliver the goods and services, and other revenues, expenses and gains and losses recognized by the University. Financial activities are reported as either operating or nonoperating.

The most significant source of nonoperating revenue is state appropriations. State appropriations are nonoperating because these funds are nonexchange revenues provided by the General Assembly to the University without the General Assembly directly receiving commensurate value (goods and services) for those revenues. Other important nonoperating revenue sources include nonexchange grants and contracts and investment income.

Accordingly, Western Kentucky University reports a net operating loss of \$85,506,464 prior to the addition of nonoperating revenue.

A summary of the University's revenues, expenses and changes in net assets, for the year ended June 30, 2002, is as follows:

**Western Kentucky University**  
**Management's Discussion and Analysis**  
**June 30, 2002**

***Statement of Revenues, Expenses and Changes in Net Assets (in Thousands)***

<b>Operating Revenues</b>	
Net tuition and fees	\$ 35,022
Grants and contracts	21,655
Sales and services of educational departments	6,027
Auxiliary Enterprises	12,553
Other	<u>4,017</u>
	<u>79,274</u>
<b>Operating Expenses</b>	<u>164,780</u>
<b>Operating Loss</b>	<u>(85,506)</u>
<b>Nonoperating Revenues (Expenses)</b>	
State appropriations	66,138
Grants and contracts	22,866
Investment income	543
Interest on capital asset-related debt	(1,185)
Other	<u>(65)</u>
Net nonoperating revenues (expenses)	<u>88,297</u>
<b>Income before Other Revenues, Expenses, Gains or Losses</b>	2,791
State capital appropriations	13,689
Additions to permanent endowment (state endowment match)	<u>25</u>
<b>Increase in Net Assets</b>	16,505
<b>Net Assets, Beginning of Year, as restated</b>	<u>96,314</u>
<b>Net Assets, End of Year</b>	\$ <u><u>112,819</u></u>

***Operating Revenues***

Operating revenues include all transactions that result in the sales of goods and services. For Western Kentucky University, the most significant operating revenue is student tuition and fees. Student tuition and fees revenue is a function of enrollment and rates approved by the Western Kentucky University Board of Regents. Other operating revenue is due to University operations such as the bookstore, health services, conferences and workshops, the farm, the police department, and athletics.

# Western Kentucky University

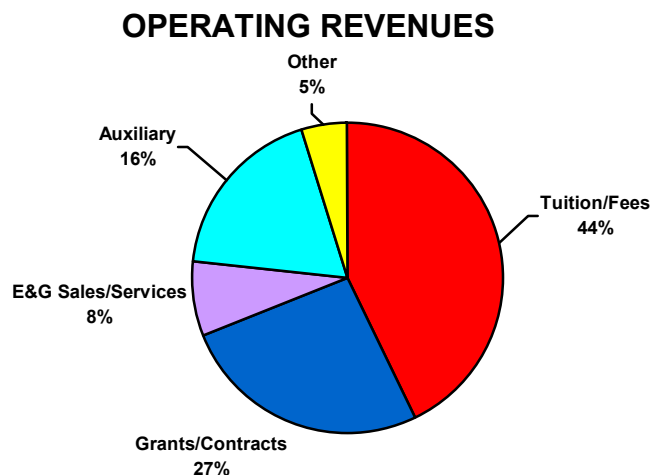
## Management's Discussion and Analysis

### June 30, 2002

As previously noted, Western Kentucky University's total headcount enrollment increased by 6.8% between fall 2000 and fall 2001. As of fall 2001, approximately 83% of students enrolled at Western Kentucky University were Kentucky residents. An additional 8% of the student population came from Tennessee with many coming to the University through a state reciprocity agreement, *i.e.*, enroll at in-state rates, or the Tuition Incentive Program. Board approved tuition and fee rate increases ranged from 7% to 12% for fiscal year 2002. Thus, the combination of increased rates and enrollment growth resulted in tuition and fees, prior to the adjustment for discounts and allowances, growing from \$40.8 million to \$47.9 million.

Tuition and fees revenue is recorded in the financial statements net of scholarship allowances, gift scholarships and institutional aid. Previously, gift scholarships and institutional aid (including federal and state funding) were reported as expenses of the University. A scholarship allowance is the difference between the stated charges for goods and services provided by the institution and the amount that is billed to students and third parties making payments on behalf of students. Funds previously recorded as Pell Grants, College Access Program, and KEES Program have been included in the scholarship allowance after these sources have been used to satisfy a student's fee and charges. Any excess aid disbursed to the student is recognized as a student financial aid expense. The net tuition and fees, as of June 30, 2002, were 73.1% of the gross tuition and fees with approximately \$12.9 million being recorded as scholarship allowance.

The distribution of operating revenue, by source, is summarized as follows:



**Western Kentucky University**  
**Management's Discussion and Analysis**  
**June 30, 2002**

**Grants and Contracts – Operating and Nonoperating Revenues**

The University is awarded grants and contracts by various external agencies. These grants and contracts awards represent amounts that will be recognized as revenue when the service is provided regardless of when cash is exchanged. Thus, the operating and nonoperating revenue generated by such grants and contracts will equal the actual expenses in a given fiscal year.

Through the efforts of the Western Kentucky University Research Foundation and Western Kentucky University, grants and contracts awards (excluding financial aid) continue to increase. Such awards totaled \$11,531,856 for 1996-97 and increased to \$24,472,068 for 2001-02.

The grant and contract awards received in a given year are frequently multiyear awards for which only the current year activity related to the award will be recorded (*i.e.*, any cash received in excess of expenses incurred will be recorded as deferred revenues). Additionally, awards related to future periods are not recorded in the University's financial statements. The following chart provides a two-year comparison of total grants and contracts awarded (not received/recorded) during the 2002 and 2001 fiscal years.

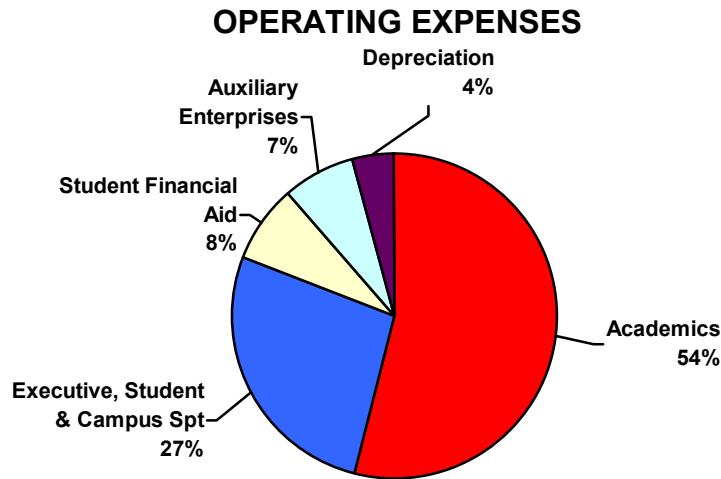
**Grants and Contracts Awards (Excluding Financial Aid)**

	<b>Year Ended</b>	
	<b>June 30, 2002</b>	<b>June 30, 2001</b>
Federal	\$ 18,337,403	\$17,785,646
State	4,339,894	3,120,691
Other	1,795,171	1,569,420
Total	\$ 24,472,468	\$22,475,757

**Operating Expenses**

Operating expenses are all costs necessary to meet the institutions' mission, goals and objectives through a broad array of programs and activities. Expenses other than depreciation are reported by functional classification, *e.g.*, instruction, research, public service, auxiliary enterprises, etc. Depreciation is recognized as an expense and a reduction in the value of the capital assets. The following graph summarizes expenses as academics, student and campus services, student financial aid, depreciation, and auxiliary enterprises. Academics include the program classification codes of instruction, research, public service, libraries, and academic support. Executive, student and campus support includes student services, institutional support and operation and maintenance of plant.

**Western Kentucky University**  
**Management's Discussion and Analysis**  
**June 30, 2002**



***Nonoperating Revenues (Expenses)***

Nonoperating revenues are all revenues that are primarily non-exchange in nature. The most significant single source of nonoperating revenue for Western Kentucky University is state appropriations for other than capital purposes. Other sources include many grants and contracts, endowment contributions, and investment income.

The University's investments consist primarily of collateralized mortgage obligations and its equity in Commonwealth of Kentucky pooled investment funds. Investment income, for the year ended June 30, 2002, is comprised of the following:

Investment income	\$ 1,255,472
Net change for the year in the fair value of investments	<u>(712,471)</u>
	<u>\$ 543,001</u>

State appropriations, excluding debt retirement, was \$63,873,700 for 2001-02 in comparison to \$61,499,500 for 2000-01. Western Kentucky University's state appropriation, based on the enacted 2000-02 Biennial Budget, was reduced by \$1,692,300 or 2.6% in comparison to the systemwide average of 3.0% in recognition of the University's enrollment growth. The state reduction included a reduction of \$128,200 for maintenance and operations due to the delay in opening Media and Technology Hall.

# **Western Kentucky University**

## **Management's Discussion and Analysis**

### **June 30, 2002**

#### ***Change in Net Assets***

The beginning of the year net assets have been restated to reflect the GASB changes as previously discussed. For the year ended June 30, 2002, the change in the University's net assets was an increase of \$16,504,507, which resulted in a year-end net asset amount of \$112,818,699.

#### ***Statement of Cash Flows***

The Statement of Cash Flows presents data related to the Western Kentucky University's cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments by the University that will allow for the assessment of the University's ability to generate net cash flows and to meet obligations as they come due. Under certain circumstances, such an analysis might demonstrate a university's need for external financing. The Statement of Cash Flows is broken into the following sections:

- Operating cash flows and the net cash used for the operating activities of the University
- Cash flows for noncapital financing activities
- Cash flows from investing activities
- Cash flows from capital and related financing activities
- Reconciliation of the net cash flows from operating activities to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets

The major sources of cash received for operating activities are tuition and fees of \$33,506,627, auxiliary enterprises of \$12,552,637 and grants and contracts of \$19,331,690. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$97,853,754 and to suppliers and contractors of \$46,991,537. A majority of the noncapital financing activities is a result of state appropriations and grants and contracts. Capital and related financing activities include capital appropriations from the Commonwealth of Kentucky for \$23,000,000 and \$31,620,543 from the City for the Diddle Arena renovation project. Principal and interest paid on capital debt and leases are recognized as a reduction to the total capital and related financing activities. A state appropriation of \$2,263,900 was allocated for debt payments of the University. Investing activities recognize the cash flows from proceeds from sales and maturities of investments, purchases of investments and interest receipts.



**Western Kentucky University**  
**Management's Discussion and Analysis**  
**June 30, 2002**

The Statement of Cash Flows is summarized as follows:

<b>Cash Provided by (Used in)</b>	
Operating activities	\$ (81,387)
Noncapital financing activities	89,224
Capital and related financing activities	28,677
Investing activities	<u>28</u>
Net increase in cash and cash equivalents	36,542
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>48,220</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 84,762</u>

***Capital Asset and Debt Administration***

**Capital Assets**

As of June 30, 2002, Western Kentucky University had \$100.4 million invested in capital assets, net of accumulated depreciation of \$101.8 million. Capital assets at June 30, 2002, and additions to capital assets during the 2002 fiscal year are summarized below:

	<b>Balance June 30, 2002</b>	<b>Additions FY 2001-2002</b>
Land	\$ 4,401,051	\$ 321,870
Buildings and improvements	112,099,300	49,734
Infrastructure	10,369,554	—
Furniture, fixtures and equipment	21,307,537	1,604,255
Library materials	26,966,242	1,545,333
Construction in progress	<u>27,011,211</u>	<u>18,769,176</u>
	202,154,895	22,290,368
Less: accumulated depreciation	<u>101,747,983</u>	<u>6,851,792</u>
	<u>\$100,406,912</u>	<u>\$15,438,576</u>

As of June 30, 2002, the major construction projects include: Instructional Technology and Communication Project, South Regional Education Center, and South Campus Building.

**Western Kentucky University**  
**Management's Discussion and Analysis**  
**June 30, 2002**

**Debt**

As of June 30, 2002, Western Kentucky University had \$56,295,686 in debt outstanding consisting of pledges payable to the City, bonds payable (Consolidated Educational Buildings Revenue Bonds), capital leases and other long-term debt to the WKU Student Life Foundation, Inc. The debt obligations are summarized as follows:

Pledges to the City of Bowling Green	\$ 31,620,543
Consolidated Educational Buildings Revenue Bonds	20,705,000
Capital leases	1,700,475
Other long-term debt	<u>2,269,668</u>
Total	<u>\$ 56,295,686</u>

***Economic Factors Impacting Future Periods***

The following are known facts and circumstances that will affect the future financial viability of Western Kentucky University:

- ◆ The General Assembly of the Commonwealth of Kentucky has not adopted a biennial budget for the 2002-04 biennium. Governor Paul Patton implemented, by Executive Order, an emergency-spending plan for fiscal 2003. The Western Kentucky University Board of Regents approved a 2002-03 operating budget based on no increase in state appropriations for general operating purposes. The 2002-03 budget includes an increase of \$703,300 to meet current obligations on bonds payable.
- ◆ Under its self-insurance plan, Western Kentucky University provides a comprehensive health insurance program for its employees. The University Benefits Committee analyzes claim history and projected health care costs for the industry and then recommends a premium structure and a third-party benefits administrator for the subsequent calendar year. The University's 2002-03 operating budget includes a University contribution increase of \$26 per month per full-time employee, effective January 2003, raising the total to \$341 per month.
- ◆ Board-approved tuition and mandatory fees rates for fiscal 2003 were effective summer 2002. In fall 2001, approximately 70% of the total enrollment was resident undergraduate. The semester tuition and mandatory fees rate for this population was increased from \$1,422 to \$1,560 or 9.7%. This rate increase, coupled with a growing enrollment, is budgeted to generate a significant amount of tuition and fees revenue for the University in fiscal 2003.

