

**WESTERN GOVERNORS UNIVERSITY**  
**CONSOLIDATED FINANCIAL STATEMENTS**

For years ended June 30, 2010 and 2009



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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees

### **WESTERN GOVERNORS UNIVERSITY**

We have audited the accompanying consolidated statements of financial position of Western Governors University as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of management of Western Governors University. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Western Governors University as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2010, on our consideration of Western Governors University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Western Governors University taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

*Mayer Hoffman McCann P.C.*

Salt Lake City, Utah  
December 10, 2010

**WESTERN GOVERNORS UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

June 30, 2010 and 2009

<b>ASSETS</b>	June 30,	
	2010	2009
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 17,855,705	\$ 14,586,711
Student accounts receivable, net of allowance for doubtful accounts (2010, \$2,144,849; 2009, \$1,797,220)	7,258,983	1,676,796
Contributions receivable, net	32,228	84,041
Grants receivable	250,000	-
Other receivables	170,000	-
Investments, at fair value	18,126,951	13,678,383
Prepaid expenses and other assets	145,921	498,637
<b>TOTAL CURRENT ASSETS</b>	<b>43,839,788</b>	<b>30,524,568</b>
INVESTMENTS, at fair value	19,372,250	11,061,623
LONG-TERM CONTRIBUTIONS RECEIVABLE, net	144,650	176,878
PROPERTY AND EQUIPMENT, net	1,781,908	1,609,760
INFORMATION SYSTEMS, net	908,413	476,640
<b>TOTAL ASSETS</b>	<b>\$ 66,047,009</b>	<b>\$ 43,849,469</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 5,085,233	\$ 4,141,178
Accrued expenses	7,323,099	4,406,367
Deferred tuition and student deposits	24,161,437	16,707,449
Refundable advances	1,421,437	801,861
<b>TOTAL CURRENT LIABILITIES</b>	<b>37,991,206</b>	<b>26,056,855</b>
OTHER LONG-TERM LIABILITIES	614,684	628,424
<b>TOTAL LIABILITIES</b>	<b>38,605,890</b>	<b>26,685,279</b>
<b>NET ASSETS</b>		
Unrestricted	27,145,209	16,835,581
Temporarily restricted	245,910	278,609
Permanently restricted	50,000	50,000
<b>TOTAL NET ASSETS</b>	<b>27,441,119</b>	<b>17,164,190</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 66,047,009</b>	<b>\$ 43,849,469</b>

See Notes to Financial Statements

**WESTERN GOVERNORS UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

Years ended June 30, 2010 and 2009

	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>UNRESTRICTED REVENUES, SUPPORT AND GAINS</b>		
Tuition and fees	\$ 109,044,778	\$ 77,622,829
Less: Tuition from scholarships and waivers	<u>(3,144,227)</u>	<u>(2,574,759)</u>
Tuition and fees, net	<u>105,900,551</u>	<u>75,048,070</u>
Federal grants	1,751,359	1,381,873
Contributions and grants	1,837,698	892,148
In-kind donations	187,801	-
Return on investments	1,081,928	138,768
Gain on sale of property and equipment	400	1,668
Other income	1,909	23,864
Total support and gains	<u>4,861,095</u>	<u>2,438,321</u>
<b>TOTAL UNRESTRICTED REVENUES, SUPPORT AND GAINS</b>	<u>110,761,646</u>	<u>77,486,391</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>218,563</u>	<u>129,426</u>
<b>TOTAL UNRESTRICTED REVENUES, SUPPORT, GAINS AND NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>110,980,209</u>	<u>77,615,817</u>
<b>EXPENSES</b>		
Academic services	62,770,801	45,323,573
Information systems	8,858,307	5,786,391
Institutional support	8,690,779	7,468,352
Marketing	20,350,694	14,249,642
<b>TOTAL EXPENSES</b>	<u>100,670,581</u>	<u>72,827,958</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	10,309,628	4,787,859
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>16,835,581</u>	<u>12,047,722</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 27,145,209</u>	<u>\$ 16,835,581</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
<b>TEMPORARILY RESTRICTED SUPPORT AND GAINS</b>		
Loss on investments	\$ (24,536)	\$ (34,310)
Contributions	210,400	121,426
Net assets released from restrictions	<u>(218,563)</u>	<u>(129,426)</u>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	(32,699)	(42,310)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>278,609</u>	<u>320,919</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 245,910</u>	<u>\$ 278,609</u>

