EASTERN KENTUCKY UNIVERSITY

REPORT ON AUDIT OF INSTITUTION OF HIGHER EDUCATION IN ACCORDANCE WITH OMB CIRCULAR A-133

June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Regents
Eastern Kentucky University and
The Secretary of Finance and Administration
Cabinet of the Commonwealth of Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Eastern Kentucky University ("the University" or "University"), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Eastern Kentucky University Foundation, Inc., which represents the entire discretely presented component unit of the University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Eastern Kentucky University Foundation, Inc., is based solely on the report of other auditors. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Eastern Kentucky University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal

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control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, during the year ended June 30, 2015, the University adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

As discussed in Note 14, J. to the financial statements, the July 1, 2014 net assets balances of the Eastern Kentucky Foundation, Inc. have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 18, the Schedule of the University's Proportionate Share of the Net Pension Liability on page 67, and the Schedule of the University's Contributions on page 68, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of expenditures of federal awards as 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.

(Continued)

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 30, 2015 on our consideration of the University's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 30, 2015

Introduction

Eastern Kentucky University is a public institution of higher learning located in central Kentucky and serving primarily the Eastern region of the Commonwealth. Many Eastern students are the first among their families to attend college.

In addition to the main campus located in Richmond, Kentucky, the University has six regional campuses throughout the state that offer a diverse range of degree programs from associate to doctoral level degrees. The University's prominent programs include Aviation, Criminal Justice, Education, Environmental Health Science, Forensic Science, Homeland Security, Nursing, Occupational Therapy, and PGA Golf Management. The nationally prominent Honors Program and Mock Trial Team are consistently recognized among the nation's best. Additionally, the College of Justice & Safety is internationally known, with frequent visitors coming from other countries to learn the most up-to-date methods for dealing with national and local security issues.

In the fall 2014 semester, the University served over 16,300 students. A growing number of students are attributable to the University's online program which is now available for over 34 degree programs. The University was ranked nationally by *U.S. News & World Report* as having one of the best and most affordable online programs.

The University has consistently ranked in the top tier of Regional Universities in the South as published by *U.S. News & World Report* in the "*Best Colleges*" edition for six consecutive years. The University is home to more than 1,300 veterans and their dependents and has been ranked No. 1 or No. 2 nationally four of the last five years among the "*Best for Vets: Business Schools*" by Military Times *EDGE* magazine. In addition, *Forbes Magazine* has rated Eastern among "*America's Best Colleges*" for seven consecutive years. The University is also ranked among a prestigious group of only 92 colleges and universities with the distinction of "*Great Colleges to Work For*" according to the seventh annual report on the academic workplace by the *Chronicle of Higher Education.*

Eastern received private support in fiscal year 2015 of more than $4.2 million. This is the highest level since fiscal year 2001. Eastern Kentucky University is one of only 361 U.S. colleges and universities selected for the 2015 Community Engagement Classification from the Carnegie Foundation for the Advancement of Teaching. The University has been recognized for five consecutive years for Contributions to Public Good from *Washington Monthly* magazine and is one of the top 125 STEM (Science/Technology/Engineering/Mathematics) colleges and universities in the U.S. (Gold Status/highest possible rank and the only Kentucky institution to make the list) by *Victory Media*.

The audited financial statements for the fiscal year 2015 for Eastern Kentucky University (the "University"), and the statements for the Eastern Kentucky University Foundation, Inc. (the "Foundation"), an affiliated organization and component unit of the University, are included in this report. This section, Management's Discussion and Analysis ("MD&A"), is intended to provide an overview of the University's financial position at June 30, 2015, with selected comparative information for the year ended June 30, 2014. The MD&A should be read in conjunction with the accompanying financial statements and notes.

During fiscal year 2015 the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term pension benefit obligation as a liability. GASB Statement No. 68 replaces GASB Statement No. 27, *Accounting* *for Pensions by State and Local Governmental Employers.* The objective of GASB Statement No. 71 is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The principal effect of the adoption of these GASB statements was the requirement to record the Net Pension Liability. The University has reflected this accounting in change retroactively as required by the GASB guidance.

Please see *Adoption of New Accounting Pronouncements* in Note 1 of the financial statements for further details.

Financial Highlights

At June 30, 2015, Eastern Kentucky University's financial position increased as reflected in the Statement of Net Position.

- Total assets increased by $42.2 million to $465.6 million at June 30, 2015, compared to $423.4 million at June 30, 2014. The major factors affecting this increase include $13.3 million related to the increase in cash restricted for incomplete capital projects, as well as an increase in current assets of $3.3 million and an increase in net capital assets of $26.7 million.