**Western Kentucky University**  
**Statement of Net Assets**  
**June 30, 2002**

**Assets**

**Current Assets**

Cash and cash equivalents	\$ 20,578,169
Accounts receivable, net of allowance of \$150,696	3,355,684
Interest receivable	353,232
Federal and state grants receivable	7,910,594
Inventories	1,332,361
Loans to students	652,954
Prepaid expenses	<u>153,601</u>
Total current assets	<u>34,336,595</u>

**Noncurrent Assets**

Restricted cash and cash equivalents	64,183,799
Long-term investments	3,813,045
Loans to students, net of allowance of \$549,088	5,082,004
Other assets	230,302
Assets held in trust	8,481,876
Capital assets	202,154,895
Accumulated depreciation on capital assets	<u>(101,747,983)</u>
Total noncurrent assets	<u>182,197,938</u>

Total assets \$ 216,534,533

## Liabilities

### Current Liabilities

Accounts payable	\$ 4,263,156
Self insured health liability	915,878
Accrued payroll and withholdings	652,908
Accrued compensated absences	2,109,255
Accrued interest	115,369
Deferred revenue	38,246,939
Current maturities of long-term liabilities	3,319,876
Deposits held in custody for others	<u>1,116,643</u>

Total current liabilities 50,740,024

### Long-term Liabilities

52,975,810

Total liabilities 103,715,834

## Net Assets

Invested in capital assets, net of related debt	45,825,621
Restricted for	
Nonexpendable – permanent endowments	6,541,137
Expendable	
Loans	6,216,436
Capital projects	33,533,689
Debt service	4,323,479
Unrestricted	<u>16,378,337</u>

Total net assets \$ 112,818,699

**Western Kentucky University**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year Ended June 30, 2002**

**Operating Revenues**

Tuition and fees, net of discounts and allowances of \$12,858,100	\$ 35,022,324
Federal grants and contracts	14,056,893
State grants and contracts	7,317,493
Local and private grants and contracts	280,432
Sales and services of educational departments	6,026,696
Other operating revenues	4,017,096
Auxiliary enterprise revenues, net of discounts and allowances of \$359,708	<u>12,552,637</u>
Total operating revenues	<u>79,273,571</u>

**Operating Expenses**

Instruction	58,895,543
Research	6,461,372
Public service	13,726,694
Libraries	3,412,152
Academic support	6,548,652
Student services	13,744,579
Institutional support	15,332,889
Operating and maintenance of plant	14,920,262
Student financial aid	12,783,648
Depreciation	6,851,792
Auxiliary enterprises	<u>12,102,452</u>
Total operating expenses	<u>164,780,035</u>

**Operating Loss**

(85,506,464)

**Nonoperating Revenues (Expenses)**

State appropriations	66,137,600
Federal grants and contracts	15,954,955
State grants and contracts	5,180,752
Local and private grants and contracts	1,730,003
Investment income	543,001
Interest on capital asset-related debt	(1,185,478)
Loss on disposal of capital assets	(37,956)
Other nonoperating expenses	<u>(26,080)</u>
Net nonoperating revenues (expenses)	<u>88,296,797</u>

<b>Income before Other Revenues, Expenses, Gains or Losses</b>	\$ 2,790,333
State capital appropriations	13,688,965
Additions to permanent endowment (state endowment match)	<u>25,209</u>
<b>Increase in Net Assets</b>	<u>16,504,507</u>
<b>Net Assets, Beginning of Year – As Previously Reported</b>	231,207,081
Cumulative effect of change in accounting principle	(142,472,567)
Adjustments applicable to prior years	<u>7,569,678</u>
<b>Net Assets, Beginning of Year – As Restated</b>	<u>96,314,192</u>
<b>Net Assets, End of Year</b>	<u>\$ 112,818,699</u>

**Western Kentucky University**  
**Statement of Cash Flows**  
**Year Ended June 30, 2002**

<b>Operating Activities</b>	
Tuition and fees	\$ 33,506,627
Grants and contracts	19,331,690
Payments to employees	(97,853,754)
Payments to suppliers	(46,991,537)
Loans issued to students	789,975
Loan collections from students	(652,954)
Sales and services of educational departments	6,026,696
Other operating revenues	4,017,099
Auxiliary enterprise revenues	12,552,637
Auxiliary enterprise payments	
Payments to employees	(4,505,362)
Payments to suppliers	<u>(7,607,772)</u>
Net cash used in operating activities	<u>(81,386,655)</u>
<b>Noncapital Financing Activities</b>	
State appropriations	66,137,600
Grants and contracts	22,865,710
Other	<u>220,622</u>
Net cash provided by noncapital financing activities	<u>89,223,932</u>
<b>Capital and Related Financing Activities</b>	
Proceeds from city general obligation bond issuance	31,620,543
Payment of bond issuance costs - city general obligation	(230,302)
State capital appropriations	23,000,000
Proceeds from disposal of capital assets	3,000
Purchases of capital assets	(21,270,435)
Principal paid on capital debt and leases	(3,375,546)
Interest paid on capital debt and leases	<u>(1,070,109)</u>
Net cash provided by capital and related financing activities	<u>28,677,151</u>
<b>Investing Activities</b>	
Proceeds from sales and maturities of investments	3,360,050
Purchase of investments	(4,667,860)
Investment earnings received	<u>1,335,805</u>
Net cash provided by investing activities	<u>27,995</u>
<b>Increase in Cash and Cash Equivalents</b>	36,542,423
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>48,219,545</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 84,761,968</u>

**Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets**

Cash and cash equivalents	\$ 20,578,169
Restricted cash and cash equivalents	<u>64,183,799</u>
Total cash and cash equivalents	<u>\$ 84,761,968</u>

**Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities**

Operating loss	\$ (85,506,464)
Depreciation expense	6,851,792
Changes in operating assets and liabilities	
Accounts receivable, net	(1,515,697)
Grants and contracts receivable	(4,372,556)
Inventories	(10,682)
Student loans, net	137,021
Deferred revenue	2,049,428
Prepaid expenses	(114,975)
Accounts payable	1,191,223
Health insurance liability	124,789
Accrued payroll and payroll withholdings	(244,392)
Accrued compensating absences	<u>23,858</u>

**Net Cash Used in Operating Activities** \$ (81,386,655)

**Supplemental Cash Flows Information**

Capital leases incurred for capital assets	\$ 926,103
Construction in process included in accounts payable	\$ 93,830
Increase in assets held in trust from state endowment match	\$ 25,209



# Western Kentucky University

## Notes to Financial Statements

### June 30, 2002

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

##### ***Nature of Operations***

Western Kentucky University (University) is a state supported institution of higher education located in Bowling Green, Kentucky, and accredited by the Southern Association of Colleges and Schools. The University awards graduate and undergraduate degrees and serves a student population of approximately 17,600 in 2002. The University is operated under the jurisdiction of a Board of Regents and is a component unit of the Commonwealth of Kentucky.

##### ***Reporting Entity***

The financial reporting entity includes agencies of Western Kentucky University, as the primary government, and the accounts of Western Kentucky University Research Foundation, Inc., collectively referred to as the University.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of the organizations for which exclusion could cause the financial statements to be misleading or incomplete. The determination of financial accountability includes consideration of a number of criteria including (1) the University's ability to appoint a voting majority of another entity's governing body and to impose its will on that entity; (2) the potential for that entity to provide specific financial benefits or to impose specific financial burdens on the University; and (3) that entity's fiscal dependency on the University.

The Western Kentucky University Research Foundation, Inc. (Research Foundation) is included in the University's financial statements as a component unit based on the above criteria. The Research Foundation is a legally separate not-for-profit corporation that is, in substance, a part of the University's operations. It is organized exclusively to benefit the University by generating funding for and performing many of the University's research activities.

The Research Foundation's financial data is combined with the University for financial reporting purposes by the blended component unit method. Transactions between the University and the Research Foundation are eliminated upon consolidation.

##### ***Basis of Accounting and Presentation***

The financial statements of the University have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as state appropriations), investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses.

# **Western Kentucky University**

## **Notes to Financial Statements**

### **June 30, 2002**

The University routinely incurs expenses for which both restricted and unrestricted net assets are available. The University's policy is to allow departmental units the flexibility to determine whether to first apply restricted or unrestricted resources based on the most advantageous application of resources.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements that were issued after November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The University has elected not to apply FASB pronouncements issued after the applicable date.

The University has elected not to restate its 2001 financial statements to conform to the new financial statement presentation. Significant accounting changes made during the 2002 fiscal year to comply with the new requirements include (1) adoption of depreciation on capital assets; (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year; and (3) recording unexpended state capital contributions as deferred revenues.

#### ***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, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

The University considers all highly liquid investments that are immediately available to the University to be cash equivalents. Funds held by the Commonwealth of Kentucky are considered cash equivalents.

The University currently uses commercial banks and the Commonwealth of Kentucky as depositories. Deposits with commercial banks are covered by federal depository insurance or collateral held by the banks in the University's name. At the Commonwealth level, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are covered by federal depository insurance or by collateral held by the bank in the Commonwealth's name.

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

***Restricted Cash and Cash Equivalents***

Externally restricted cash and cash equivalents are classified as restricted assets. Restricted cash and cash equivalents includes cash and cash equivalents used to purchase or construct capital or other noncurrent assets.

***Investments and Investment Income***

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investment income consists of interest income and the net change for the year in the fair value of investments carried at fair value.

***Accounts Receivable***

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, staff and external entities, and include reimbursement of costs from external entities and related foundations. Accounts receivable also include amounts due from the federal government, state and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

***Inventories***

Inventories, consisting principally of bookstore merchandise, are stated at the lower of cost, determined using the FIFO (first-in, first-out) method, or market.

***Loans to Students***

The University extends unsecured credit to students by issuing loans under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset and is not allocated to functional expense categories. Equipment with an estimated useful life of greater than one year and \$5,000 is capitalized and depreciated with one-half a month's depreciation taken during the same year of purchase or donation. Library materials are capitalized in total for the year with one-half a year's depreciation taken during the same year of purchase or donation. Construction in process is capitalized when incurred. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred or when the project was closed and is identified as projects less than \$100,000. The following estimated useful lives are being used by the University:

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

Buildings and building improvements	15 – 40 years
Furniture, fixtures and equipment	3 – 15 years
Land improvements and infrastructure	20 years
Library materials	10 years

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowings. The University has no capitalizable interest for the current fiscal year.

***Historical Collections***

The University owns historical collections housed throughout the campus that it does not capitalize, including collections in the Kentucky Building & Museum. These collections adhere to the University's policy to (a) maintain them for public exhibition, education or research; (b) protect, keep unencumbered, care for and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than capitalized.

***Compensated Absences***

University policies permit employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized when vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay rates in effect at the statement of net assets date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

***Deferred Revenue***

Deferred revenue includes amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenue also includes amounts received from grant and contract sponsors that have not yet been earned and unexpended state capital appropriations.

# Western Kentucky University

## Notes to Financial Statements

### June 30, 2002

#### **Classification of Revenues**

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances; (2) sales and services of auxiliary enterprises; and (3) interest on student loans.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

#### **Scholarship Discounts and Allowances**

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance.

#### **Net Assets**

The University's net assets are classified as follows:

*Invested in capital assets, net of related debt:* This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

*Restricted net assets – expendable:* Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Restricted net assets – nonexpendable:* Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

*Unrestricted net assets:* Unrestricted net assets represent resources derived from student tuition and fees and sales and services of education departments and auxiliary enterprises. These resources are used at the discretion of the governing board to meet current expenses for any purpose.

**Income Taxes**

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

**Note 2: Assets Held in Trust**

Assets held in trust consisted of:

City of Bowling Green	\$ 1,599,460
Western Kentucky University Foundation, Inc.	6,541,137
WKU Student Life Foundation, Inc.	<u>341,279</u>
Fair value of assets held in trust	<u>\$ 8,481,876</u>

Assets held with the City of Bowling Green and the WKU Student Life Foundation, Inc. are held persistent to sinking fund requirements of pledges to the City of Bowling Green and notes payable to the WKU Student Life Foundation, Inc. as further described in Note 8. Assets held with the Western Kentucky University Foundation, Inc. are related to the Regional University Excellence Trust Fund as further described in Note 16.

**Note 3: Investments and Investment Income**

**Investments**

The University may legally invest in repurchase agreements, U. S. Treasury obligations and U. S. government agency obligations including collateralized mortgage obligations.

The University's investments are categorized to give an indication of the level of custodial credit risk assumed by the University. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by dealer bank's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer bank's trust department in other than the University's name, by the broker/dealer, by the dealer bank or by another bank that is a subsidiary of the same holding company as the dealer bank.