See Notes to Financial Statements

**WESTERN GOVERNORS UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2010 and 2009

	June 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 10,276,929	\$ 4,745,549
Adjustments to reconcile increase in net assets to cash from operating activities:		
Depreciation	1,068,034	910,146
Amortization	407,684	370,530
Decrease in discount on contributions receivable	(4,985)	(5,046)
Return on investments	(1,057,392)	104,458
Gain on sale of property and equipment	(400)	(1,668)
Increase in allowance for doubtful accounts	347,629	730,107
Decrease (increase) in operating assets:		
Student accounts receivable, net	(5,929,816)	1,608,084
Contributions receivable, net	89,026	22,406
Grants receivable	(250,000)	-
Other receivables	(170,000)	-
Prepaid expenses and other assets	352,716	(111,388)
Increase (decrease) in operating liabilities:		
Accounts payable	944,055	478,324
Accrued expenses	2,916,732	(1,567,931)
Deferred tuition and student deposits	7,453,988	5,706,378
Refundable advances	619,576	801,861
Other long-term liabilities	(13,740)	33,121
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>17,050,036</b>	<b>13,824,931</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(25,140,895)	(22,846,245)
Sale of investments	13,439,092	9,930,109
Purchase of property and equipment	(1,242,442)	(789,009)
Sale of property and equipment	2,660	22,510
Purchase of information systems	(839,457)	(277,295)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(13,781,042)</b>	<b>(13,959,930)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,268,994</b>	<b>(134,999)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>14,586,711</b>	<b>14,721,710</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 17,855,705</b>	<b>\$ 14,586,711</b>

See Notes to Financial Statements

# WESTERN GOVERNORS UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (1) Summary of significant accounting policies

**Principles of consolidation** – The accompanying consolidated financial statements include the accounts of Western Governors University and WGU Indiana, Inc. (collectively “the University”). All significant intercompany balances and transactions between Western Governors University and WGU Indiana, Inc. have been eliminated in the consolidation.

**Nature of operations** – Western Governors University is a non-profit corporation located in Salt Lake City, Utah, founded in 1997 by various governors of the western United States, committed to improving quality and expanding access to post-secondary educational opportunities. The University is an online, competency-based, degree-granting institution that delivers its programs using the Internet and other advanced telecommunications and networking technologies. The University is accredited by the Northwest Commission on Colleges and Universities, and the Accrediting Commission of the Distance Education Training Council. The University’s Teacher College is also accredited by The National Council for Accreditation of Teacher Education. The University’s mission is to improve quality of and expand access to postsecondary educational opportunities by providing a means for individuals to learn, independent of time or place, and to earn competency-based degrees and other credentials that are credible to both academic institutions and employers. WGU Indiana, Inc. was organized on June 11, 2010 as an Indiana nonprofit corporation with the purpose of operating and administering an organization of higher learning. Western Governors University is the sole member.

**Basis of presentation** – The accompanying consolidated financial statements have been prepared using the accrual method of accounting and follow U.S. generally accepted accounting principles and report information regarding the consolidated financial position and activities of the University according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets. Classification of restricted net assets is determined by the nature of any donor imposed restrictions.

**Unrestricted net assets** - are those not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the University or may otherwise be limited by contractual agreements with outside parties.

**Temporarily restricted net assets** - carry specific donor-imposed restrictions on the expenditure or other use of the contributed funds. Temporary restrictions may expire either due to the passage of time or through actions of the University pursuant to stipulations indicated by the donor.

**Permanently restricted net assets** - include gifts of cash and other assets that are required to be retained permanently by the University. Generally the donors of these assets permit the University to use all or part of the investment return on these assets.

Expenses are reported as decreases in unrestricted net assets. Expiration of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported in the statement of activities as net assets released from restrictions.

## WESTERN GOVERNORS UNIVERSITY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### ( 1 ) Summary of significant accounting policies (continued)

**Use of estimates** – The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents** – The University considers all money market funds and highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

**Student accounts receivable** – Student accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The University provides for losses on student accounts receivable using the allowance method which is based on past experience of payments received. According to the University's policy, student accounts receivable are considered past due if the payment is not collected by the beginning of each term unless students sign up for the installment plan. Students on the installment plan are required to pay their tuition by a specified due date. Any amounts not paid by the due date are considered past due. It is the University's policy to charge off uncollectible student accounts receivable when management determines the receivable will not be collected.

**Contributions receivable** – Unconditional contributions are recognized as revenues in the period the donor's commitment is made. Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk adjusted rate applicable to the commitments received. Amortization of the discounts is included in contribution revenue. Conditional pledges are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair values.

Contributions of long-lived assets without donor stipulations concerning the use of such assets are reported as revenue of the unrestricted net asset class. Contributions of cash or other assets with donor stipulations to be used to acquire long-lived assets are reported as revenues of the temporarily restricted net asset class until the acquisition of such assets, at which time the restrictions are considered to be released.

All contributions are available for unrestricted use unless specifically restricted by the donor. Restricted contributions received from donors are reported as temporarily restricted or permanently restricted support and as an increase in the respective net asset class. Allowance is made for uncollectible contributions receivable based upon the University's judgment and analysis of past collection experience and other relevant factors.

# WESTERN GOVERNORS UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### ( 1 ) Summary of significant accounting policies (continued)

**Investments** – Investments are initially recorded at their acquisition cost if they are purchased and at estimated fair value if they were received as a contribution. Subsequent to acquisition, all debt and equity securities are valued and reported at their fair value. Return on investments is reported on the statement of activities and consists of interest and dividend income on investments and unrealized and realized gains and losses. Fair value is determined on the following basis: *equity and fixed-income investments* – including corporate securities, index funds, and corporate notes and bonds are valued at the last sale price (if quotations are readily available) or at the closing bid price in the principal market in which such securities are normally traded (if no sale price is available).