- With the adoption of GASB 68, the contributions to the KTRS and KERS pensions are reflected as a deferred outflow. This increased deferred outflows by $4.1 million.

- Overall liabilities increased by $24.8 million to $518.1 million at June 30, 2015, compared to $493.3 million at June 30, 2014. This increase is primarily the result of a $33.8 million increase in bonds and leases payable, and a decrease of $8.5 million in Net Pension Liability.

- Total net position at June 30, 2015 increased $2.1 million to $(55.1) million over the June 30, 2014 restated amount of $(57.2) million. The greatest factors affecting this increase include an increase in investments in capital assets of $7.8 million, and a decrease in funds restricted for capital projects of $1.0 million.

Using the Annual Report

This annual report consists of a series of financial statements that have been prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis – for Public Colleges and Universities*. The financial statements consist of Statements of Net Position as of June 30, 2015, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows for the fiscal year then ended. These statements reflect both the financial position of the University as of the end of the 2015 fiscal year, as well as the results of operating and nonoperating activities and cash flows. Also included are the financial statements for the Foundation, which are presented in this report in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14*. The 2014 financial information has been retroactively restated where applicable as required by the implementation of GASB 68. All amounts shown on the charts and tables in management's discussion and analysis are shown in thousands.

Reporting Entity

The University is a component unit of the Commonwealth of Kentucky (the "Commonwealth").

Statement of Net Position

The Statement of Net Position provides a snapshot of the financial position of the University at the end of the fiscal year. In this statement, assets and liabilities are segregated into their current and noncurrent components with net position reported as capital, restricted, or unrestricted. Unrestricted net position is further designated for specific purposes as noted in this discussion and in the notes to the financial statements.

Assets – Total assets at June 30, 2015, were $465.6 million compared to $423.4 million at June 30, 2014, an increase of $42.2 million.

Cash and Cash Equivalents – Total cash and cash equivalents at June 30, 2015, totaled $85.5 million; $17.4 million more than the June 30, 2014, level of $68.1 million. This increase is attributable to both an increase in restricted cash and cash equivalents of funds designated primarily for capital project purposes of $13.3 million, as well as an increase of cash and cash equivalents from operations totaling $4.1 million.

Investments – The Foundation holds and manages investments owned by the University. At June 30, 2015, the market value of investments held by the Foundation on behalf of the University was $17.7 million compared to $18.6 million at June 30, 2014, a decrease of $ .9 million.

Capital Assets – The historical cost, less accumulated depreciation, of the University's capitalized assets was $336.4 million as of June 30, 2015, a net increase after depreciation of $26.7 million from the $309.7 million balance at June 30, 2014. The largest contributions to this increase include a $14.1 million net increase in capital assets in service primarily attributable to the lease with Grand Campus Properties and an increase of $12.6 million in capital assets in progress primarily attributable to construction of Phase II of the Science Building. Depreciation expense for the fiscal year totaled $17.5 million.

Other Asset Categories – The balances in the various other asset categories were essentially unchanged at June 30, 2015, compared to June 30, 2014, with the exception of accounts receivable (net of allowance) which decreased in total by $1.0 million; loans to students, which decreased in total by $326 thousand; and prepaid interest, which increased in total by $335 thousand.

Deferred Outflows – With the adoption of GASB Statement No. 65 and No. 68, deferred outflows are now being recognized as what was previously reported as a component of bonds payable. The deferred outflows for the year ended June 30, 2015, totaled $16.7 million and represent the unamortized deferred refunding balance of bonds, as well as the contributions to the KTRS and KERS pension. The balance was $12.6 million at June 30, 2014.

Liabilities – Total liabilities at June 30, 2015, were $518.2 million compared to $493.3 million at June 30, 2014. This increase of $24.9 million is primarily attributable to an increase in bonds payable and capital leases of $33.8 million primarily stemming from the leasing of Grand Campus, offset by a decrease of $8.5 million in Net Pension Liability from fiscal year 2014.

Bonds Payable and Capital Lease Obligations – In total, bonds payable and capital lease obligations increased by $33.8 million as of June 30, 2015, compared to June 30, 2014. At June 30, 2015, the total bonds payable and capital lease obligations was $108.1 million versus $74.3 million at June 30, 2014. This increase is attributable primarily to the leasing of Grand Campus Properties.

Other Liability Categories – At June 30, 2015, the balances in various other liability categories decreased by $388 thousand to $28.9 million compared to $29.4 million at June 30, 2014. The majority of the balances in this category are comprised of accounts payable, interest payable, payroll/benefits liabilities, external contracts and grants, and deferred revenues associated with tuition and fees billed in June 2015, for summer school classes.