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

Investments at June 30, 2002, consisted of the following:

	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Mortgage-backed securities	\$ <u>0</u>	\$ <u>3,813,045</u>	\$ <u>0</u>	\$ <u>3,813,045</u>	\$ <u>3,813,045</u>

***Investment Income***

Investment income for the year ended June 30, 2002, consisted of:

Interest income	\$ 1,255,472
Net change for the year in fair value of investments	<u>(712,471)</u>
	<u>\$ 543,001</u>

**Note 4: Accounts Receivable**

Accounts receivable consisted of:

Tuition and fees – students	\$ 461,836
Tuition and fees – paid by third party	305,731
Sales and services to outside parties	348,504
Credit memos	441,994
Health insurance stop loss reimbursement	548,069
WKU Student Life Foundation, Inc.	1,286,736
Western Kentucky University Foundation, Inc.	74,169
College Heights Foundation, Inc.	2,238
Miscellaneous other	<u>37,103</u>
	3,506,380
Less allowance for doubtful accounts	<u>150,696</u>
Accounts receivable, net	<u>\$ 3,355,684</u>

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

**Note 5: Capital Assets**

Capital assets activity for the year ended June 30, 2002, was:

	Balance June 1, 2001	Cumulative Effect of Change in Accounting Principle (Note 14)	Additions	Disposals	Transfers	Balance June 30, 2002
<b>Cost</b>						
Land	\$ 2,613,695	\$ 1,465,486	\$ 321,870	\$ —	\$ —	\$ 4,401,051
Buildings and improvements	110,835,398	275,422	49,734	—	938,746	112,099,300
Infrastructure	7,784,046	—	—	—	2,585,508	10,369,554
Furniture, fixtures and equipment	41,958,450	(22,214,212)	1,604,255	(40,956)	—	21,307,537
Library materials	25,466,010	—	1,545,333	(45,101)	—	26,966,242
Intangible assets	1,569,172	(1,569,172)	—	—	—	0
Assets acquired under capital leases	3,100,947	(3,100,947)	—	—	—	0
Construction in progress	<u>11,766,289</u>	<u>—</u>	<u>18,769,176</u>	<u>—</u>	<u>(3,524,254)</u>	<u>27,011,211</u>
	<u>205,094,007</u>	<u>(25,143,423)</u>	<u>22,290,368</u>	<u>(86,057)</u>	<u>0</u>	<u>202,154,895</u>
<b>Less Accumulated Depreciation</b>						
Buildings and improvements	—	60,188,428	3,194,929	—	—	63,383,357
Infrastructure	—	3,592,117	349,472	—	—	3,941,589
Furniture, fixtures and equipment	—	12,812,331	1,964,598	—	—	14,776,929
Library materials	<u>—</u>	<u>18,348,416</u>	<u>1,342,793</u>	<u>(45,101)</u>	<u>—</u>	<u>19,646,108</u>
	<u>0</u>	<u>94,941,292</u>	<u>6,851,792</u>	<u>(45,101)</u>	<u>0</u>	<u>101,747,983</u>
<b>Net Capital Assets</b>	<u>\$ 205,094,007</u>	<u>\$(120,084,715)</u>	<u>\$ 15,438,576</u>	<u>\$ (40,956)</u>	<u>\$ 0</u>	<u>\$ 100,406,912</u>

A summary of construction in progress at June 30, 2002, is as follows:

Science Complex renovation	\$ 1,782,899
South Campus building	2,396,816
Diddle Arena renovation	1,455,090
Life Safety E&G building	503,766
High voltage underground distribution	608,661
Instructional Technology and Communication Project	8,321,733
South Regional Education Center	7,959,170
Others under \$500,000	<u>3,983,076</u>
	<u>\$ 27,011,211</u>

Contractual commitments in connection with all projects totaled \$13,663,126 at June 30, 2002.



**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

**Note 6: Accounts Payable**

Accounts payable consisted of:

Unapplied financial aid, student payments and financial aid refunds due to students	\$ 1,230,690
Vendors	1,820,418
Grants and contracts	710,608
Procurement card	138,078
Other miscellaneous	<u>363,362</u>
 Total accounts payable	 \$ <u>4,263,156</u>

**Note 7: Deferred Revenue**

Deferred revenue consisted of:

Unexpended state capital appropriations	\$31,034,105
Summer school tuition and fees	2,481,955
Grants and contracts	4,586,762
Advance sale of football tickets	51,717
University master plan	74,600
Advance sales of parking passes	<u>17,800</u>
 Total deferred revenue	 \$ <u>38,246,939</u>

**Note 8: Long-term Liabilities**

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2002:

	Beginning Balance	Cumulative Effect of Change in Accounting Principle (Note 14)	Additions	Deductions	Balance June 30, 2002	Current Portion
Capital lease obligations	\$ 2,020,942	\$ (481,680)	\$ 926,103	\$ (764,890)	\$ 1,700,475	\$ 539,187
Bonds payable	23,065,000	—	—	(2,360,000)	20,705,000	2,495,000
Other long-term debt	2,520,324	—	—	(250,656)	2,269,668	285,689
Pledges payable, net of discount	—	—	<u>31,620,543</u>	—	<u>31,620,543</u>	—
	<u>\$27,606,266</u>	<u>\$ (481,680)</u>	<u>\$ 32,546,646</u>	<u>\$ (3,375,546)</u>	<u>\$ 56,295,686</u>	<u>\$ 3,319,876</u>

**Western Kentucky University**  
**Notes to Financial Statements**  
**June 30, 2002**

**Capitalization Policy Change Affecting Capital Leases**

Effective July 1, 2001, the capitalization policy for the University was changed for all equipment items that have a life of greater than one year and a cost of \$500 or more to equipment items that have a life of greater than one year and a cost of \$5,000 or more. This change in capitalization policy was made in conjunction with the University's adoption of GASB Nos. 34 and 35 (see Note 14). The University continues to track equipment with a cost of \$500 or more for insurance purposes consistent with applicable Kentucky Revised Statutes but does not capitalize items at these lower thresholds. Upon examination of existing capital leases as of July 1, 2001, it was noted that several of the capital leases were for items under the new University capitalization policies. Capital leases with assets less than the threshold of the new capitalization policy have been reclassified to operating leases. The total amount reclassified to operating leases was \$481,680.

**Bonds Payable**

Bonds payable are composed of Consolidated Educational Buildings Revenue Bonds, Series G, K, L and M. The bonds mature in varying amounts through May 1, 2012, with interest payable at annual rates ranging from 2.60% to 6.10%. Buildings and revenues from student registration fees are pledged as collateral against bonds payable. The total bonds payable by series issue as of June 30, 2002, were as follows:

Series G Bonds dated 5-01-1968 with interest rates from 5.00% to 6.00%. Final principal payment date 5-01-2008.	\$ 1,490,000
Series K Bonds dated 5-20-1992 with interest rates from 3.25% to 6.10%. Final principal payment date 5-01-2012.	4,540,000
Series L Bonds dated 12-01-1993 with interest rates from 2.60% to 5.00%. Final principal payment date 5-01-2010.	10,400,000
Series M Bonds dated 3-01-1997 with interest rates from 4.70% to 4.90%. Final principal payment date 5-01-2007.	<u>4,275,000</u>
Total bond issues	<u>\$ 20,705,000</u>

**Western Kentucky University**  
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The debt service requirements for the bonds payable as of June 30, 2002, are as follows:

<b>Year Ending June 30</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2003	\$ 3,566,473	\$ 2,495,000	\$ 1,071,473
2004	3,459,070	2,510,000	949,070
2005	3,464,250	2,640,000	824,250
2006	3,476,290	2,785,000	691,290
2007	3,488,840	2,940,000	548,840
2008 – 2012	<u>8,303,955</u>	<u>7,335,000</u>	<u>968,955</u>
	<u>\$ 25,758,878</u>	<u>\$ 20,705,000</u>	<u>\$ 5,053,878</u>

On September 1, 2002, the University defeased Consolidated Educational Buildings Revenue Bond issues G and K and issued a \$6,110,000 Western Kentucky University Consolidated Educational Buildings Refunding Revenue Bond, Series N. The proceeds generated from Series N bond issue have been placed in escrow to make future payments of G and K principal and interest as amounts become due.

**Capital Lease Obligations**

The University is obligated under leases accounted for as capital leases. Assets under capital leases consisted mainly of equipment and totaled \$2,550,882, net of accumulated depreciation of \$1,286,057 at June 30, 2002. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 2.23% to 6.42% together with the present value of the future minimum lease payments as of June 30, 2002:

<b>Year Ending June 30</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2003	\$ 613,866	\$ 539,187	\$ 74,679
2004	519,608	471,733	47,875
2005	327,097	301,939	25,158
2006	267,990	257,221	10,769
2007	30,291	26,000	4,291
2008 – 2012	<u>111,098</u>	<u>104,395</u>	<u>6,703</u>
	<u>\$ 1,869,950</u>	<u>\$ 1,700,475</u>	<u>\$ 169,475</u>

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**Other Long-term Debt**

In connection with the University's transfer to the WKU Student Life Foundation, Inc. of substantially all its residence halls in 1999, the University agreed to make future payments to the WKU Student Life Foundation, Inc. These payments represent the principal and interest allocation for the Garrett Conference Center and the Downing University Center, title to which was retained by the University, of the Housing and Dining Revenue Series H and Series K bonds transferred to the WKU Student Life Foundation, Inc. The future payments include annual principal payments and semiannual interest payments at rates ranging from 3.50% to 6.00%.

Debt service requirements on the other long-term debt at June 30, 2002, were as follows:

<b>Year Ending June 30</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2003	\$ 398,331	\$ 285,689	\$ 112,642
2004	250,897	148,467	102,430
2005	323,302	231,508	91,794
2006	520,697	447,918	72,779
2007	520,072	473,082	46,990
2008 – 2012	<u>705,708</u>	<u>683,004</u>	<u>22,704</u>
	<u>\$ 2,719,007</u>	<u>\$ 2,269,668</u>	<u>\$ 449,339</u>

**Pledges Payable**

The University has pledged certain future revenues consisting of student athletic fees to the City of Bowling Green (City). The University has signed a Memorandum of Agreement dated April 15, 2002, and amended by supplement No. 1 dated June 1, 2002, between the City, Hilltopper Athletic Foundation (HAF) and the University. Under this agreement the University and the HAF have agreed to pledge certain future revenues in exchange for the renovation of E. A. Diddle Arena, financed by General Obligation and Special Revenues Bonds Series 2002B and 2002C issued by the City. These bonds constitute general obligations of the City and the full faith, credit and taxing power of the City.

In the signed Memorandum of Agreement, as amended, the University has agreed to (a) pledge the student athletic fees to the City for the payment of principal and interest on Series 2002B bonds and on a subordinated basis on Series 2002C bonds and (b) the University and HAF pledge the suite rentals (defined as annual suite rental minus annual HAF contributions) to the City on Series 2002C bonds. Additionally, the University has agreed to pay to the City the naming rights to Diddle Arena (if any) for Series 2002B bonds. The University has also covenanted and agreed to maintain the student athletic fees in amounts not less than the principal and interest of the bonds.

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The University has recorded both Series 2002B and 2002C as the pledges payable to the City. Financing for both issues will be used for the improvement of University facilities and the University has an obligation to make up any difference that is not received from suite rental; therefore, HAF payments of interest and debt will be recorded as revenue when received and a reduction of bond principal or interest expense when paid.

The following is a schedule, by year, of future minimum pledge payments under the signed Memorandum of Agreement reimbursing the City for renovation costs:

Year Ending June 30	Total to be Paid	Principal 2002B	Principal 2002C	Interest 2002B	Interest 2002C
2003	\$ 1,538,250	\$ —	\$ —	\$ 1,425,188	\$ 113,062
2004	1,538,250	—	—	1,425,188	113,062
2005	1,538,250	—	—	1,425,188	113,062
2006	1,538,250	—	—	1,425,188	113,062
2007	1,668,250	120,000	10,000	1,425,188	113,062
2008 – 2012	10,620,913	2,985,000	150,000	6,935,288	550,625
2013 – 2017	13,426,519	6,585,000	365,000	5,996,101	480,418
2018 – 2022	15,478,425	10,435,000	630,000	4,136,500	276,925
2023 – 2026	<u>12,028,050</u>	<u>9,990,000</u>	<u>645,000</u>	<u>1,284,500</u>	<u>108,550</u>
	59,375,157	30,115,000	1,800,000	25,478,329	1,981,828
Less unamortized discount	<u>294,457</u>	<u>286,219</u>	<u>8,238</u>	<u>—</u>	<u>—</u>
Total pledges payable	<u>\$ 59,080,700</u>	<u>\$ 29,828,781</u>	<u>\$ 1,791,762</u>	<u>\$ 25,478,329</u>	<u>\$ 1,981,828</u>

**Note 9: Operating Leases**

The University leases certain equipment under operating lease agreements. The operating leases expire in various years through 2005. These leases generally transfer equipment at the end of the lease term, but individual equipment items are less than the capitalization policies of the University. Periods on these leases range from two to five years and require the University to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at June 30, 2002, were:

2003	\$ 326,416
2004	68,283
2005	<u>26,138</u>
	<u>\$ 420,837</u>

**Western Kentucky University**  
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**Note 10: Supporting Foundations**

The University's financial statements do not include the assets, liabilities, net assets, revenues and expenses of the College Heights Foundation, Inc.; the Western Kentucky University Foundation, Inc.; the Hilltopper Athletic Foundation; the Ogden College Foundation; the Western Kentucky University Alumni Association; and the WKU Student Life Foundation, Inc. Each foundation is a separate legal entity with its own governing board and each has legal title to its respective assets. The foundations are not component units of the University, as they do not meet the criteria of accounting principles generally accepted in the United States of America for inclusion in the University's financial reporting entity. The financial statements for these foundations are issued separately.

The University makes annual lease payments of \$26,000 to the College Heights Foundation, Inc., under a capital lease consisting of real property. Future minimum lease payments for this lease are included in the capital leases in Note 8.