The estimated fair value of certain alternative investments such as funds of funds – limited partnerships is based on valuations provided by the external investment managers as of June 30, 2010. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

The University maintains accounts with several brokerage firms. The accounts contain cash and securities. The University's investments in securities are exposed to various risks, such as interest rate, credit, company, and overall market volatility. Due to the level of risk associated with these investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the University's consolidated financial statements.

**Property and equipment** – The University capitalizes all expenditures for property and equipment for which the cost exceeds \$5,000 and has a useful life of more than one year. Donated property and equipment is recorded at fair value on the date of donation. Depreciation and amortization are computed on the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives</u>
Computers	2 years
Equipment	5 years
Furniture and fixtures	5 years
Leasehold improvements	Lesser of remaining life of the lease or 15 years
Buildings	12 years

**Information systems** – The University capitalizes internally developed software costs associated with its Student Information System. Capitalized costs include direct costs of materials, services consumed and payroll related costs for employees directly associated with the project. Maintenance and minor upgrades or enhancements are expensed as incurred. The University also purchases software and software licenses which are capitalized at cost. Software is amortized using the straight-line method over four years.

## WESTERN GOVERNORS UNIVERSITY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### (1) Summary of significant accounting policies (continued)

**Long lived assets** – Long lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable in accordance with the Financial Accounting Standards Board Accounting Standards Codification 380, (“ASC 380”, formerly known as Statement of Financial Accounting Standard (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*). When such events or changes in circumstances indicate that an asset may not be recoverable, an impairment loss is required to be recognized in an amount by which the asset’s net book value exceeds its estimated fair value. No impairment loss was recorded for the years ended June 30, 2010 and 2009.

**Refundable advances** – The University has been awarded various grants from private foundations and the federal government. Unspent amounts may be subject to return at the request of the grantor. Revenue will be recognized as the University incurs expenses related to the various grants.

**Fair value of financial instruments** – The University’s significant financial instruments are cash and cash equivalents, receivables, other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

**Revenue recognition and deferred tuition** – Deferred tuition is recorded when students are billed and revenue is recognized as income in the period in which the education services are provided.

**Federal grants** – Government grants normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with direct and indirect costs as they are incurred.

**Expense allocation** – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. All direct costs are charged to the related functional area. Indirect costs are charged to programs and supporting services based on estimates made by management taking into account the nature of the expense and how it relates to the functional area. General and administrative costs include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the University.

**In-kind contributions** – In-kind contributions are recorded as revenue and expense in the accompanying financial statements. These contributions consist of equipment, services and office space all of which are recorded at their estimated fair values.

**Advertising costs** – Advertising costs are charged to operations when incurred. Advertising expense was approximately \$2,742,269 and \$1,146,009 for the years ended June 30, 2010 and 2009, respectively.

**Income taxes** – The University qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is generally exempt from federal and state income taxes, except for taxes on income from activities unrelated to its exempt purpose. The University has no tax positions taken, or expected to be taken, in a tax return that do not meet the “more-likely than-not” criteria. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

# WESTERN GOVERNORS UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (1) Summary of significant accounting policies (continued)

**Subsequent event** – The University has reviewed and evaluated material subsequent events from the balance sheet date of June 30, 2010 through the consolidated financial statements issue date of December 10, 2010. All appropriate subsequent event disclosures, if any, have been made in the notes to the consolidated financial statements.

**Reclassification** – Certain items in the 2009 financial statements have been reclassified to conform to the 2010 presentation.

**Fair Value Measurements - Definition and Hierarchy** – In accordance with the provisions of FASB ASC 820 (“ASC 820”, formerly known as Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements*), fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the University uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the University. Unobservable inputs are inputs that reflect the University’s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

**Level 1**—Valuations based on quoted prices in active markets for identical assets or liabilities that the University has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

**Level 2**—Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3**—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the University in determining fair value is greatest for instruments categorized in Level 3.

## WESTERN GOVERNORS UNIVERSITY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### ( 1 ) Summary of significant accounting policies (continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the University's own assumptions are set to reflect those that the University believes market participants would use in pricing the asset or liability at the measurement date.

See Note 5 for a description of valuation techniques applied to the major categories of financial instruments measured at fair value.

**New accounting pronouncements adopted** – The following accounting pronouncements were recently issued by the Financial Accounting Standards Board ("FASB") and adopted by the University.

The FASB recognized the complexity of its standard-setting process and embarked on a revised process in 2004 that culminated in the release on July 1, 2009, of the FASB Accounting Standards Codification TM ("FASB ASC"), which is also sometimes referred to as the Codification or ASC. The ASC is the single official source of authoritative, nongovernmental generally accepted accounting principles ("GAAP"), other than guidance issued by the SEC. The Codification does not change how the University accounts for its transactions or the nature of related disclosures made.

References to GAAP issued by the FASB, included within the notes to the consolidated financial statements are references to the Codification. The FASB finalized the Codification effective for periods ending on or after September 15, 2009.

In 2010, the University adopted the FASB ASC. All references to the ASC are structured by Topic, Subtopic, Section and Paragraph. For example, XXX-YY-ZZ-PP, where XXX is the Topic, YY is the Subtopic, ZZ is the Section, and PP is the Paragraph. The adoption of the ASC did not have any impact on the consolidated financial statements included herein.