Deferred Inflows – With the adoption of GASB Statement No. 65 and No. 68, deferred inflows are now being recognized as what was previously reported as a component of liabilities. The deferred inflows for the year ended June 30, 2015, totaled $19.3 million and represent the KTRS and KERS pension. This is the first year we have recognized deferred inflows.

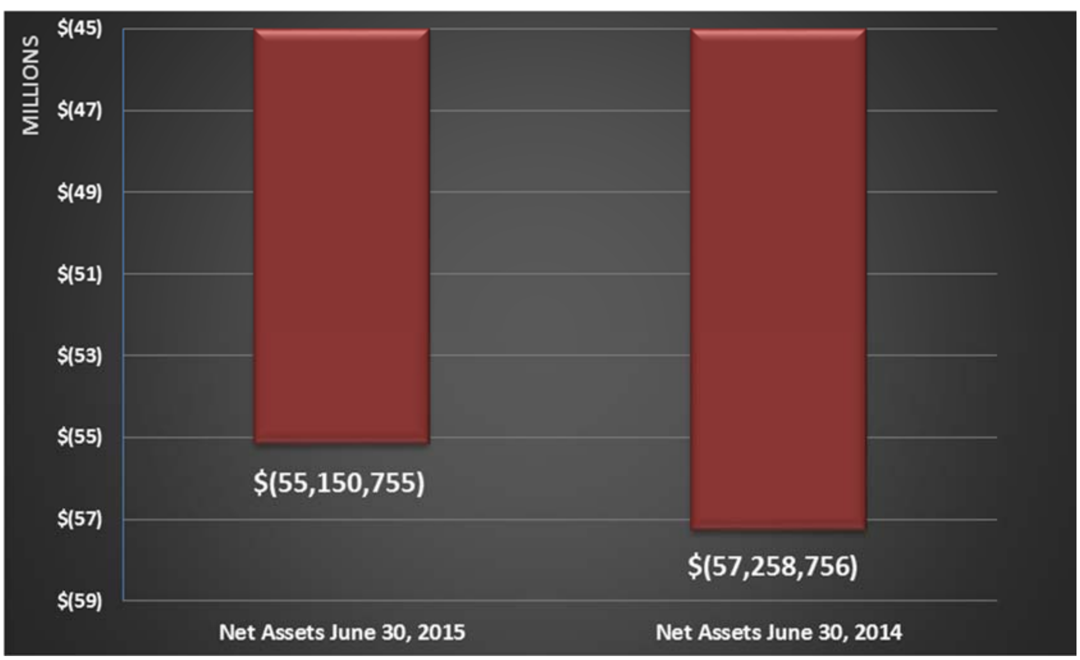
Net Position – Total Net Position at June 30, 2015, was $(55.1) million; an increase of $2.1 million over the $(57.2) million at June 30, 2014.

Net Investment in Capital Assets – Net position invested in capital assets increased by $7.8 million as of June 30, 2015, to $244.1 million over the June 30, 2014, level of $236.4 million. The primary contributing factor to this increase was acquiring capital assets through a capital lease offset by the depreciation of assets.

Restricted Net Position – In total, restricted net position decreased by $1.9 million to $33.4 million at June 30, 2015, compared to $35.3 million at June 30, 2014. The net decrease is primarily attributable to the decrease in restricted cash for scholarships of $2.6 million.

Unrestricted Net Position – Unrestricted net position decreased by $3.8 million to $(332.7) million at June 30, 2015, compared to the June 30, 2014, unrestricted net position of $(328.9) million. This decrease is attributable to the increase of the KTRS and KERS Pension expense.

The chart below illustrates the net position for the years ended June 30, 2015 and 2014:



Unrestricted Net Position

A portion of net position is considered unrestricted. The unrestricted net position may be designated for certain uses, but does not have formal governmental, donor, or other restrictions. The balances for unrestricted net position at June 30 are shown below with the respective designations indicated.