**Note 11: Pension Plans**

***Kentucky Teachers' Retirement System***

The University contributes to the Kentucky Teachers' Retirement System (KTRS), a cost-sharing, multiple-employer, defined-benefit pension plan administered by the Board of Trustees of KTRS. The plan provides retirement, disability and death benefits to plan members. The Commonwealth of Kentucky assigns the authority to establish and amend benefit provisions to the KTRS Board of Trustees. KTRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or by calling 502 573-3266.

Funding for the plan is provided from eligible employees who contribute 6.16% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 13.84% of current eligible employees' salaries to the KTRS through appropriations to the University. The contribution requirements of plan members are established by statute and may be changed only by the Kentucky General Assembly. The University's contributions to KTRS for the years ended June 30, 2002, 2001 and 2000, were \$5,060,415, \$5,148,038 and \$5,199,230, respectively, which equaled the required contributions for each year.

***Kentucky Employees' Retirement System***

The University contributes to the Kentucky Employees' Retirement System (KERS), a cost-sharing, multiple-employer, defined-benefit pension plan administered by the Board of Trustees of KERS. The plan provides retirement, disability and death benefits to plan members. The Commonwealth of Kentucky assigns the authority to establish and amend benefit provisions to the

# Western Kentucky University

## Notes to Financial Statements

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KERS Board of Trustees. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 502 564-4646.

Plan members are required to contribute 5.00% of their annual covered salary, and the University is required to contribute at an actuarially determined rate. The current rate is 5.89% of annual covered payroll. University police officers participate in the Hazardous Duty Division of KERS. The officers are required to contribute 8.00% of their annual covered salary, and the University is required to contribute at an actuarially determined rate. The current rate is 18.84% of annual covered payroll. The contribution requirements of plan members are established by statute and may be changed only by the Kentucky General Assembly. The University's contributions to the KERS for the years ended June 30, 2002, 2001 and 2000, were \$999,283, \$941,859 and \$1,197,197, respectively, which equals the required contributions for each year.

#### ***Optional Retirement Plan***

University faculty and administrative staff hired after July 1, 1996, have the option of participating in the Optional Retirement Program, a defined contribution pension plan. The plan is administered by one of three providers chosen by the employee. The plan provides retirement benefits to plan members. Benefit provisions are contained in the plan document and were established and may be amended by action of the Commonwealth of Kentucky. Contribution rates for plan members and the University for 2002 expressed as a percentage of covered payroll were 6.16% and 13.84%, respectively. Of the University's 13.84% contribution, 3.78% is paid to Kentucky Teachers' Retirement System for unfunded liabilities. The University's contributions to the Optional Retirement Program for the years ended June 30, 2002, 2001 and 2000, were \$1,771,295, \$1,381,063 and \$1,063,537, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2002, 2001 and 2000, were \$1,084,608, \$790,645 and \$611,608, respectively.

#### **Note 12: Commitments and Contingencies**

##### ***Claims and Litigation***

The University is currently involved in various claims and pending legal actions related to matters arising from the ordinary conduct of business. The University administration believes the ultimate disposition of the actions will not have a material effect on the financial statements of the University.

**Western Kentucky University**  
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**Government Grants**

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement or unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

**Note 13: Risk Management**

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, employee health and certain natural disasters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Commonwealth of Kentucky self insures workers' compensation benefits for all state employees, including University employees. Risk Management Services Corporation administers workers' compensation claims.

The University has joined together with other Kentucky governmental entities to form a public entity risk pool currently operating as a common risk management and insurance program for its members. The University pays an annual premium to the pool for its workers' compensation insurance coverage. The pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts.

Under its self-insurance plan, the University accrued the estimated costs of health care claims based on claims filed subsequent to year end and an additional amount for incurred but not yet reported claims based on prior experience.

Changes in the balance of the health care claims liabilities are summarized as follows:

Balance, beginning of year	\$ 791,089
Claims and changes in estimates	7,199,784
Claims payments	(6,475,371)
Administration costs	<u>(599,624)</u>
Balance, end of year	<u>\$ 915,878</u>



**Western Kentucky University**  
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**Note 14: Change in Accounting Principle**

In 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

The changes in financial statement presentation provide a comprehensive look at the total governmental entity, require recording of depreciation on capital assets and include a narrative of management's discussion and analysis (MD&A) of the government's financial activities. Prior to the adoption of GASB Nos. 34 and 35, the University did not maintain a complete set of detailed historical cost records on its capital assets nor did it record depreciation on its capital assets. To comply with the requirements of these statements, the University has prepared detail cost records on all of its capital assets and the related accumulated depreciation on those capital assets as of July 1, 2001. The cumulative effect of adoption at July 1, 2001, is as follows:

	<b>Increase (Decrease) to Net Assets</b>
Adjustment to reduce capital assets carrying amounts to agree to detailed cost records and adjustment to record accumulated depreciation on capital assets	\$ (120,084,715)
Adjustment to deferred revenue for unexpended state capital appropriations	(21,723,070)
Adjustment to reduce capital leases for existing leases in which the assets do not meet the University's capitalization policy	481,680
Adjustment to record grant reimbursement of plant expenditures	(575,182)
Adjustment to deferred revenue for summer tuition	1,634,781
Adjustment to grants and contracts restricted fund balances required by GASB 35 to be reported as deferred revenues	(2,196,061)
Decrease to net assets at July 1, 2001	<u>\$ (142,462,567)</u>

In addition to the changes described above, there was a significant change in the overall form and content of the University's financial statements.

**Note 15: Adjustment Applicable to Prior Years**

The University has changed reporting for funds received from the Regional University Excellence Trust Fund (RUETF). During 2002, the Commonwealth of Kentucky determined that funds provided from the state for this fund, as further described in Note 16, still are state funds and should be reported as assets held in trust on the University's financial statements. The amount of the prior year's net assets adjustment at July 1, 2001, was \$7,228,399.

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The University has determined there are prior sinking fund amounts related to University's maintained auxiliary service buildings being held in trust for the University by the WKU Student Life Foundation, Inc. Though the University has been aware of these amounts held in trust, the amounts have not been reflected in prior financial statement information of the University. The prior year's net assets adjustment at July 1, 2001, was \$341,279 and was reported as assets held in trust on the University's financial statements.

Adjustments applicable to prior years are summarized as follows:

	<b>Increase to Net Assets</b>
Regional University Excellence Trust Fund (RUETF)	\$ 7,228,399
Amounts held in trust by the WKU Student Life Foundation, Inc.	<u>341,279</u>
Increase to net assets at July 1, 2001	<u>\$ 7,569,678</u>

**Note 16: Regional University Excellence Trust Fund**

The Kentucky General Assembly appropriated funds to the RUETF with the passage of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The purpose of this fund is to encourage private investment in public higher education activities within the Commonwealth of Kentucky. These funds were made available matched dollar-for-dollar from external sources. The Commonwealth's Council on Postsecondary Education (CPE) was designated to oversee the distribution and use of these funds.

The University, under Kentucky House Bill 502, enacted by the 2000 General Assembly, included the provisions that "the proceeds of the endowment program authorized under Part X, Section I of this Act shall be deposited in the Regional University Excellence Trust Fund Account and invested at the direction of the CPE. Upon receipt of certification, the Council shall transfer the endowment funds from the account to the respective universities for management and investment by the university foundations if the foundations have been previously created to manage and invest private gifts and donations on behalf of the universities over time, otherwise by the university itself."

The University transfers these state match funds to the Western Kentucky University Foundation, Inc. for investment purposes. The Western Kentucky University Foundation, Inc. is a non-affiliated foundation under the governing laws of the Commonwealth of Kentucky. The Western Kentucky University Foundation, Inc. is responsible for managing some of the fund raising and investing activities of the University. The University has recorded the state appropriated RUETF as assets held in trust by the Western Kentucky University Foundation, Inc.

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Following is a summary of the funding for the RUETF as of June 30, 2002:

	<b>CPE Funding Received</b>	<b>External Matched Pledges</b>	
		<b>University Received</b>	<b>University Pledge</b>
Balance, July 1, 2001	\$ 6,988,000	\$ 2,703,963	\$ 4,284,037
Current year additions (deletions)	<u>25,209</u>	<u>1,278,062</u>	<u>(1,252,853)</u>
Balance, June 30, 2002	<u>\$ 7,013,209</u>	<u>\$ 3,982,025</u>	<u>\$ 3,031,184</u>

The University's external matched pledges, both received and outstanding, have not been recorded on the University's financial statements.

**Note 17: Natural and Functional Classifications of Operating Expenses**

The University's operating expenses by functional classification were as follows:

<b>Functional Classification</b>	<b>Natural Classification</b>						<b>Total</b>
	<b>Compensation and Benefits</b>	<b>Supplies, Contractual Services and Other</b>	<b>Utilities</b>	<b>Non Capitalized Property</b>	<b>Scholarships</b>	<b>Depreciation</b>	
Instruction	\$ 52,600,285	\$ 4,267,903	\$ 137,735	\$ 1,565,218	\$ 324,402	\$ —	\$58,895,543
Research	3,418,806	2,124,609	21,040	856,784	40,133	—	6,461,372
Public service	7,333,266	6,077,152	116,833	160,923	38,520	—	13,726,694
Libraries	3,172,635	219,217	2,046	18,254	—	—	3,412,152
Academic support	4,811,925	1,518,955	16,332	192,524	8,916	—	6,548,652
Student services	7,718,050	4,357,257	43,746	152,480	1,473,046	—	13,744,579
Institutional support	11,704,731	3,393,886	36,584	196,166	1,522	—	15,332,889
Operation and maintenance of plant	6,872,260	3,943,302	3,723,400	381,300	—	—	14,920,262
Student financial aid	68,110	980,554	—	2,650	11,732,334	—	12,783,648
Depreciation	—	—	—	—	—	6,851,792	6,851,792
Auxiliary enterprises	<u>4,505,362</u>	<u>5,719,212</u>	<u>1,817,954</u>	<u>59,924</u>	<u>—</u>	<u>—</u>	<u>12,102,452</u>
Total operating expenses	<u>\$102,205,430</u>	<u>\$32,602,047</u>	<u>\$ 5,915,670</u>	<u>\$ 3,586,223</u>	<u>\$ 13,618,873</u>	<u>\$ 6,851,792</u>	<u>\$164,780,035</u>

**Western Kentucky University**  
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**Note 18: Future Change in Accounting Principle**

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14. This new statement provides additional guidance to determine whether certain organizations should be included as component units in the University's financial statements based on the nature and significance of their relationship with the University. The statement generally requires reporting, as component units, organizations that raise and hold economic resources for the direct benefit of the University. The University expects to first apply the new statement during the year ending June 30, 2004. The impact of applying the new statement has not yet been determined.

## **Supplementary Information**

# Western Kentucky University

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2002

<u>Cluster/Program</u>	<u>Federal Agency/ Pass-through Entity</u>	<u>CFDA Number</u>	<u>Grant or Identifying Number</u>	<u>Amount Expended</u>
<b><u>Student Financial Assistance</u></b>				
Federal Family Education Loan Program	U.S. Department of Education	84.032		\$25,554,869
National Direct Student Loan	U.S. Department of Education	84.038		58,055
SEOG Grants 2001-2002	U.S. Department of Education	84.007	P007A001615	409,481
On Campus Work Study-Federal	U.S. Department of Education	84.033	P033A1615	574,536
America Reads WS	U.S. Department of Education	84.033	P033A21615	59,795
Off Campus Work Study-Federal	U.S. Department of Education	84.033	P033A1615	105,451
PELL Grants 2000-2001	U.S. Department of Education	84.063	P063P000657	18,770
PELL Grants 2001-2002	U.S. Department of Education	84.063	P063P000657	11,486,899
Total Student Financial Assistance				38,267,856
<b><u>Research and Development</u></b>				
Poultry Waste Management (Proj 1)	U.S. Department of Agriculture	10.001	5864061017	83,397
Poultry Waste Management (Proj 2)	U.S. Department of Agriculture	10.001	5864061017	72,477
Poultry Waste Management (Proj 3)	U.S. Department of Agriculture	10.001	5864061017	53,698
Transform Corn Dimboa- Resistant	U.S. Department of Agriculture	10.206	96353113915	7,784
PLOW- People Learning Other's Ways	U.S. Department of Agriculture	10.224	97362015260	31,517
Non Point Source Pollution	U.S. Department of Agriculture /Kentucky Division of Conservation	10.901	MOA019122	865
Warm Season Grass in Livestock Mark	U.S. Department of Agriculture /Warren County Conservation District	10.913	MOA101299	4,864
Thermal Stability Silicate	U.S. Department of Defense	12.630	F49620-00-1-	106,589
X- Ray Diffractometer	U.S. Department of Defense	12.630	F49620011033	119,000
Transportable Detectron Probe	U.S. Department of Defense	12.910	DAA0798C0118	305,067
Pelan Neutron-Based UXO Id Probe	U.S. Department of Defense	12.910	DACA7201C001	98,790
UXO Tool (PFTNA)	U.S. Department of Defense /Science International Corp	12.301	N0017400C007	244,387
PELAN IEP 2000 Phase 3	U.S. Department of Defense /Batelle Memorial Institute	12.901	1598984	259,555
Fish Population	National Park Service	15.608	H553001007	16,883
Sinking Springs	National Park Service	15.921	1443CA553099	4,875
KY Space Grant Consortium Yr 6	National Aeronautics & Space Administration	43.001	NGT5-40051	10,994
KY Space Grant Consortium Yr 7	National Aeronautics & Space Administration	43.001	NGT5-40051	7,710
KY Space Grant Consortium Yr 8	National Aeronautics & Space Administration	43.001	NGT5-40051	12,466
KY Space Grant Consortium Yr 9	National Aeronautics & Space Administration	43.001	NGT5-40051	85,467
KY Space Grant Consortium Yr 10	National Aeronautics & Space Administration	43.001	NGT5-40105	58,838
Astr/Space SC Workshop Sub516104	National Aeronautics & Space Administration	43.001	NGT5-40051	5,851
Energetics of Flares-Sub 516105	National Aeronautics & Space Administration	43.001	SUB TO 516105 NGT5-40105	3,000
Photometric Monitoring-Sub 516105	National Aeronautics & Space Administration	43.001	SUB TO 516105 NGT5-40105	7,453
Starbase Network	National Aeronautics & Space Administration	43.001	NAG5-08762	355,548
NASA EPSCoR	National Aeronautics & Space Administration	43.001	NCC5-222	264,722
NASA EPSCoR Preparation Program	National Aeronautics & Space Administration	43.001	NCC5-396	100,044
Radio Galaxies	National Aeronautics & Space Administration	43.001	NCC5-396 SUB TO 516122	3,632
Chemical Senors/Life Support Systems	National Aeronautics & Space Administration	43.001	NCC5-222	8,593
Mesospheric Dynamics	National Aeronautics & Space Administration	43.001	NGT5-40051	403
Detection of Extrasolar Planets	National Aeronautics & Space Administration	43.001	NGT5-40105	9,090
Particle Bombardment	National Aeronautics & Space Administration	43.001	NGT5-40105	3,000
Effects of Radiation Damage	National Aeronautics & Space Administration	43.001	NGT5-40105	3,000
Trans Properties/High Tc Materials	National Aeronautics & Space Administration	43.001	NGT5-40105	3,000
High Tc Super Conductors	National Aeronautics & Space Administration	43.001	NGT5-40105	7,972
MaCWAVE Sounding Rocket	National Aeronautics & Space Administration	43.001	NGT5-40105	8,656
Modeling the Stratosphere&Mesosphere	National Aeronautics & Space Administration	43.001	NGT5-40105	3,000
Classroom Galaxies	National Aeronautics & Space Administration	43.001	NGT5-40105	3,000
Velocity Structure/Radio Galaxies	National Aeronautics & Space Administration	43.001	NGT5-40105	3,000
A Web-Based Solar Physics Workshop	National Aeronautics & Space Administration	43.001	NGT5-40105	6,703
KY NASA/EPSCoR Program Yr 8	National Aeronautics & Space Administration	43.001	NCC5-571	140,201
Monitor & Assess Human Health	National Aeronautics & Space Administration	43.001	NCC5-571 SUB 516140	2,265
Cass 2001	National Aeronautics & Space Administration/ Tennessee State University	43.001	CONTRACO.WKS	53,771