FASB ASC 825, *Financial Instruments*, ("ASC 825"), ASC 825-10-65, *Transition and Open Effective Date Information*, ("ASC 825-10-65" and formerly referred to as FSP FAS No. 107-1 and APB Opinion No. 28-1), requires disclosures about fair value of financial instruments in the consolidated financial statements. ASC 825-10-65 is effective prospectively for periods ending after June 15, 2009. The adoption did not have a material impact on the consolidated financial statements.

FASB ASC 855, *Subsequent Events*, ("ASC 855" and formerly referred to as SFAS No. 165), modified the subsequent event guidance.

## WESTERN GOVERNORS UNIVERSITY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### (1) Summary of significant accounting policies (continued)

The three modifications to the subsequent events guidance are: 1) To name the two types of subsequent events either as recognized or non-recognized subsequent events, 2) To modify the definition of subsequent events to refer to events or transactions that occur after the balance sheet date, but before the consolidated financial statements are issued or available to be issued and 3) To require entities to disclose the date through which an entity has evaluated subsequent events and the basis for that date, i.e. whether that date represents the date the consolidated financial statements were issued or were available to be issued. This guidance is effective for financial periods ending after June 15, 2009, and should be applied prospectively. The adoption did not have a material impact on the consolidated financial statements.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05 ("ASU 2009-05"), an update to FASB ASC 820, *Fair Value Measurements and Disclosures*. This update provides amendments to reduce potential ambiguity in financial reporting when measuring the fair value of liabilities. Among other provisions, this update provides clarification that in circumstances, in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the valuation techniques described in ASC Update 2009-05. ASC Update 2009-05 became effective for the University's consolidated financial statements for the year ended June 30, 2010. The adoption did not have a material impact on the consolidated financial statements.

The University adopted the provisions of FASB ASC 740-10-25, *Accounting for Uncertainty in Income Taxes* ("FASB ASC 740-10-25" formerly FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*) on July 1, 2009. ASC 740-10-25 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of ASC 740-10-25 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The implementation of ASC 740-10-25 had no impact on the University's financial statements. The University does not believe there are any material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits. No interest or penalties were accrued as of the July 1, 2009, as a result of the adoption of ASC 740-10-25. For the year ended June 30, 2010 there were no interest or penalties recorded or included in its financial statements.

**Recent accounting pronouncements not yet adopted** – In January 2010, the FASB issued an update ASU 2010-06, *Fair Value Measurements and Disclosures* (ASU 2010-06). ASU 2010-06 updates FASB ASC 820, *Fair Value Measurements* (ASC 820). ASU 2010-06 requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements should be presented separately. ASU 2010-06 is effective for periods beginning after December 15, 2010.

**WESTERN GOVERNORS UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**( 1 ) Summary of significant accounting policies (continued)**

The adoption of ASU 2010-06 is not expected to have a material impact on the consolidated financial statements of the University.

**( 2 ) Contributions receivable**

Contributions receivable consist of the following amounts:

	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
Contributions receivable to be collected in:		
Less than one year	\$ 32,228	\$ 84,401
Between one and five years	161,138	161,138
Greater than five years	16,114	53,327
Less: discount on contributions receivable	(32,602)	(37,587)
	176,878	261,279
Less: current portion	(32,228)	(84,401)
Total long-term contributions receivable	\$ 144,650	\$ 176,878

Contributions receivable expected to be received in more than one year are discounted using risk adjusted rates which are approximately 5 percent.

Included in contributions receivable is an in-kind contribution for the University's building lease which is being recognized on a straight-line basis over the life of the lease. As of the June 30, 2010 and 2009, the amounts recorded in contributions receivable related to this lease were \$176,878 and \$183,919, respectively.

**( 3 ) Property and equipment**

Property and equipment consist of the following:

	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
Property and equipment:		
Computers	\$ 3,610,054	\$ 2,860,270
Equipment	1,168,164	1,153,388
Furniture and fixtures	377,747	377,747
Leasehold improvements	381,207	258,282
Real property and buildings	175,443	175,443
Total cost of property and equipment	5,712,615	4,825,130
Accumulated depreciation	(3,930,707)	(3,215,370)
Total property and equipment	\$ 1,781,908	\$ 1,609,760

Depreciation expense for property and equipment for the years ended June 30, 2010 and 2009 was \$1,068,034 and \$910,146, respectively.

**WESTERN GOVERNORS UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**( 4 ) Information systems**

Information systems consist of the following:

	June 30,	
	2010	2009
Information systems:		
Student information software	\$ 1,361,083	\$ 1,361,083
Software	2,232,299	1,392,842
Catalog	918,887	918,887
Total cost of information systems	4,512,269	3,672,812
Accumulated amortization	(3,603,856)	(3,196,172)
Total information systems	\$ 908,413	\$ 476,640

Amortization expense for information systems for the years ended June 30, 2010 and 2009 was \$407,684 and \$370,530, respectively.