	2015	2014
Inventories	$ 374	$ 388
Outstanding encumbrances	6,908	4,034
Departmental commitments	14,564	19,578
Designated projects and contingency reserves	6,290	12,986
Health care self-insurance reserve	3,000	2,600
Auxiliary working capital	11,271	9,432
University capital projects	9,345	-
KTRS Pension	(247,320)	(242,940)
KERS Pension	(137,125)	(135,013)
Total unrestricted	$ (332,693)	$ (328,935)

The following are the major components reflected in the Statements of Net Position:

	2015	2014
ASSETS		
Current assets	$ 79,756	$ 76,496
Capital assets – net	336,441	309,732
Other noncurrent assets	49,432	37,186
Total assets	$ 465,629	$ 423,414
DEFERRED OUTFLOWS		
Unamortized deferred refunding balance	$ 745	$ 944
Contributions to KTRS/KERS Pensions	16,010	11,679
Total deferred outflows	$ 16,755	$ 12,623
LIABILITIES		
Current liabilities	$ 36,609	$ 36,232
Noncurrent liabilities	481,574	457,065
Total liabilities	$ 518,183	$ 493,297
DEFERRED INFLOWS		
KTRS/KERS Pensions	$ 19,351	$ -
NET POSITION		
Net investment in capital assets	$ 244,131	$ 236,365
Restricted – expendable	21,944	23,843
Restricted – nonexpendable	11,468	11,468
Unrestricted	(332,693)	(328,935)
Total net position	$ (55,150)	$ (57,259)

Statements of Revenues, Expenses, and Changes in Net Position

The Statements of Revenues, Expenses, and Changes in Net Position reflect the operating, nonoperating, and capital revenues and expenses of the University. The increase in total net position is a result of these activities.

Operating Results – As indicated in the Statement of Revenues, Expenses, and Changes in Net Position, there was a net loss of $115.1 million from operations for the fiscal year ended June 30, 2015, prior to consideration of state appropriations and other net nonoperating revenues. This is compared to a loss of $104.3 million from operations for the fiscal year ended June 30, 2014.

Operating Revenues

Below is a summary of operating revenues for fiscal year 2015 as compared to fiscal year 2014:

	Year ended June 30, 2015	Year ended June 30, 2014
Tuition and fees	$ 145,872	$ 137,801
Scholarships and discounts	(54,891)	(51,223)
Net tuition and fees	90,981	86,578
Grants and contracts	50,647	48,070
Other revenues	19,278	17,211
Total education and general fund	160,906	151,859
Auxiliaries	26,872	22,169
Scholarships and discounts	(11,432)	(8,455)
Net auxiliaries	15,440	13,714
Total operating revenues	$ 176,346	$ 165,573

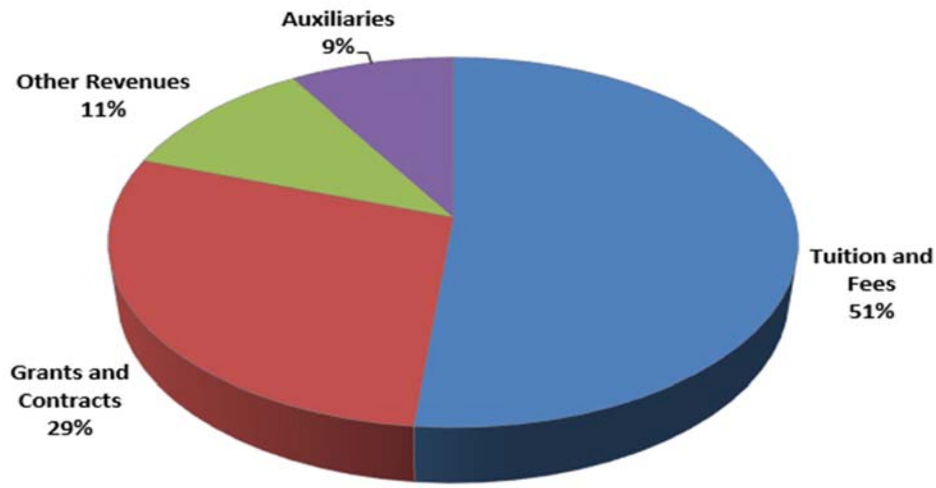
Tuition and Fees – Income from student tuition and fee assessments, shown net of the tuition discount, was $90.9 million for the fiscal year ended June 30, 2015, compared to $86.5 million for the fiscal year ended June 30, 2014. The increase of $4.4 million in net tuition and fees reflects principally an increase in enrollment for the University during the year ended June 30, 2015.

Grants and Contracts – For the fiscal year ended June 30, 2015, there was $50.6 million recognized revenue from all grants and contracts compared to $48.1 million for the year ended June 30, 2014; a slight increase of $2.5 million. Revenues recognized from external grants and contracts can vary significantly from one fiscal year to the next given variations in new awards, awards ending their grant cycle, and amounts recognized for activities occurring in a given year.