# Western Kentucky University

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2002

MRI/RUI: Manufacturing Systems	National Science Foundation	47.041	DM1-0116515	\$163,017
Catalysis of Diverted Orth- Metal	National Science Foundation	47.049	CHE-0101435	146,288
Surfactant Immobilized Sorbent Material	National Science Foundation	47.049	CHE-0132181	9,115
Acquisition of Workstation Computer	National Science Foundation	47.070	ECS-9724186	13,788
International Planning South Africa	National Science Foundation	47.075	NSF0125413	1,970
Lifespan Psychology	National Science Foundation	47.075	SES-0097491	41,628
Zebrafish Regeneration/ Visual	National Science Foundation /University of Kentucky Research Foundation	47.049	462905002	2,852
Case Study- Crown Ethers	National Science Foundation /University of Kentucky Research Foundation	47.049	UKRF	9,685
Organic Carbon Trans.	National Science Foundation /University of Kentucky Research Foundation	47.049	UKRF	9,044
Dev PCR-ID KY Whitetail Deer	National Science Foundation /University of Kentucky Research Foundation	47.049	4-62905-2	409
NSF SBIR Coal Analysis	National Science Foundation /University of Kentucky Research Foundation	47.050	PRIV-SUB	48,848
PELAN System Training	Tennessee Valley Authority	62.001	TVA 4778	8,782
Biological Monitoring Program	U.S. Environmental Protection Agency /Kentucky Division of Water	66.460	M-01133685	40,782
Bacteriological & Biological Assessment	U.S. Environmental Protection Agency /Kentucky Division of Water	66.460	M-01133436	44,700
KRWA	U.S. Environmental Protection Agency	66.606	X826659-01-3	134,560
Task 3 Yr 3	U.S. Environmental Protection Agency	66.606	X826659-01-3	93,993
Task 4 Yr 3	U.S. Environmental Protection Agency	66.606	X826659-01-3	73,521
Small Rural Water Admin 3	U.S. Environmental Protection Agency	66.606	X826659-01-3	81,277
Waste Management	U.S. Environmental Protection Agency	66.606	X-97418901-0	13,957
Waste Management	U.S. Environmental Protection Agency	66.606	X-97418901-0	95,413
Waste Management	U.S. Environmental Protection Agency	66.606	X-97418901-0	11,117
Waste Management	U.S. Environmental Protection Agency	66.606	X-97418901-0	8,757
Multi-Parameter On-line Coal Bulk	U.S. Department of Energy /University of Kentucky Research Foundation	81.049	4257459563	8,513
Mental Health- Farmers	U.S. Department of Health & Human Services / University of Kentucky Research Foundation	93.262	4642680101141	2,257
EMS Bumout	U.S. Department of Health & Human Services /University of Cincinnati	93.263	UNIV OF CINCINNATI LETTER	4,345
WKU KBRIN	U.S. Dept of Health & Human Services /University of Louisville	93.389	LTR121901	32,310
Learning & Judgement in Older Adult	National Institute of Aging	93.866	1 R01 AG19155-01	144,398
Visual Processing Older Adults	National Institute of Aging /University of Alabama at Birmingham	93.866	5R37 AG05739-17	14,044
Visual Processing in Older Adults 2002	National Institute of Aging /University of Alabama at Birmingham	93.866	5R37AG057391	74,000
Enhancing Mobility in Elderly FY02	National Institute of Aging /University of Alabama at Birmingham	93.866	5P50AG11684-10	79,600
Total Research & Development				3,994,097
<b><u>Head Start</u></b>				
Quality Center IVA Head Start 00-01	U.S. Department of Health & Human Services	93.600	90YQ0001/04	274,560
Quality Impro Center IVA- Early HS A01	U.S. Department of Health & Human Services	93.600	90YQ0001/04	102,330
Head Start General 17	U.S. Department of Health & Human Services	93.600	04CH0201/17	367,997
Head Start T/TA 17	U.S. Department of Health & Human Services	93.600	04CH0201/17	1,761
Quality Improvement Center IVB				
Head Start	U.S. Department of Health & Human Services	93.600	90YQ0016/04	259,125
Quality Improvement Early				
Head Start B01	U.S. Department of Health & Human Services	93.600	90YQ0016/04	145,958
Quality Center IV-A Head Start 2002	U.S. Department of Health & Human Services	93.600	90YQ0001/05	1,301,340
Early Quality IV-A 2002	U.S. Department of Health & Human Services	93.600	90YQ001/05	439,249
Quality Center IV B 2002	U.S. Department of Health & Human Services	93.600	90YQ0016/05	1,351,234
Early Quality IV B 2002	U.S. Department of Health & Human Services	93.600	90YQ0016/05	591,922
Headstart General 18-2002	U.S. Department of Health & Human Services	93.600	04CH0201/18	926,394
Headstart T/TA 18-2002	U.S. Department of Health & Human Services	93.600	04CH0201/18	76,847

# Western Kentucky University

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2002

Early Head Start Delegate 2001	U.S. Department of Health & Human Services /Murray Head Start	93.600	04YC0661/001	\$36,445
Early Headstart Delegate 2002	U.S. Department of Health & Human Services /Murray Head Start	93.600	09YC 0661 001	147,307
Early Headstart Delegate 2002	U.S. Department of Health & Human Services /Murray Head Start	93.600	09YC 0661 001	1,263
Family Literacy Project 2000-2001	U.S. Department of Health & Human Services /National Center for Family Literacy	93.600	90YL0001/02	67,039
Family Literacy Project	U.S. Department of Health & Human Services /National Center for Family Literacy	93.600	90YL0001/03	23,702
MSSA 2000-2001	U.S. Department of Health & Human Services /Medical Administration AHEC	93.600	5U76PE0323/	25,001
Total Head Start				6,139,474
<b>Total Major Programs</b>				<b>48,401,427</b>
 <b><u>Other Federal Awards</u></b>				
Rural Mobile Health Unit	U.S. Department of Health & Human Services /Medical Administration AHEC	93.912	PL104-299	343,817
KEMSA Rural Health	U.S. Department of Health & Human Services /Medical Administration AHEC	93.912	PL104-299	120,444
RHP: Empowering the Elderly	U.S. Department of Health & Human Services /Medical Administration AHEC	93.912	ID1ARH00068-01	12,341
				476,602
Fed Trio Training- General 2001	U.S. Department of Education	84.103	P103A000029	227,678
Fed Trio Training- Report 2001	U.S. Department of Education	84.103	P103A000060	196,605
Fed Trio Training- Regulatory 2001	U.S. Department of Education	84.103	P103A000035	306,377
				730,660
Improving Teacher Quality- USDE Sem	U.S. Department of Education	84.336	P336B9900140	7,825
Improving Teacher Quality	U.S. Department of Education	84.336	P336B9900140	147,150
Improving Teacher Quality Yr 3	U.S. Department of Education	84.336	P336B990014-01	481,150
Improving Teacher Quality Yr 2	U.S. Department of Education	84.336	P336B9900140	701,781
				1,337,906
University Center Program 2002	U.S. Department of Commerce	11.303	04-66-04928	87,772
Disaster Mitigation	U.S. Department of Commerce	11.307	04-69-04980	73,483
				161,255
USAR - Training 100th Division	U.S. Department of Defense	12.113	DAKF29-01-M-0555&0477	58,231
USAR - Training 108th Division	U.S. Department of Defense	12.113	DAKF29-01-M-0497 & 0494	59,322
100th Division Training 02	U.S. Department of Defense	12.113	DAKF29-02-M-0379&0404	130,011
108th Division Training 02	U.S. Department of Defense	12.113	DAKF29-02-M-0356&0374	146,160
				393,724
Digital Library - Collection Websit	National Park Service	15.921	CA5530110003	15,879
Develop National Park Species Database	National Park Service	15.921	CA553000002	9,672
Impact/Lock & Dam #6	National Park Service	15.921	H5530010104	7,323
Backlog Cataloging 10,000 Items	National Park Service	15.921	1443 CA5530 00 001	11,586
Preserve Maps, Drawings & Photos	National Park Service	15.921	1443 CA5530 00 001	9,538
Assess Off-Site Museum Collections	National Park Service	15.921	1443 CA5530 00 001	2,238
Ecological Monitoring Collection	National Park Service	15.921	H5530010144	4,210
Student Research at Mammoth Cave	National Park Service	15.921	H5530020034	3,313
Rehousing Catalog Specimens	National Park Service	15.921	CA55049007	35,021
				98,780
Woodrat Monitoring Sites	U.S. Department of Interior/Kentucky Dept. of Fish & Wildlife	15.615	MOA 5-10-01	2,000



# Western Kentucky University

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2002

International Journalism Training	Department of State/Internews Network, Inc.	19.300	LTR 6/15/01	<u>\$335,509</u>
Software Selection/Data Compliation	Federal Aviation Administration /Barren River District Health Department	20.600	0130326015	1,466
KY Earth Science	Federal Aviation Administration /Barren River District Health Department	43.001	NAG5-8517	9,064
Extending Nova Network-KY-IDEAS	Federal Aviation Administration /Barren River District Health Department	43.001	NAG5-9388	996
				<u>11,526</u>
Folklore Archives	National Endowment for Humanities	45.149	PA-24016-01	<u>2,197</u>
We * Can	National Science Foundation	47.041	HRD-0086370	<u>67,267</u>
Small Business 2001	Small Business Administration /University of Kentucky Research Foundation	59.037	UKRF	19,334
Small Business Center FY 02	Small Business Administration /University of Kentucky Research Foundation	59.037	UKRF 465241-02-113	36,223
				<u>55,557</u>
Vocational Evaluation	Department of Vetrans Affairs	64.117	V3027	<u>34,950</u>
River Institute: Building Ed Part	Environmental Protection Agency /Kentucky Division of Water	66.460	M-02025681	<u>21,486</u>
Utility Mgmt Institute-Phase III	Environmental Protection Agency /Kentucky Rural Water Association	66.606	X826659	8,120
Utility Mgmt Institute-Phase IV	Environmental Protection Agency /Kentucky Rural Water Association	66.606	X-97418901-SUB KRWA	18,085
				<u>26,205</u>
Energy Workshop/High School Chemistry	U.S. Department of Energy /University of Kentucky Research Foundation	81.049	42574595-64	<u>2,740</u>
Global Workforce Yr 1 & 2	U.S. Department of Education	84.016	P016A000012-01	6,637
Global Workforce Yr 1 & 2	U.S. Department of Education	84.016	P016A000012-01	55,329
Project GATE	U.S. Department of Education	84.016	P016A010025	<u>73,792</u>
				<u>135,758</u>
Missing Link: Parents as Partners	U.S. Department of Education /University of North Carolina at Chapel Hill	84.027	UNC/USDE	<u>230</u>
First Steps Resource & Assist 2001	U.S. Department of Education /Kentucky Cabinet for Health Services	84.027	M-00160738	631
First Steps 2002	U.S. Department of Education /Kentucky Cabinet for Health Services	84.027	M-01133704	42,632
First Steps Monitoring System	U.S. Department of Education /Kentucky Cabinet for Health Services	84.027	M-1274411	103,430
				<u>146,693</u>
Special Education Tuition Program	U.S. Department of Education /Northern Kentucky University	84.027	NK4-23095	<u>46,568</u>