**( 5 ) Investments**

Investments, carried at fair market value, are summarized as follows:

	June 30,	
	2010	2009
Corporate securities	\$ 1,211,805	\$ 359,503
Index/mutual funds	19,068,739	11,137,009
Corporate notes and bonds	7,804,360	12,026,739
US & municipal bonds	7,074,702	-
Mortgage backed securities	395,438	-
Trust preferred securities	348,231	-
Publicly traded partnerships	178,230	-
Alternative investments	1,417,696	1,216,755
Total investments at fair value	\$ 37,499,201	\$ 24,740,006

The following summarizes the return on investments from the statement of activities for the year ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 1,149,334	\$ -	\$ 1,149,334
Net realized and unrealized gains (losses)	91,176	(24,536)	66,640
Management fees	(158,582)	-	(158,582)
Total return on investments	\$ 1,081,928	\$ (24,536)	\$ 1,057,392

**WESTERN GOVERNORS UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**( 5 ) Investments (continued)**

The following summarizes the return on investments from the statement of activities for the year ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 966,877	\$ 2,318	\$ 969,195
Net realized and unrealized losses	(741,630)	(36,628)	(778,258)
Management fees	(86,479)	-	(86,479)
Total return on investments	<u>\$ 138,768</u>	<u>\$ (34,310)</u>	<u>\$ 104,458</u>

The following table sets forth by level, within the fair value hierarchy, the investments at fair value as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate securities	\$ 1,211,805	\$ -	\$ -	\$ 1,211,805
Index/mutual funds	19,068,739	-	-	19,068,739
Corporate notes and bonds	7,804,360	-	-	7,804,360
US & municipal bonds	7,074,702	-	-	7,074,702
Mortgage backed securities	-	395,438	-	395,438
Trust preferred securities	348,231	-	-	348,231
Publicly traded partnerships	178,230	-	-	178,230
Alternative investments	-	-	1,417,696	1,417,696
Total investments at fair value	<u>\$ 35,686,067</u>	<u>\$ 395,438</u>	<u>\$ 1,417,696</u>	<u>\$ 37,499,201</u>

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 investments for the year end June 30, 2010:

	<u>Level 3 Investments</u>
Balance, beginning of year	\$ 1,347,171
Reclassifications to level 1 investments	(209,390)
Unrealized gains relating to instruments held at the reporting date	116,362
Purchases, issuances, and settlements	142,907
Realized gains	20,646
Balance, end of year	<u>\$ 1,417,696</u>

**WESTERN GOVERNORS UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**( 5 ) Investments (continued)**

The following table sets forth by level, within the fair value hierarchy, the investments at fair value as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate securities	\$ 359,503	\$ -	\$ -	\$ 359,503
Index/mutual funds	11,137,009	-	-	11,137,009
Corporate notes and bonds	11,618,960	257,125	150,654	12,026,739
Alternative investments	20,238	-	1,196,517	1,216,755
Total investments at fair value	<u>\$ 23,135,710</u>	<u>\$ 257,125</u>	<u>\$ 1,347,171</u>	<u>\$ 24,740,006</u>

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 investments for the year end June 30, 2010:

	<u>Level 3 Investments</u>
Balance, beginning of year	\$ 1,405,343
Unrealized losses relating to instruments held at the reporting date	(283,417)
Purchases, issuances, and settlements	<u>225,245</u>
Balance, end of year	<u>\$ 1,347,171</u>

**( 6 ) Endowment**

The University's endowment includes donor-restricted endowments. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of relevant law** – The Board of Directors of the University has interpreted the *Uniform Prudent Management of Institutional Funds Act ("UPMIFA")* as adopted by the State as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

**WESTERN GOVERNORS UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**( 6 ) Endowment (continued)**

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the University
- (7) The investment policies of the University

**Return objectives and risk parameters** – The University’s investment portfolio is managed to provide for the long-term support of the University. Accordingly, these funds are managed with disciplined longer-term investment objectives and strategies designed to meet cash flow and spending requirements. Management of the assets is designed to attain the maximum total return consistent with acceptable and agreed upon levels of risk.

**Strategies employed for achieving objectives** – To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets an asset allocation strategy wherein assets are diversified among several asset classes. The pursuit of maximizing total return is tempered by the need to minimize the volatility of returns and preserve capital. As such, the University seeks broad diversification among assets having different characteristics with the intent to endure lower relative performance in strong markets in exchange for greater downside protection in weak markets.

Endowment net asset composition by type of fund as of June 30, 2010:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted	\$ -	\$ 69,032	\$ 50,000	\$ 119,032
Board-designated endowment funds	-	-	-	-
<b>Total endowment net assets</b>	<b>\$ -</b>	<b>\$ 69,032</b>	<b>\$ 50,000</b>	<b>\$ 119,032</b>

**WESTERN GOVERNORS UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**( 6 ) Endowment (continued)**

Change in endowment net assets for 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year, July 1, 2009	\$ -	\$ 44,690	\$ 50,000	\$ 94,690
Investment return:				
Investment income	-	1,684	-	1,684
Net depreciation (realized and unrealized)	-	<u>(26,219)</u>	-	<u>(26,219)</u>
Total investment return	-	<u>(24,535)</u>	-	<u>(24,535)</u>
Contributions	-	54,877	-	54,877
Appropriation of endowment assets for expenditure	-	<u>(6,000)</u>	-	<u>(6,000)</u>
Endowment net assets, end of year, June 30, 2010	<u>\$ -</u>	<u>\$ 69,032</u>	<u>\$ 50,000</u>	<u>\$ 119,032</u>