Auxiliaries – Auxiliary enterprises consist of University functions provided for the academic and physical well-being of students. While these functions are not directly related to providing educational services, they are important for student convenience and support. Like tuition and fees, housing revenues are reported net of scholarships and financial aid that directly offset these costs to students. In the Statements of Revenues, Expenses, and Changes in Net Position, $15.4 million is reported for net auxiliary revenues for the year ended June 30, 2015, compared to $13.7 million for the year ended June 30, 2014. The majority of auxiliary revenues for both fiscal years is attributable to student residence hall fees.

Other Operating Revenues – Revenues in the various categories that make up other operating revenues can vary widely from year to year when unexpected revenues come into the University. For the fiscal year ended June 30, 2015, total other operating revenues were $19.3 million compared to $17.2 million for June 30, 2014, an increase of $2.1 million.

Source of Operating Revenues – Fiscal Year 2015



Operating Expenses

Educational and General – Educational and general expenses are those expenditures associated with both academic instruction and support of the educational mission of the University. These include expenditures related to both operational activities and those activities where funding is restricted for specific purposes, such as external contracts and grants. Educational and general expenditures include instructional costs, expenditures related to public service, academic support services such as libraries, student services including health services and student activities, administrative costs for the University, the maintenance and operation of the University's physical facilities, financial and scholarship expenses not directly related to tuition or housing, and debt service expenditures. For the fiscal year ended June 30, 2015, educational and general expenditures totaled $262.3 million compared to $250.3 million for the fiscal year ended June 30, 2014; an increase of $12.0 million. This increase in expense for the year ending June 30, 2015, was largely attributable to the increase of institutional support provided to the University.

Auxiliaries – As indicated above, auxiliary enterprises are essential student service activities that do not directly impact educational and general operations. The total auxiliary expenditures for the year ended June 30, 2015, were $22.7 million, compared to $19.6 million for the year ended June 30, 2014.

Below is a summary of operating expenditures for fiscal year 2015, compared to fiscal year 2014:

	Year ended June 30, 2015	2014
Instruction, academic support and libraries	$ 117,826	$ 115,550
Research and public service	44,077	42,594
Student services	19,252	18,166
Institutional support and operations and maintenance of plant	55,610	48,382
Student financial aid	11,800	12,202
Depreciation	13,426	13,156
Other operation expenses	291	243
Total educational and general expenses	262,282	250,293
Auxiliaries	22,715	19,611
Pension expense	6,493	-
Total operating expenses	$ 291,490	$ 269,904

Instruction, Academic Support, and Libraries – The total expenditures of these three areas, which directly relate to teaching, academic, and faculty support, increased $2.3 million to $117.8 million for the year ended June 30, 2015, compared to $115.5 million for the year ended June 30, 2014.

Research and Public Service – Expenditures in these categories are primarily related to external contracts and grants activity. These activities can vary significantly from year to year due to both timing of awards and project completions. For the fiscal year ended June 30, 2015, total expenditures related to research and public service was $44.1 million, compared to $42.6 million for the fiscal year ended June 30, 2014; an increase of $1.5 million.

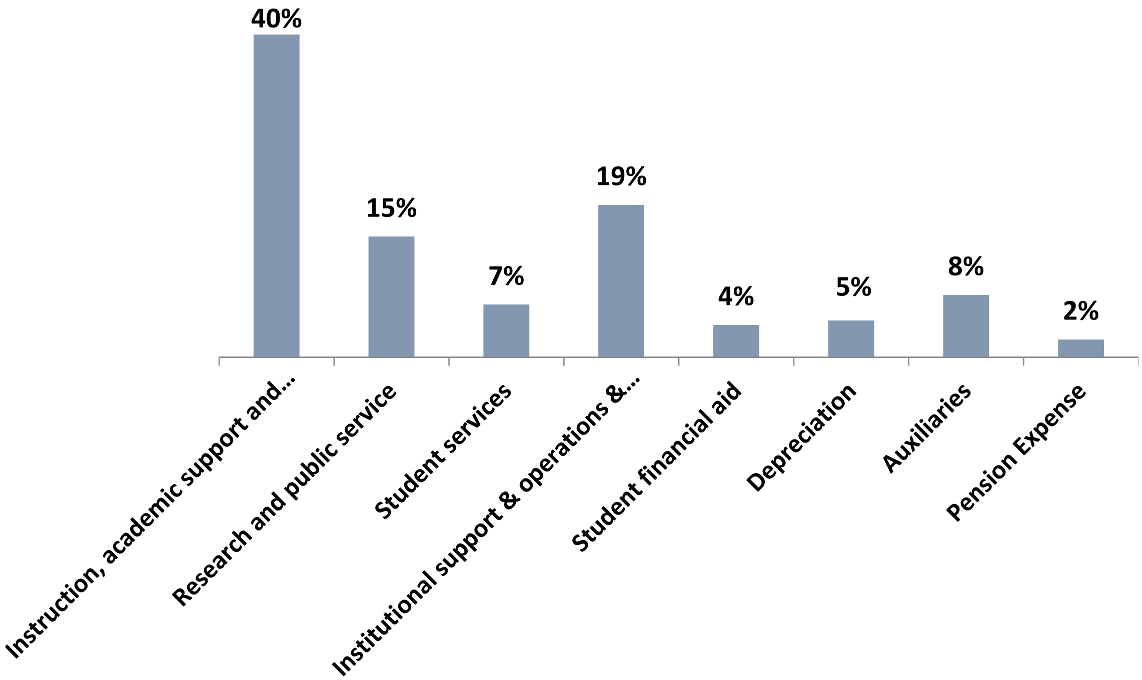
Student Services – Expenditures for student services for fiscal year 2015 by $1.1 million to $19.2 million compared to $18.1 million in fiscal year 2014. The student services function includes expenditures for many activities contributing to student development outside the instructional setting.