# Western Kentucky University

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2002

Student Support Services 98-02	U.S. Department of Education	84.042	P042A980514	\$217,709
Talent Search 98-02	U.S. Department of Education	84.044	9044A980350-	315,738
Veterans Upward Bound 00-03	U.S. Department of Education	84.047	IP047A990681	251,453
Upward Bound	U.S. Department of Education	84.047	P047A990886	315,287
				1,100,187
Perkins- Enrichment Act Business Teacher Education	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PL105-332	302
Perkins- Community College 2001	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PL105-332	564
Dental Hygiene Perkins FY01	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	TITLE I-C	920
Perkins-Marketing Program 2002	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PERKINS 2002	1,398
Tech Prep Activities	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PERKINS 2002	3,748
Perkins-Improve Technical Ed 2002	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048		12,000
Field-based Teacher Ed-Industrial	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PERKINS 2002	15,919
Agriculture - Perkins 2002	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PL#101392	24,820
Dental Hygiene - Perkins FY02	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PL105-332 - TITLE I-C	34,770
Community College-Perkins 2002	U.S. Department of Education /Kentucky Cabinet for Workforce Development	84.048	PL 101-392	157,653
				252,094
OGBE Promoting E Commerce	U.S. Department of Education	84.116	P116Z010057	69,379
C C Middle School Resource Lab	U.S. Department of Education	84.116	P116B01184	83,492
				152,871
2001-2002 Faculty Assistance Grant	U.S. Department of Education /Ky Department of Education	84.173	M-01303795	7,068
IECE 2001 Proficiency Evaluation Faculty	U.S. Department of Education /Ky Department of Education	84.173	M-00140274	7,392
				14,460
Reduce Drinking	U.S. Dept of Education /Morehead State University	84.184	MSU LETTER	2,721
Focus- Workbased Learning 00-01	U.S. Department of Education /Oak Ridge Institute for Science & Education	84.278	LTR 09-20-00	30,804
The River 06/30/03	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER 17	2,194
Teach & Learn Astronomy /Space	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER 17	7,522
Science Project	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER 16	8,766
GREAT Science	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER 17	13,915

# Western Kentucky University

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2002

Teaching and Learning Science Core	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER 16	\$16,489
Science Project 2001	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER	26,021
The River: Improving Math & Science 2001	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.281	EISENHOWER 16	41,173
				116,080
NWP Writing Project	U.S. Department of Education /National Writing Project Corporation	84.298	92KY-06	17,906
Quality- New Teachers	U.S. Department of Education	84.303	R303K010047	203,252
KY Gear Up Project Yr2	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.334	MOA120501	63,893
KY Gear Up Project	U.S. Department of Education / Kentucky Council on Postsecondary Education	84.334	LTR 3-31-01	103,985
				167,878
CCAMPIS	U.S. Department of Education	84.335	P335A010005	24,946
Industrial Hygiene Curriculum WKU 02	U.S. Department of Health and Human Services	93.263	TO2/CCH10643-08	21,795
Nurse Traineeship	U.S. Department of Health and Human Services	93.358	2A10HP00189-02	35,690
Rural Mobile Health Unit	U.S. Department of Health and Human Services	93.359	1D11HP00069	3,463
				60,948
Model State Supported AHEC 2002	U.S. Department of Health & Human Services /University of Louisville	93.107	ULRF/DHHS 93.107	6,927
Training for KICS 2002	U.S. Department of Health & Human Services /University of Louisville	93.192	6D36HP10060-06-01	9,860
HETC 2001	U.S. Department of Health & Human Services /University of Louisville	93.600	ULRF/DHHS 93.600	44,318
HETC 2002	U.S. Department of Health & Human Services /University of Louisville	93.189	ULRF/DHHS 93.189	58,088
				119,193
Rehabilitation Sciences	U.S. Department of Health & Human Services /University of Kentucky Research Foundation	93.191	UKRF 464331-02-146	1,998
KEMSA Paramedic Course-Marshall	U.S. Dept of Health & Human Services /Kentucky Emergency Medical Services Board	93.241	M-01262771	4,005
Agriculture Research	U.S. Department of Health & Human Services /University of Kentucky Research Foundation	93.262	46132398-61	3,578
				7,583
Child Care Resource & Ref 2002	U.S. Department of Health & Human Services /Audubon Area Community Services	93.575	DOCUMENT #11	305,155
Child Care Resource & Ref 2001	U.S. Department of Health & Human Services /Audubon Area Community Services	93.575	DOCUMENT #10	19
				305,174

## Western Kentucky University

### Schedule of Expenditures of Federal Awards

#### Year Ended June 30, 2002

Public Child Welfare Certification 2001	U.S. Departmentt of Health & Human Services /Eastern Kentucky University	93.658	EKU01-035	\$39
PCWCP 2002	U.S. Departmentt of Health & Human Services /Eastern Kentucky University	93.658	EKU 02-115	57,861
Juvenile Justice Training Center 2002	U.S. Departmentt of Health & Human Services /Eastern Kentucky University	93.658	EKU 02-141	78,327
Training Resource Center 2002	U.S. Departmentt of Health & Human Services /Eastern Kentucky University	93.658	EKU 7301	163,214
				299,441
Total Other Federal Awards				6,965,149
Total Federal Awards				\$55,366,576

**Western Kentucky University**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2002**

**Notes to Schedule**

1. This schedule includes the federal awards activity of the University and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Of the federal expenditures presented in this schedule, the University provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Subrecipient</u>	<u>Amount Provided</u>
43.001	University of Kentucky	\$ 34,440
43.001	Murray State University	8,816
43.001	Morehead State University	1,000
43.001	Transylvania University	1,000
43.001	Northern Kentucky University	1,500
43.001	University of Kentucky	23,599
43.001	University of Louisville	17,868
43.001	Murray State University	10,458
43.001	Morehead State University	9,486
43.001	Centre College	335
43.001	Northern Kentucky University	107
43.001	Morehead State University	2,777
43.001	University of Kentucky	636
43.001	University of Kentucky	68,404
43.001	University of Louisville	30,763
43.001	University of Kentucky	145,723
43.001	University of Louisville	80,157
43.001	Kentucky Science & Technology	8,756
43.001	University of Kentucky	57,976
43.001	Morehead State University	8,675

**Western Kentucky University**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2002**

11.307	Murray State University	68,598
66.606	Kentucky Rural Water Association	198,056
84.336	California State University	76,703
84.336	Southeast Missouri University	21,911
84.336	Eastern Michigan University	4,520
84.336	Emporia State University	4,024
84.336	Kentucky State University	12,619
84.336	Middle Tennessee State University	22,698
84.336	Southeast Missouri University	17,990
84.336	Longwood College	40,323
84.336	Millersville University	37,088
84.336	California State University	113,570
84.336	Eastern Michigan University	83,596
84.336	Emporia State University	34,756
84.336	University of Northern Iowa	204,277
84.336	Idaho State University	4,000
84.336	Kentucky State University	50,016
84.336	Middle Tennessee State University	39,311
84.336	Eastern Michigan University	114,301
84.336	University of Northern Iowa	120,026
84.336	Emporia State University	12,625
84.336	California State University	2,894
84.336	Southeast Missouri University	29,130
84.336	Longwood College	28,252
84.336	Millersville University	76,347
84.336	Idaho State University	8,455
84.334	Bowling Green Technical College	6,631
84.334	Owensboro Community College	2,761
84.334	Bowling Green Junior High School	22,669
84.334	Owensboro Middle School	19,262
84.334	Hardin County Schools/Radcliffe	10,052
84.334	West Point	3,606
84.334	Bowling Green Technical College	608
84.334	Bowling Green Junior High School	10,159
84.334	Owensboro Middle School	6,958
84.334	West Point	2,248
		\$2,023,516

**Independent Accountants' Report on Compliance and Internal Control Over  
Financial Reporting Based on the Audit of the Financial Statements in  
Accordance with *Government Auditing Standards***

President Gary A. Ransdell  
and Board of Regents  
Western Kentucky University  
Bowling Green, Kentucky

We have audited the financial statements of Western Kentucky University as of and for the year ended June 30, 2002, and have issued our report thereon dated November 21, 2002, which contained an explanatory paragraph regarding a change in accounting principle. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Compliance***

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 02-1.

President Gary A. Ransdell  
and Board of Regents  
Western Kentucky University  
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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

November 21, 2002



## **Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs**

President Gary A. Ransdell  
and Board of Regents  
Western Kentucky University  
Bowling Green, Kentucky

### ***Compliance***

We have audited the compliance of Western Kentucky University with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the compliance of Western Kentucky University based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, Western Kentucky University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

President Gary A. Ransdell  
and Board of Regents  
Western Kentucky University  
Page Two

### ***Internal Control Over Compliance***

The management of Western Kentucky University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

November 21, 2002

**Western Kentucky University**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2002**

**Summary of Auditor's Results**

1. The opinion expressed in the independent accountants' report was:  
 Unqualified       Qualified       Adverse       Disclaimed
  
2. The independent accountants' report on internal control over financial reporting described:  
Reportable condition(s) noted considered material weakness(es)?       Yes       No  
Reportable condition(s) noted that are not considered to be material weakness(es)?       Yes       No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?       Yes       No
  
4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:  
Reportable condition(s) noted considered material weakness(es)?       Yes       No  
Reportable condition(s) noted that are not considered to be material weakness(es)?       Yes       No
  
5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:  
 Unqualified       Qualified       Adverse       Disclaimed
  
6. The audit disclosed findings required to be reported by OMB Circular A-133?       Yes       No

**Western Kentucky University**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2002**

7. The University's major programs were:

<b>Cluster/Program</b>	<b>CFDA Number</b>
Student Financial Assistance Cluster	Various
Research and Development Cluster	Various
Head Start	93.600

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$1,660,997.

9. The University qualified as a low-risk auditee as that term is defined in OMB Circular A-133?  Yes  No

**Western Kentucky University**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2002**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
02-1	Certain employees in the bursar/billings and receivables area have custody of or access to cash receipts and can also record or can adjust entries to record cash receipts. We recommend the University management consider the costs and benefits of segregating the custodial and access functions from the recording functions of these employees.	None

**Findings Required to be Reported by OMB Circular A-133**

No matters are reportable.

**Western Kentucky University**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2002**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
01-1	Certain employees have custody of or access to cash receipts and can also record or can adjust entries to record cash receipts. We recommend segregating the custodial and access functions from the recording functions of these employees.	Unresolved, see current year finding 02-1.

**APPENDIX D**

**WESTERN KENTUCKY UNIVERSITY  
CONSOLIDATED EDUCATIONAL BUILDINGS REFUNDING REVENUE BONDS  
SERIES O**

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Form of Bond Counsel Opinion

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[Date of Delivery]

Western Kentucky University  
Bowling Green, Kentucky

Re: \$ \_\_\_\_\_ Western Kentucky University Consolidated Educational Buildings Refunding Revenue Bonds, Series O, Dated July 1, 2003

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Board of Regents of Western Kentucky University, a public body corporate and educational institution and agency of the Commonwealth of Kentucky (the "Issuer") of \$ \_\_\_\_\_ of Western Kentucky University Consolidated Educational Buildings Refunding Revenue Bonds, Series O, dated July 1, 2003 (the "Bonds") pursuant to Sections 162.340 to 162.380, inclusive, of the Kentucky Revised Statutes, as amended (the "Act"), and a Basic Resolution dated as of August 15, 1960, supplemented on July 28, 1971 (the "Resolution") and the Series O Resolution, dated May 9, 2003 (the "Series O Resolution"). We have examined the law and the transcript of proceedings pursuant to which the Bonds have been authorized and issued, and such other matters as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the opinion of Deborah T. Wilkins, Esq., as General Counsel to the Issuer, representations of the Issuer contained in the Resolution and Series O Resolution and in the transcript of proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The Issuer is a duly created and validly existing public body corporate and educational institution and agency of the Commonwealth of Kentucky, with full power to execute and deliver the Resolution and Series O Resolution and perform the agreements on its part contained therein and issue the Bonds.

2. The Resolution and Series O Resolution have been duly adopted by the Issuer and constitute valid and binding obligations of the Issuer enforceable upon the Issuer.

3. The Bonds have been duly authorized, executed and delivered by the Issuer and constitute valid and binding special obligations of the Issuer payable solely from the sources provided therefor in the Resolution and Series O Resolution.

4. The Bonds and any additional parity bonds heretofore and hereafter issued and outstanding under the terms of the Resolution are and will be payable from and constitute a paramount charge upon the defined Revenues (student registration fees) derived by the Issuer from the operation of its Consolidated Educational Buildings Project, which consists of all educational buildings and appurtenant facilities of the Issuer now in existence and hereafter acquired. As further security for the Bonds and any parity bonds heretofore or hereafter issued pursuant to the Resolution, there is created and granted by Sections 162.200 and 162.350 of the Kentucky Revised Statutes, as amended, a statutory mortgage lien upon the Consolidated Educational Buildings Project of the Issuer.

5. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest, including original issue discount, on the Bonds is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Bonds.

6. Interest on the Bonds is exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

7. The Issuer has designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Code.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting creditors' rights, and to the exercise of judicial discretion in accordance with general equitable principles.