Endowment net asset composition by type of fund as of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$ 44,690	\$ 50,000	\$ 94,690
Board-designated endowment funds	-	-	-	-
Total endowment net assets	<u>\$ -</u>	<u>\$ 44,690</u>	<u>\$ 50,000</u>	<u>\$ 94,690</u>

Change in endowment net assets for 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year, July 1, 2008	\$ -	\$ 87,000	\$ 50,000	\$ 137,000
Investment return:				
Investment income	-	2,318	-	2,318
Net depreciation (realized and unrealized)	-	<u>(36,628)</u>	-	<u>(36,628)</u>
Total investment return	-	<u>(34,310)</u>	-	<u>(34,310)</u>
Appropriation of endowment assets for expenditure	-	<u>(8,000)</u>	-	<u>(8,000)</u>
Endowment net assets, end of year, June 30, 2009	<u>\$ -</u>	<u>\$ 44,690</u>	<u>\$ 50,000</u>	<u>\$ 94,690</u>

**WESTERN GOVERNORS UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**( 6 ) Endowment (continued)**

Description of amount classified as permanently restricted net assets and temporarily restricted net assets (endowment only) are as follows:

	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
Permanently restricted net assets		
The portion of perpetual endowment funds that is required to be retained permanently either by donor stipulation or by UPMIFA	\$ 50,000	\$ 50,000
Total endowment funds classified as permanently restricted net assets	\$ 50,000	\$ 50,000
Temporary restricted net assets		
The portion of perpetual endowment funds subject to a restriction under UPMIFA:		
With purpose restrictions	\$ 69,032	\$ 44,690
Total endowment funds classified as temporarily restricted net assets	\$ 69,032	\$ 44,690

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires. In accordance with GAAP, deficiencies of this nature would be reported in unrestricted net assets. As of June 30, 2010 and 2009, there were no deficiencies of this nature.

Distributions of endowment funds are approved by the Board of Directors and are made when deemed appropriate.

**( 7 ) Temporarily restricted net assets**

Temporarily restricted net assets are for the following purposes:

	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
Building lease	\$ 176,878	\$ 183,919
Time restricted promises to give	-	50,000
General scholarship program	69,032	44,690
Total temporarily restricted net assets	\$ 245,910	\$ 278,609

**WESTERN GOVERNORS UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**( 7 ) Temporarily restricted net assets (continued)**

Temporarily restricted net assets were released for the following purposes:

	June 30,	
	2010	2009
Scholarships	\$ 211,522	\$ 127,698
Rent	7,041	1,728
	\$ 218,563	\$ 129,426

**( 8 ) Permanently restricted net assets**

Permanently restricted net assets consist of a restricted endowment in which the principal is invested in perpetuity and the income is expendable to provide scholarships.

**( 9 ) Commitments**

The University leases office space under an operating lease agreement with escalating lease payments. During fiscal year ended June 30, 2010, the University expanded its office space and amended the lease agreement, increasing the escalating rent payments. The University is expensing the rent payments on a straight line basis over the life of the lease which ends on December 31, 2016. In addition, the University leases equipment under non-cancelable operating leases. Total rent expense for the years ended June 30, 2010 and 2009 was \$1,638,766 and \$1,438,633, respectively.

Future operating lease commitments as of June 30, 2010 are as follows:

<u>Years Ending June 30,</u>	
2011	\$ 1,353,665
2012	1,398,474
2013	1,440,294
2014	1,467,576
2015	1,480,014
Thereafter	2,242,518
	\$ 9,382,541

**( 10 ) Federal grants**

The Federal Pell Grant program provided grants to students enrolled in eligible undergraduate programs and is intended to provide a foundation of financial aid. For the years ended June 30, 2010 and 2009, \$26,797,503 and \$13,134,475, respectively, were expended under this program.

The SMART grant provides grants to eligible third and fourth-year full-time undergraduates who major in certain designated technical fields or foreign languages with need-based grant assistance to help meet educational expenses. For the years ended June 30, 2010 and 2009, \$480,000 and \$191,010, respectively, were expended under this program.

## WESTERN GOVERNORS UNIVERSITY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### ( 10 ) Federal grants (continued)

The TEACH grant provides annual grants of up to \$4,000 to eligible undergraduate and graduate students who agree to teach specified high-need subjects at schools serving primarily disadvantaged populations for four years within eight years of graduation. For the year ended June 30, 2010, \$847,000 was expended under this program. There were no amounts expended under this grant for the year ended June 30, 2009.

During the year ended June 30, 2007, the University was awarded a grant from the Department of Labor for the Development of K-12 Teachers for Rural Communities Program, CFDA Number 17.261. During the years ended June 30, 2010 and 2009, the University recognized grant revenues and expended a total of \$856,523 and \$1,065,819, respectively, in accordance with the terms of the grant, which expired on March 31, 2010.

During the year ended June 30, 2010, the University was awarded a grant from the Department of Labor for the Technology Based Learning Initiative Program, CFDA Number 17.269. During the year ended June 30, 2010, the University recognized grant revenues and expended a total of \$184,509.