Institutional Support and Operations and Maintenance of Plant – These functions provide physical and administrative support for the University and include administrative offices, physical plant operations, noncapital maintenance expenses, utility expenses, technology support, legal, property and liability insurance, and other similar operational support costs. For the fiscal year ended June 30, 2015, the expenditures for these areas totaled $55.6 million compared to $48.4 million for the year ended June 30, 2014; an increase of $7.2 million.

Student Financial Aid – Tuition and fees, as well as certain auxiliary revenues, are shown net of financial aid from all sources directly awarded to fund those respective areas. As a result, the financial aid expense shown on the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal years highlighted is relatively low in relationship to the total amounts expended for financial aid both from governmental sources and institutional sources. For fiscal year 2015, the total financial aid expenditure was $78.1 million compared to $71.9 million for fiscal year 2014, as shown in the table on the following page.

Pension Expense – Upon adoption of GASB Statement No. 68 Accounting and Financial Reporting for Pensions, the University reports Pension Expense on the Statement of Revenues, Expenses, and Change in Net Position. For the fiscal year ending June 30, 2015, the University recorded $ 6.5 million of Pension Expense.

Major Areas of Operating Expense – Fiscal Year 2015



Net student financial aid reported on the Statement of Changes in Revenues, Expenses, and Changes in Net Position reflect the residual financial aid paid directly to the students. The net student financial aid for the year ended June 30, 2015, was $11.8 million compared to $12.2 million for the year ended June 30, 2014. The decrease of $400 thousand in net student financial aid resulted from small increases to tuition rates.

The information below shows the gross dollars associated with financial aid support:

	Year ended June 30, 2015	2014
Tuition and fee discount	$ 54,891	$ 51,223
Auxiliary enterprises discount	11,432	8,455
Student financial aid expense	11,800	12,202
Student financial aid expense	$ 78,123	$ 71,880

Non-operating Revenue/Expenses

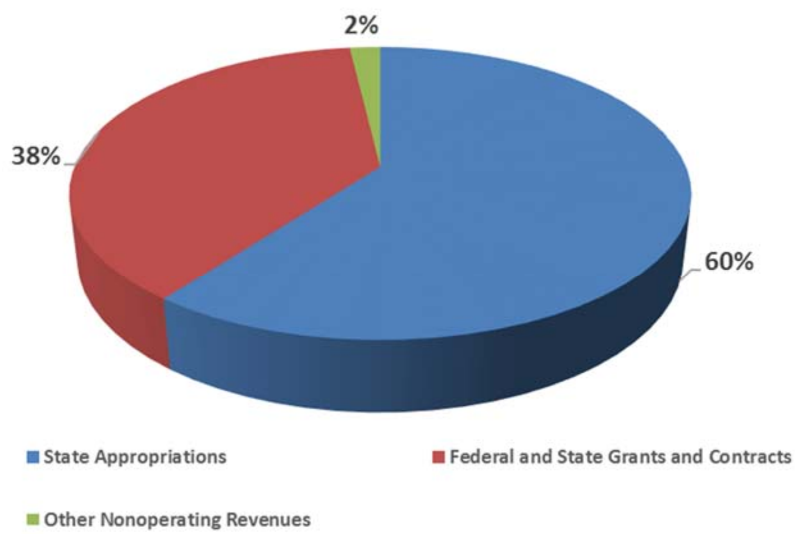
State Appropriations – Funding from state appropriations for operations and debt service for the fiscal year ended June 30, 2015 totaled \$68.0 million, an increase of \$360 thousand from the prior fiscal year amount of \$67.7 million.