Very truly yours,

## APPENDIX E

### Book Entry Only System

The Series O Bonds initially will be issued solely in book-entry form to be held in the book-entry only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Series O Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners of Beneficial Ownership Interests, each as hereinafter defined, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Series O Bonds under the Resolution and Series Resolution.

The following information about the book-entry only system applicable to the Series O Bonds has been supplied by DTC. Neither the University nor the Trustee makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Series O Bonds. The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series O Bond certificate will be issued for in the aggregate principal amount of the Series O Bonds and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Series O Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series O Bonds on DTC's records. The ownership interest of each actual purchaser of each Series O Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations

providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series O Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series O Bonds, except in the event that use of the book-entry system for the Series O Bonds is discontinued.

To facilitate subsequent transfers, all Series O Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series O Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series O Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series O Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series O Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series O Bond documents. For example, Beneficial Owners of Series O Bonds may wish to ascertain that the nominee holding the Series O Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series O Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series O Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series O Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Series O Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series O Bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Trustee or the University, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the University or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series O Bonds at any time by giving reasonable notice to the University or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series O Bond certificates are required to be printed and delivered.

The University may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series O Bond certificates will be printed and delivered.

NEITHER THE UNIVERSITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A HOLDER WITH RESPECT TO: (1) THE SERIES O BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED SERIES O BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES O BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES O BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Series O Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender Series O Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Series O Bonds.

The University cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Series O Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources that the University believes to be reliable, but the University takes no responsibility for the accuracy thereof.

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**APPENDIX F**

**Form of Continuing Disclosure Agreement**

**CONTINUING DISCLOSURE AGREEMENT**

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Relating to:

\$ \_\_\_\_\_  
WESTERN KENTUCKY UNIVERSITY  
CONSOLIDATED EDUCATIONAL BUILDINGS  
REFUNDING REVENUE BONDS, SERIES O

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Dated as of: July 1, 2003

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This Continuing Disclosure Agreement (the "Agreement") dated as of July 1, 2003 by and between the Western Kentucky University (the "Issuer") and Branch Banking and Trust Company, Wilson, North Carolina (the "Trustee") under a bond resolution adopted by the Issuer on May 9, 2003 (the "Series O Resolution"), is executed and delivered in connection with the issuance of the Issuer's Consolidated Educational Buildings Refunding Revenue Bonds, Series O (the "Bonds"). Capitalized terms used in this Agreement which are not otherwise defined in the Series O Resolution or the Resolution, as defined in the Series O Resolution, shall have the respective meanings specified above or in Article IV hereof. The parties agree as follows:

## ARTICLE I

### THE UNDERTAKING

Section 1.1. Purpose. This Agreement shall constitute a written undertaking for the benefit of the Holders of the Bonds, and is being executed and delivered solely to assist the Purchasers in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information. (a) The Issuer shall provide Annual Financial Information with respect to each fiscal year of the Issuer, commencing with fiscal 2003, by no later than 9 months after the end of the respective fiscal year, but in any event shall provide Audited Financial Statements of the Issuer as soon as practicable, and within 15 business days, if possible, after the final publication date of such Audited Financial Statements, to each NRMSIR and the SID.

(b) The Issuer shall provide, in a timely manner, notice of any failure of the Issuer to provide the Annual Financial Information by the date specified in subsection (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the Issuer shall provide Audited Financial Statements of the Issuer, when and if available, to each NRMSIR and the SID.

Section 1.4. Notices of Material Events. (a) If a Material Event occurs, the Issuer shall provide, in a timely manner, a Material Event Notice to (i) either the MSRB or each NRMSIR, (ii) the SID, and (iii) the Trustee.

(b) The Trustee shall promptly advise the Issuer whenever, in the course of performing its duties as Trustee under the Series O Resolution or the Resolution, the Trustee has actual notice of an occurrence which, if material, would require the Issuer to provide a Material Event Notice hereunder; provided, however, that the failure of the Trustee so to advise the Issuer shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Agreement.

Section 1.5. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

## ARTICLE II

### OPERATING RULES

Section 2.1. References to Other Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Issuer provides Annual Financial Information by specific reference to documents previously

either (i) provided to each NRMSIR existing at the time of such reference and the SID, or (ii) filed with the SEC. If such a document is the Official Statement, it also must be available from the MSRB.

Section 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3. Material Event Notices. Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 2.4. Transmission of Information and Notices. Unless otherwise required by law and, in the Issuer's sole determination, subject to technical and economic feasibility, the Issuer shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the Issuer's information and notices.

Section 2.5. Fiscal Year. Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuers's current fiscal year is July 1 - June 30, and the Issuer shall promptly notify (i) each NRMSIR, (ii) the SID and (iii) the Trustee of each change in the Issuer's fiscal year.

### ARTICLE III

#### TERMINATION, AMENDMENT AND ENFORCEMENT

Section 3.1. Termination. (a) The Issuer's and the Trustee's obligations under this Agreement shall terminate upon a legal defeasance pursuant to Section 10.02 of the Resolution, prior redemption or payment in full of all of the Bonds.

(b) This Agreement, or any provision hereof, shall be null and void in the event that the Issuer (i) delivers to the Trustee an opinion of Peck, Shaffer & Williams LLP or other nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer and Trustee, to the effect that those portions of the Rule which require the provisions of this Agreement, or any of such provisions, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (ii) delivers copies of such opinion to each NRMSIR and the SID.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the Holders of the Bonds, (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have delivered to the Trustee an opinion of Peck, Shaffer & Williams LLP or other nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer and the Trustee, to the same effect as set forth in clause (2) above and, (4) either (i) the Issuer shall have delivered to the Trustee an opinion of Peck, Shaffer & Williams LLP or other nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer and the Trustee, to the effect that the amendment does not materially impair the interests of the Holders of the Bonds, or (ii) the Holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Resolution with consent of Holders of bonds pursuant to Article VIII of the Resolution as in effect on the date of this Agreement, and (5) the Issuer shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(b) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(c) If an amendment is made to the basis on which financial statements are prepared, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall inure solely to the benefit of the Holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement.

(b) Except as provided in this subsection (b), the provisions of this Agreement shall create no rights in any person or entity. The obligations of the Issuer to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any Holder of Outstanding Bonds, or by the Trustee on behalf of the Holders of Outstanding Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the Holders of Outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity. The Holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be Holders of Bonds for purposes of this subsection (b) unless and until the respective Holder exercises any rights pursuant to this subsection (b).

(c) Any failure by the Issuer or the Trustee to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State.

#### ARTICLE IV

#### DEFINITIONS

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

"Annual Financial Information" means the financial information or operating data with respect to the Issuer, for each fiscal year of the Issuer, as set forth under the heading "OPERATIONS" in the Official Statement and Audited Financial Statements, if available, or Unaudited Financial Statements.

"Audited Financial Statements" means the annual financial statements, if any, of the Issuer, audited by such auditor as shall then be required or permitted by state law. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to each NRMSIR and the SID, and shall include a reference to the specific federal or state law or regulation describing such accounting basis.

"GAAP" means generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board.

"Material Event" means any of the following events with respect to the Bonds, whether relating to the Issuer or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to rights of security holders;
- (viii) bond calls (except in the case of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms under which the redemption is to occur are set forth in detail in the Official Statement and the only open issue is which Bonds will be redeemed in the case of a partial redemption, provided notice of the redemption is given to the bondholders and the public; see Exchange Act Release No. 23856, Dec. 3, 1986);
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities; and
- (xi) rating changes.

"Material Event Notice" means written or electronic notice of a Material Event.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to § 15B(b)(1) of the Securities Exchange Act of 1934.

"NRMSIR" shall mean any nationally recognized municipal securities information repository, as such term is used in the Release.

"Official Statement" means the "final official statement", as defined in paragraph (f)(3) of the Rule, relating to the Bonds.

"Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, § 240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof.

"Release" means Securities and Exchange Commission Release No. 34-34961.

"SEC" means the United States Securities and Exchange Commission.

"SID" means the state information depository, as such term is used in the Release, if and when a SID is created for the State. As of the date of this Agreement, there is no SID in the State.

"State" means the Commonwealth of Kentucky.

"Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

## ARTICLE V

### MISCELLANEOUS

Section 5.1. Duties, Immunities and Liabilities of Trustee. Article V of the Resolution is hereby made applicable to this Agreement as if this Agreement were (solely for this purpose) contained in the Resolution.

Section 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives, all as of the date first above written.

**WESTERN KENTUCKY UNIVERSITY**

By: \_\_\_\_\_  
Chair

**BRANCH BANKING AND TRUST  
COMPANY, as Trustee**

By: \_\_\_\_\_

Title: \_\_\_\_\_

25363\4

## OFFICIAL TERMS AND CONDITIONS OF BOND SALE

Re: Western Kentucky University Consolidated Educational Buildings Refunding Revenue Bonds, Series O, dated July 1, 2003, in the principal amount of \$9,850,000\*

The Treasurer and the Executive Committee of the Board of Regents of Western Kentucky University, Bowling Green, Kentucky (the "Board") will until July 8, 2003, at 10:30 A.M., C.D.T., receive in the office of Chief Financial Officer and Treasurer, Western Kentucky University, WAB 311, 1 Big Red Way, Bowling Green, Kentucky 42101, sealed, competitive bids for the purchase of the above-identified Bonds (the "Series O Bonds"). To be considered, a bid for the purchase of said Bonds must be submitted on an Official Bid Form and must be delivered to such office no later than the date and hour indicated. Electronic bids may also be received via PARITY, as described below. Proposals for the purchase of the Bonds will be considered by the Executive Committee of the Board at its meeting on July 8, 2003 and referred to the Board for action at a meeting to be held on that date.

### DESCRIPTION AND MATURITIES OF BONDS

The Series O Bonds will be issued only as fully registered bonds in the denomination of \$5,000 principal amount or any multiple of \$5,000 within a single maturity (as designated by the Purchasers), will bear interest payable semiannually on May 1 and November 1 of each year to maturity (first interest payment date, November 1, 2003), and will mature on the dates and in the principal amounts, as follows:

<u>Maturity Date</u>	<u>Principal Amount*</u>	<u>Maturity Date</u>	<u>Principal Amount*</u>
May 1		May 1	
2004	\$1,360,000	2008	\$1,425,000
2005	1,330,000	2009	1,465,000
2006	1,360,000	2010	1,520,000
2007	1,390,000		

\*The principal maturities are subject to change as provided in the Series O Resolution pursuant to which the Series O Bonds will be issued.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series O Bonds. The Series O Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series O Bond certificate will be issued for each maturity of the Series O Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

Purchases of the Series O Bonds under the DTC system must be made by or through securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (the "Direct Participants"), which will receive a credit for the Series O Bonds on DTC's records. The ownership interest of each actual purchaser of each Series O Bond (a "Beneficial Owner") is in turn to be recorded on the records of Direct Participants or securities

brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant (the "Indirect Participants"). Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series O Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series O Bonds, except in the event that use of the book-entry system for the Series O Bonds is discontinued.

The Series O Bonds shall be lettered and numbered from R-1 upward, or such numbering shall be made in such other appropriate manner as may be determined by Branch Banking and Trust Company, Wilson, North Carolina, the Trustee, Bond Registrar, Transfer Agent, Payee Bank and Depository Bank.

The person in whose name any Series O Bond is registered on the Record Date (April 15 or October 15) with respect to an interest payment date shall be entitled to receive the interest payable on such interest payment date.

The Series O Bonds are not subject to optional redemption prior to their maturities.

#### AUTHORITY AND PURPOSE OF BONDS

These Bonds are issued in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky including Sections 162.340-162.380, and 58.010-58.140 of the Kentucky Revised Statutes, and under and pursuant to the terms of a Resolution adopted by the Board of Regents of the University (the "Board") on August 15, 1960, supplemented on July 28, 1971 (the "Resolution") and the Series O Resolution adopted by the Board on May 9, 2003, authorizing these Bonds (the "Series O Resolution"), being issued for the purpose of (i) refunding the outstanding Western Kentucky University Consolidated Educational Buildings through the deposit in escrow of sufficient funds to redeem such Bonds on November 1, 2003, at a redemption price equal to the principal amount thereof and (ii) paying the costs of issuing the Series O Bonds.

#### SECURITY

These Series O Bonds, together with all outstanding bonds issued for the Consolidated Educational Buildings Project, as defined in the Resolution, and any additional parity bonds which may hereafter be issued and outstanding under the terms of the Resolution and any subsequent Resolutions, are and will be payable from and will constitute a pledge, charge and lien upon the Revenues (student registration fees) to be derived by the University from the operation of its Consolidated Educational Buildings Project. The Consolidated Educational Buildings Project is described generally as all of the educational buildings and appurtenant facilities of the University at Bowling Green, Kentucky.

As further security for the Bonds, a statutory mortgage lien upon the Project is created and granted by the Series O Resolution pursuant to Sections 162.350 and 162.200 of the



Kentucky Revised Statutes, in favor of the Series O Bonds and all parity bonds, including those heretofore issued and those hereafter issued.

### BIDDING CONDITIONS AND RESTRICTIONS

The Public offering of the Series O Bonds is made up on the following specific conditions and provisions:

A. A minimum price is required for the entire issue of not less than \$9,776,125 (99.25% of par), plus accrued interest from the date of the Bonds (July 1, 2003) to the date of delivery, payable in Federal Funds.

B. The successful bidder will be required to deposit, with Branch Banking and Trust Company, Wilson, North Carolina, by federal wire transfer, ABA No. 053101121, the amount of 2% of the par amount of Bonds awarded, representing the good faith deposit, by the close of business on July 9, 2003. The amount of the good faith deposit, without interest, will be deducted from the purchase price at the time of delivery of the Series O Bonds.