During the year ended June 30, 2010, the University was awarded a subgrant from the California Employment Development Department under the Workforce Investment Act Adult Program, CFDA Number 17.258 for development of a multi-state, degreed program to prepare registered nurses with enhanced clinical experience. During the year ended June 30, 2010, the University recognized grant revenue and expended a total of \$300,000 in accordance with the terms of the grant, which expired on June 30, 2010.

During the year ended June 30, 2010, the University was awarded a subgrant from the Texas Workforce Commission under the Workforce Investment Act Dislocated Workers Program, CFDA Number 17.260 for development of a multi-state, degreed program to prepare registered nurses with enhanced clinical experience. During the year ended June 30, 2010, the University recognized grant revenue and expended a total of \$410,327 in accordance with the terms of the grant, which expires on September 30, 2010.

#### ( 11 ) Concentrations of credit risk

The University places its cash and cash equivalents with various financial institutions located in the State of Utah. The accounts are held by financial institutions that are well established and highly regarded. Balances on deposit may at times exceed federally insured limits of \$250,000. The University has not experienced any losses related to these accounts and does not believe that, as a result of this concentration, it is subject to unusual financial risk beyond the normal risk associated with commercial banking relationships.

## WESTERN GOVERNORS UNIVERSITY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### ( 12 ) Employee benefit plans

The University has a defined contribution profit sharing plan ("the Plan") under section 403(b) of the Internal Revenue Code for the benefit of its employees. Participants may elect to contribute up to 100% of their annual eligible earnings on a pre-tax basis, subject to the maximum amount allowable by the Internal Revenue Service. Participants may also contribute amounts representing distributions from other tax qualified retirement plans. The University makes nondiscretionary employer contributions each pay period based on the participant's eligible earnings. The amount contributed is equal to 3% of the participant's eligible earnings. Employer matching contributions are also made each pay period by the University based on the participant's elective deferral. The amount contributed is equal to 100% of the first 3% deferred of the participant's annual eligible earnings. During the years ended June 30, 2010 and 2009, the University contributed \$1,671,437 and \$1,364,212, respectively, to the Plan.

#### ( 13 ) Conflict of interest transactions

Members of the University's governing boards may, from time to time, be associated, either directly or indirectly, with companies doing business with the University. There are written conflict of interest policies for the University that require, among other things, that no member of a governing board may participate in any decision in which he or she has a material financial interest. If a relationship exists where a member has a direct financial interest, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the University, and in accordance with applicable conflict of interest laws.

#### ( 14 ) Contingencies

Various claims, lawsuits, and other contingent liabilities arise in the ordinary course of the University's education activities. In the opinion of management, all such matters have been either adequately provided for, are without merit, or are of such a nature that if disposed of unfavorably, would not have a material adverse effect on the consolidated financial position of the University.

#### ( 15 ) In-kind donations

During the year ended June 30, 2010, the University received in-kind donations of data storage and hosting valued at \$154,260 and donated software valued at \$33,542.

**OFFICE OF MANAGEMENT AND BUDGET  
CIRCULAR A-133 REPORTS AND SCHEDULES**

Year ended June 30, 2010  
(with Independent Auditors' reports thereon)

**WESTERN GOVERNORS UNIVERSITY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2010

<b>Federal and State Grantors/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Labor</b>			
<b>Workforce Investment Act Cluster</b>			
California Employment Development Department			
WIA Adult Program	17.258	R871496	\$ 300,000
Texas Workforce Commission			
WIA Dislocated Workers	17.260	2909WSW004	410,327
Total Worforce Investment Act Cluster			<u>710,327</u>
Technology Based Learning Initiative	17.269		184,509
WIA, Pilots, Demonstrations and Research Projects	17.261		856,523
			<u>1,751,359</u>
<b>U.S. Department of Education</b>			
Student Financial Aid - Cluster:			
Federal Family Education Loan	84.032		109,667,309
Federal Direct Loans	84.268		20,223,717
Federal Pell Grant	84.063		26,796,853
SMART Grant	84.376		480,000
TEACH Grant	84.379		847,000
ACG Grant	84.376		650
Total Student Financial Aid - Cluster			<u>158,015,529</u>
Total Expenditures of Federal Awards			<u>\$ 159,766,888</u>

## WESTERN GOVERNORS UNIVERSITY

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

#### ( 1 ) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2010 (the Schedule) includes the federal grant activity of Western Governors University (the University) and is presented on the accrual basis of accounting. Funds derived from federal grants may be used only to meet current expenditures for the purposes specifically identified by sponsoring agencies. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, certain amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements. Federal expenditures reported in the Schedule agrees with the federal grants reported in the University's statement of activities for the year ended June 30, 2010, after consideration of the Pell Grant and Federal Loan programs. Programs are accounted for in the University's consolidated financial statements as agency transactions, the federal expenditures reflected on the Schedule of Expenditures of Federal Awards is not included in the University's Statement of Activities.

The University includes loans granted under the Federal Family Education Loans Program as expenditures of Federal awards.