C. The determination of the best bid will be made on the basis of the lowest net interest cost calculated by computing the total interest payable on the Bonds from July 1, 2003, through the Final Maturity Date, plus discount or less premium, as set forth in the Official Bid Form, for exactly \$9,850,000 of Series O Bonds under the terms and conditions therein specified. Upon determination of the lowest net interest cost, the Board shall immediately proceed to adjust such principal amounts of the Series O Bonds to determine the maturities of its final bond issue. The successful bidder will be required to accept the final bond issue as so computed, whether the principal amount has been increased or decreased by up to \$150,000, and to pay the percentage purchase price based upon the aggregate amount of the final bond issue.

D. Bidders must state an interest rate or rates in multiples of 1/8, 1/10 or 1/20 of 1%, or both.

E. There is no limit on the number of different rates which may be specified in any bid.

F. All Bonds of the same maturity shall bear the same and a single interest rate from the date thereof to maturity.

G. Interest rates must be on an ascending scale, in that the interest rate for Bonds of any maturity may not be less than the interest rate stipulated for any preceding maturity.

H. Bidders may require that a portion of the Series O Bonds be term bonds maturing on one or more dates (the "Term Bonds"); provided, however, that such Term Bonds will be subject to mandatory redemption by lot at a redemption price of 100% of the principal amount thereof plus accrued interest to the date of redemption on May 1 of the years and in the principal amounts set forth in the maturity schedule above.

I. The right to reject bids for any reason deemed advisable by the Executive Committee of the Board and the right to waive any possible informalities, irregularities, or defects in any bid which, in the judgment of the Executive Committee of the Board, with the advice of the Financial Advisor, shall be minor or immaterial, is expressly reserved.

J. Bids must be made on forms which, together with a Preliminary Official Statement, may be obtained from the Financial Advisor, First Kentucky Securities Corporation, 305 Ann Street, Suite 400, Frankfort, Kentucky 40602 or P.O. Box 554, Frankfort, Kentucky 40602, Attention Mr. R. Strand Kramer, Jr. (502) 875-4611. Bids must be enclosed in sealed envelopes marked "Bid for Western Kentucky University Consolidated Educational Buildings Refunding Revenue Bonds, Series O, dated July 1, 2003," and bids must be received by the Treasurer prior to the date and hour set for the sale. It is also possible to submit a bid by the delivery (including by facsimile) of a signed bid form to the Financial Advisor or University officials prior to the sale and completing the bid by telephone prior to the deadline for submitting bids. Bids may alternatively be submitted electronically via PARITY. For further information about PARITY, potential bidders may contact the Financial Advisor or Dalcomp at 40 West 23rd Street, 5th Floor, New York, NY 10010, tel: (212) 404-8102.

K. The purchasers of the Bonds shall pay the CUSIP Service Bureau charge for the assignment of CUSIP numbers, which numbers will be printed on the Bonds at no expense or cost to the purchasers. Neither the failure to print a CUSIP number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the purchasers thereof to accept delivery of and pay for the Bonds.

L. Delivery will be made at the Depository Trust Company, New York, New York, at no additional cost or expense to the purchasers. The Board will pay for the printing of the Bonds, which will contain the opinion of Bond Counsel. Delivery is expected on August 5, 2003.

M. Upon wrongful refusal of the purchasers to take delivery of and pay for the Bonds in Federal Funds when tendered for delivery, the good faith deposit shall be forfeited by such purchasers, and such amount shall be deemed liquidated damages for such default; provided, however, if the Bonds are not ready for delivery and payment within forty-five (45) days from the date of sale herein provided for, said purchasers shall be relieved of any liability to accept the Bonds hereunder. However, it is contemplated that the Bonds will be delivered on a date during such period as may be designated by representatives of the Board, and the purchasers will be required to accept delivery of and pay for the Bonds on any designated date within such 45 day period upon notice being given at least five (5) business day prior to the designated delivery date.

N. If the successful bidder desires to obtain insurance guaranteeing the payment of the principal and/or interest on the Bonds, the University agrees that it will cooperate with the successful bidder in obtaining such insurance, but all of the expenses and charges in connection therewith shall be borne by such bidder and the University shall not be liable to any extent therefor. The University has applied for a rating on the

Series O Bonds from Moody's Investors Service, Inc. and Standard & Poor's Credit Markets Services, a division of The McGraw-Hill Companies, Inc. and will pay the fees associated therewith.

O. The successful bidder shall promptly advise the Financial Advisor to the Board of Regents of (i) the reoffering price for each maturity of the Series O Bonds, and (ii) the principal amount sold to the public of each principal maturity of the Series O Bonds on the reoffering date.

P. Bidders are advised that First Kentucky Securities Corporation, of Frankfort, Kentucky, has been employed as Financial Advisor in connection with the issuance of these Series O Bonds. Their fee for services rendered with respect to the sale of the Series O Bonds is contingent upon the issuance and delivery of the Series O Bonds. They may submit a bid for the purchase of the Series O Bonds at the time of the advertised public sale of the Series O Bonds, either individually or as members of a syndicate organized to submit a bid for the purchase of the Series O Bonds.

The Board of Regents has agreed in the Series O Resolution to provide or cause to be provided, in accordance with the requirements of Rule 15c2-12, as amended and interpreted from time to time (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), (i) on or prior to 270 days after the end of each fiscal year, certain annual financial information and operating data, including audited financial statements for the preceding fiscal year, generally consistent with the information contained in the Official Statement, and (ii) timely notice of the occurrence of certain material events with respect to the Series O Bonds.

The purchaser's obligation to purchase the Series O Bonds shall be conditioned upon its receiving, at or prior to the delivery of the Series O Bonds, in form and substance reasonably satisfactory to the purchaser, evidence that the Board of Regents has made the limited continuing disclosure undertaking set forth above for the benefit of the holders of the Series O Bonds.

The Board of Regents shall provide to the successful purchaser a final Official Statement in accordance with the Rule. Arrangements have been made with the printer, upon submission of completion text, to print a reasonable quantity of final Official Statements in sufficient time to meet the delivery requirements of the successful bidder under SEC or Municipal Securities Rulemaking Board Delivery Requirements, which Official Statements will be provided at the expense of the Board.

The Board of Regents will furnish to the purchasers the customary No Litigation Certificate and the final, approving Legal Opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, without expense to the purchasers.

Concurrently with the delivery of the Series O Bonds, the Treasurer of the Board of Regents will certify that, to the best of his knowledge, the Official Statement did not, as of its date, and does not, as of the date of delivery of the Bonds, contain any untrue statement of a material fact or omit to state a material fact which should be included therein for the purpose for which the Official Statement is to be used, or which is necessary in order to make the statements

contained therein, in the light of the circumstances under which they were made, not misleading in any material respect.

### TAX EXEMPTION

In the opinion of Bond Counsel for the Series O Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series O Bonds is excludable from gross income for Federal income tax purposes and interest on the Series O Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Series O Bonds. The University has covenanted to comply with certain restrictions designed to ensure that interest on the Series O Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Series O Bonds being includable in gross income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Series O Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series O Bonds may adversely affect the tax status of the interest on the Series O Bonds.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series O Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series O Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Series O Bonds has rendered an opinion that interest on the Series O Bonds is excludable from gross income for Federal income tax purposes and that interest on all Series O Bonds is excludable from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series O Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Series O Bonds on the tax liabilities of the individual or entity.

For example, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Similarly, tax-exempt interest may also increase the amount of any environmental tax owed under Section 59 of the Code, which is based on the alternative minimum taxable income of any corporation subject to that tax. Ownership or disposition of the

Series O Bonds may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, and increasing the federal tax liability of certain individual recipients of social security or Railroad Retirement benefits, under Section 86 of the Code. Ownership of any Series O Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Series O Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Series O Bonds.

**The University has NOT designated the Series O Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.**

The Board reserves the right to amend the Resolution authorizing the Series O Bonds without obtaining the consent of the owners of the Series O Bonds (i) to whatever extent shall, in the opinion of Bond Counsel, be deemed necessary to assure that interest on the Series O Bonds shall be exempt from Federal income taxation, and (ii) to whatever extent shall be permissible (without jeopardizing such tax exemption or the security of the owners of the Series O Bonds) to eliminate or reduce any restrictions concerning the project financed by the Series O Bonds, the investment of the proceeds of the Series O Bonds, or the application of such proceeds or of the revenues of the project financed by the Series O Bonds. The purchasers of the Series O Bonds will be deemed to have relied fully upon these covenants and undertakings on the part of the Board as part of the consideration for the purchase of the Series O Bonds. To the extent that the Board obtains an opinion of nationally recognized bond counsel to the effect that non-compliance with any of the covenants contained in the Resolution authorizing the Series O Bonds would not subject interest on the Series O Bonds to Federal income taxation or Kentucky income taxation, the Board is not required to comply with such covenants and requirements.

If, prior to the delivery of the Series O Bonds, any event shall occur which alters the tax-exempt status of the Series O Bonds, the purchaser shall have the privilege of voiding the purchase contract by giving immediate written notice to the Board of Regents, whereupon the amount of the good faith deposit of the purchaser will be returned to the purchaser, and all respective obligations of the parties will be terminated.

Bond Counsel has reviewed the Official Statement with regard to all matters pertaining to the legality and tax exemption of the Series O Bonds, including statements concerning the Board and the purpose and security of the Series O Bonds; but Bond Counsel has not reviewed any of the financial statements or other financial information in the Official Statement, and expresses no opinion thereon and assumes no responsibility in connection therewith.

/s/ Elizabeth W. Esters  
Secretary, Board of Regents,  
Western Kentucky University

**OFFICIAL BID FORM**

\$9,850,000\*

WESTERN KENTUCKY UNIVERSITY  
CONSOLIDATED EDUCATIONAL BUILDINGS REFUNDING REVENUE BONDS  
SERIES O  
DATED JULY 1, 2003

Subject to the terms and conditions set forth in the Official Terms and Conditions of Sale of Bonds, providing for the sale of \$9,850,000\* of Western Kentucky University Consolidated Educational Buildings Refunding Revenue Bonds, Series O, dated July 1, 2003 (the "Bonds"), and in accordance with the notice of sale of the Bonds as advertised, to all of which the undersigned agrees, the undersigned hereby submits the following offer to purchase the Bonds.

We hereby bid for said \$9,850,000 principal amount of Bonds the sum of \$\_\_\_\_\_ (not less than \$9,776,125), plus accrued interest from July 1, 2003, to the date of delivery, at the following annual interest rates:

SCHEDULE OF PRINCIPAL AMOUNTS AND INTEREST RATES

<u>Maturity</u> <u>May 1</u>	<u>Principal</u> <u>Amount</u>	<u>Serial Bond</u> <u>Rate</u>	<u>Term*</u> <u>Bond</u> <u>Rate</u>	<u>Maturity</u> <u>May 1</u>	<u>Principal</u> <u>Amount</u>	<u>Serial Bond</u> <u>Rate</u>	<u>Term*</u> <u>Bond</u> <u>Rate</u>
2004	\$1,360,000	_____	_____	2008	\$1,425,000	_____	_____
2005	1,330,000	_____	_____	2009	1,465,000	_____	_____
2006	1,360,000	_____	_____	2010	1,520,000	_____	_____
2007	1,390,000	_____	_____				

\* Bidders may elect to structure the maturities to include term bonds with mandatory sinking fund redemptions. To bid Term Bonds, put interest rate in Term Bond Rate column.

We understand that this bid may be accepted for as much as \$10,000,000 of Bonds and for as little as \$9,700,000 of Bonds, at the same price per \$1,000 of Bonds as the price bid per \$1,000 of Bonds by the undersigned with the variation in such amount being adjusted as determined by the Board of Regents at the time of acceptance of the best bid.

We understand that the Board of Regents will furnish the final, approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky. We agree that if we are the successful bidder, immediately available funds in the amount of 2% of the par amount of Bonds awarded, payable to the Western Kentucky University, will be deposited in Branch Banking and Trust Company, Wilson, North Carolina, by federal wire transfer, ABA No. 053101121, prior to the end of the business day on July 8, 2003, in accordance with the Notice of Bond Sale and the Official Terms, with the understanding that the amount thereof, without interest, will be deducted from the purchase price of the Bonds when tendered to us for delivery. If we are the successful bidder, we agree to accept and make payment for the Bonds in accordance with the terms of sale.

Respectfully submitted,

\_\_\_\_\_

By \_\_\_\_\_

Title \_\_\_\_\_

Total interest cost from July 1, 2003,  
to final maturity  
Less premium bid or plus discount, if any  
Net interest cost  
Net interest cost (%)

\$ \_\_\_\_\_  
\$ \_\_\_\_\_  
\$ \_\_\_\_\_  
\_\_\_\_\_

The above computations of net interest cost and of average interest rate or cost, submitted for information only and are not part of this Bid.

ACCEPTANCE OF BID WITH ADJUSTMENT OF MATURITY AMOUNTS

Accepted by the Board of Regents of Western Kentucky University, with the change in maturities of Bonds being as follows:

<u>Maturity</u> <u>May 1</u>	<u>Principal</u> <u>Amount</u>	<u>Maturity</u> <u>May 1</u>	<u>Principal</u> <u>Amount</u>
2004	_____	2008	_____
2005	_____	2009	_____
2006	_____	2010	_____
2007	_____		

Accepted this \_\_\_ day of \_\_\_\_\_, 2003.

**BOARD OF REGENTS OF WESTERN  
KENTUCKY UNIVERSITY**

By \_\_\_\_\_  
Chairman