#### ( 2 ) Program Clusters

OMB Circular A-133 defines a cluster of programs as a grouping of closely related programs that share common compliance requirements. According to this definition, we have determined the Federal Student Financial Assistance Programs of the University to be a cluster of programs. In addition, the OMB Circular A-133 Compliance Supplement identifies the WIA Cluster as an "Other Cluster".

#### ( 3 ) Grants

The Federal Pell Grant program provided grants to students enrolled in eligible undergraduate programs and is intended to provide a foundation of financial aid. For the year ended June 30, 2010, \$26,797,503 was expended under this program.

The SMART grant provides grants to eligible third and fourth-year full-time undergraduates who major in certain designated technical fields or foreign languages with need-based grant assistance to help meet educational expenses. For the year ended June 30, 2010, \$480,000 was expended under this program.

The TEACH grant provides annual grants of up to \$4,000 to eligible undergraduate and graduate students who agree to teach specified high-need subjects at schools serving primarily disadvantaged populations for four years within eight years of graduation. For the year ended June 30, 2010 \$847,000 was expended under this program.

During the year ended June 30, 2007, the University was awarded a grant from the Department of Labor for the Development of K-12 Teachers for Rural Communities Program, CFDA Number 17.261. During the year ended June 30, 2010, the University recognized grant revenues and expended a total of \$856,523, in accordance with the terms of the grant, which expired on March 31, 2010.

**WESTERN GOVERNORS UNIVERSITY**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**( 3 ) Grants (continued)**

During the year ended June 30, 2010, the University was awarded a grant from the Department of Labor for the Technology Based Learning Initiative Program, CFDA Number 17.269. During the year ended June 30, 2010, the University recognized grant revenues and expended a total of \$184,509

During the year ended June 30, 2010, the University was awarded a subgrant from the California Employment Development Department under the Workforce Investment Act Adult Program, CFDA Number 17.258 for development of a multi-state, degreed program to prepare registered nurses with enhanced clinical experience. During the year ended June 30, 2010, the University recognized grant revenue and expended a total of \$300,000 in accordance with the terms of the grant, which expired on June 30, 2010.

During the year ended June 30, 2010, the University was awarded a subgrant from the Texas Workforce Commission under the Workforce Investment Act Dislocated Workers Program, CFDA Number 17.260 for development of a multi-state, degreed program to prepare registered nurses with enhanced clinical experience. During the year ended June 30, 2010, the University recognized grant revenue and expended a total of \$410,327 in accordance with the terms of the grant, which expires on September 30, 2010.

**( 4 ) Loan Programs**

During the year ended June 30, 2010, the University authorized for processing the following loans under the Federal Family Education Loan Program:

<u>Loan Program</u>	<u>CFDA #</u>	<u>Loans Disbursed</u>
Federal Family Education Loan	84.032	\$ 109,667,309
Federal Direct Loans	84.268	20,223,717
Total Loans Disbursed		<u>\$ 129,891,026</u>

The purpose of the Federal Family Education Loans is to encourage lenders such as banks, credit unions, savings and loan associations and other financial institutions to make loans to students to pursue their education at eligible secondary institutions. The loans are made directly to the students and guaranteed by state or non-profit guaranty agencies and reinsured by the Federal Government. The University verifies student eligibility and disburses funds to students.



**Mayer Hoffman McCann P.C.**

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**REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees

**WESTERN GOVERNORS UNIVERSITY**

We have audited the consolidated financial statements of Western Governors University (the University) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 10, 2010. We conducted our audit in accordance with the U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Western Governors University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Western Governors University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Western Governors University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted other certain matters that we reported to management of the University in a separate letter dated December 10, 2010.

This report is intended solely for the information and use of the Board of Trustees, management, others within the University and officials of the U.S. Department of Education or its representatives, the U.S. Department of Labor or its representatives, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman McLean P.C.*

Salt Lake City, Utah  
December 10, 2010



**Mayer Hoffman McCann P.C.**

**An Independent CPA Firm**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees

**WESTERN GOVERNORS UNIVERSITY**

**Compliance**

We have audited the compliance of Western Governors University (the University) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement (OMB Compliance Supplement)* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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 University's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 described in the OMB Compliance Supplement 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, the University complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

**Internal Control Over Compliance**

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, management, others within the University and officials of the U.S. Department of Education or its representatives, the U.S. Department of Labor or its representatives, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman McCann P.C.*

Salt Lake City, Utah  
December 10, 2010

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

## SECTION I – SUMMARY OF AUDITOR'S RESULTS

### Consolidated Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

### Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

### Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Cluster Program*	Student Financial Assistance (Cluster)
Cluster Program*	Workforce Investment Act (Cluster)
17.261	WIA, Pilots, Demonstrations and Research Projects

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

\* See Schedule of Expenditures of Federal Awards for a complete listing of the student financial assistance cluster and workforce investment act cluster programs and their related CFDA numbers.

**WESTERN GOVERNORS UNIVERSITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

No matters were reported

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported

**SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

No matters were reported

**WESTERN GOVERNORS UNIVERSITY**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year Ended June 30, 2010

**FINANCIAL STATEMENT FINDINGS**

For the year ended June 30, 2009, no matters were reported

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

For the year ended June 30, 2009, no matters were reported