Investment Income – Total investment income for the fiscal years ended June 30, 2015, and 2014, was \$(612) thousand and \$1.7 million, respectively; a decrease of \$2.4 million.

Federal and State Grants and Contracts – Total federal and state grant revenue for the fiscal year ended June 30, 2015, was \$42.6 million, compared to \$41.1 million from fiscal year 2014. This was an increase from prior year revenue of \$1.5 million.

Other Non-Operating Revenues – Other Non-Operating revenues totaled \$2.1 million for the year ended June 30, 2015, remaining unchanged from the amount of \$2.1 million from the prior year ended June 30, 2014.

Major Sources of Non-Operating Revenues – Fiscal Year 2015



Capital Support – For the year ended June 30, 2015, the University received funds from the Commonwealth totaling \$7.9 million for a new capital project, compared to fiscal year 2014 when the University returned funds to the Commonwealth totaling \$426 thousand for a completed capital project.

The following is summary information from the Statements of Revenues, Expenses, and Changes in Net Position.

	Year ended June 30, 2015	2014
Operating revenues	$ 176,346	$ 165,572
Operating expenses	291,490	269,904
Operating loss	(115,144)	(104,332)
Nonoperating revenues – net	109,272	110,494
Income (loss) before capital appropriations	(5,872)	6,162
Capital appropriations	7,980	(426)
Increase in net position	2,108	5,736
Net Position – beginning of year	(57,259)	(62,995)
Net Position – end of year	$ (55,151)	$ (57,259)

Statements of Cash Flows

The Statements of Cash Flows provides information related to cash sources and uses during the fiscal year. The Statement focuses on three areas: cash generated and utilized from operations; noncapital and capital financing activities; and investing activities. Additionally, there is a reconciliation section in the Statement whereby the net cash used in operations is reconciled to the loss from operations reflected in the Statements of Revenues, Expenses, and Changes in Net Position.

The following is summary information from the Statements of Cash Flows:

	Year ended June 30, 2015	2014
Cash provided by (used in)		
Operating activities	$ (90,482)	$ (89,073)
Noncapital financing activities	110,673	108,758
Capital and related financing activities	(3,365)	(21,826)
Investing activities	636	4,965
Net change in cash and cash equivalents	17,462	2,824
Cash and cash equivalents – beginning of year	68,125	51,639
Cash and cash equivalents – end of year	$ 85,587	$ 54,463

Capital Asset and Debt Administration

During fiscal years 2015, and 2014, the following projects were completed by the University:

	Year ended June 30, 2015	2014
New Student Housing	$ -	$ 20,295
Capitalized Bond interest – New Student Housing	-	1,144
Baseball Field Lighting RCF 1035	-	564
Softball Field Lighting RCF 1036	-	225
Palmer Air Chiller Replacement	-	184
Gibson Fluid Cooler Replacement	-	137
Begley Building Chiller	-	101
Ault Building HVAC Replacement	-	101
Hummel Planetarium Seating – RCF 874	-	77
Dairy Research & Education Center	-	25
208 Summit Street Renovation	-	24
Thompson/Schwendeman Expansion Project	-	12
Turkey Hughes Baseball Field Lighting	-	5
Hood Softball Field Lighting	-	5
Ault Building HVAC	40	-
Keen Johnson Bell Tower	319	-
RCF 1096 – Challenge Course	175	-
244 Summit Street Renovation	167	-
RCF 1111 – Gifford Theater Seating	110	-
RCF 1176 – EELI Program – Crabbe Lib HVAC	80	-
Martin Hall Cooling Tower Replacement	121	-
Dupree Cooling Tower Replacement	112	-
Martin Hall Blow Down Separator	23	-
Martin Hall Fire Main Supply Line	64	-
McBrayer Arena Lighting RCF 1077	306	-
McBrayer Arena Floor Replacement RCF 1078	275	-
Eight New Tennis Courts – RCF 1082	607	-
RCF 1017 – Baseball Outfield Fense	32	-
RCF 1156 – Football Stadium Fencing	27	-
RCF 1217 – Women's Locker Room Air Conditioner	33	-
Total	$ 2,491	$ 22,899

The following projects were still in process at June 30, 2015:

	Total Expenditures Through June 30, 2015	Estimated Cost to Complete at June 30, 2015
Begley Building Sewer Lift Station	$ 28	$ 122
Burrier Building Chiller Replacement	198	2
Weaver Health Domestic Water	5	35
Crabbe Library Noel Studio Reading Porch	359	120
Crabbe Library Plaza/mall Renovate	151	449
College of Education Complex	32	83,423
Lilley Cornett Woods Bunk House	71	99
LCWoods Research Facility	154	179
Keen Johnson Compressor Replacement	14	16
Meadowbrook Farm Cattle Pen – RCF 1051	171	26
RCF 1245 – Pedestrian Entrance	37	562
RCF 1258 – Vehicular Gateway	1	598
RCF 1345 – Sidewalk Project	46	652
Todd Hall Cooling Tower Replacement	110	3
Keene Hall Boiler Replacement	16	304
Renovate HVAC Systems	2,627	92
Commonwealth Renovation	943	21,630
C6E6 – Renovate HVAC kSystems	1,810	391
Renovate/Improve Athletic Facilities	182	15,059
Science Building – Phase 2	8,464	52,858
Ashland Addition	1,138	2,827
Total	$ 16,557	$ 179,447

Long-term debt at June 30, 2015, was $108.1 million compared to $74.3 million at June 30, 2014. The $33.8 million increase is the result of the increase to leases payable of $23.8 related to the lease of Grand Campus Properties as well as the issuance of bonds for new projects, along with a decrease to bonds payable for payments of principal owned on bonds in fiscal year 2015.

Economic and Other Factors Impacting Future Periods

The following is a brief discussion of economic and other factors that could have an impact on the University in the future:

- The level of state-appropriated funds received by the University will continue to be a major factor in the future of the University. Presently, state-appropriated funds represent approximately 30 percent of the University's education and general budget. The remaining 70 percent of the education and general budget must come from other sources, primarily student tuition revenue. The Council on Post-Secondary Education (CPE) continues to limit the amount of annual tuition increases that state universities may implement, which limits the ability of Universities to generate additional revenue. Improving the affordability of a college education for our students remains vitally important to Eastern and with every tuition increase there must be a corresponding focus and analysis of student financial aid available to our students.

- The University feels strongly that campus facility improvements will lead to more students choosing to live on campus, which will ultimately result in higher student retention rates and greater student success. The various facility improvement projects around campus are included in the Center for Student Life initiatives announced during the year.

- EKU's Board of Regents approved a resolution authorizing the University to take the leading role in administration of all capital projects valued at more than $600,000. Previously, that role had been administered by the Commonwealth's Department for Facilities and Support Services, an administrative group within the Finance and Administration Cabinet. The University already had authority to manage projects up to $600,000. The action taken by the Board now awaits approval through appropriate legislative channels.

- The University has engaged a national firm to develop a new Campus Master Plan. All areas of campus and the community will be engaged in the planning process.

- The University has committed an additional $1.7 million to its scholarship budget for the Fall 2015 class, which translates into approximately 100-150 additional merit scholarships.

- The University has developed a comprehensive alumni engagement program including a re-launch of the Eastern Magazine, a new digital communication platform for alumni and donors, and a new 12-month schedule of on-campus and regional events.

- As noted in the President's 2015 Convocation address, the University's top general fund capital construction priorities are a new Model Laboratory School/College of Education complex, renovation of the Moore Building and a new aviation facility at Madison Airport.

- Bonds have been issued for upgrades to athletic facilities, including a new multi-purpose athletic facility and upgrades for the baseball and softball facilities.

- Make No Little Plans: A Vision for 2020 – The Eastern Kentucky University Strategic Plan has been approved by the Board of Regents. Strategic priorities in the plan include academic excellence; commitment to student success; institutional distinction; financial strength; campus revitalization; and service to communities and region.

- Given the ongoing and often conflicting pressures for revenue generation, the goal of maximizing affordability for our students, and the goal of continually strengthening the core educational mission of the University, the University must continue to seek additional revenue from other sources. Other sources include unrestricted annual gifts, the Eastern Kentucky University Foundation, funds generated through University research activities, as well as entrepreneurial venture opportunities. The University remains committed to continuing to seek more and better ways to operate as efficiently as possible and continually reduce expenses.

- Kentucky's economy is showing signs of improvement with revenue forecasts ticking upward. National economic recovery is also underway and the Commonwealth's economic health is inextricably linked with the national and international economy. The latest projected growth forecast for the U.S. economy is about 1.1% for 2015 and 2.0% for 2016.

Requests for Information

This financial report is designed to provide a general overview of Eastern Kentucky University's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Vice President of Finance and Administration, Eastern Kentucky University, Coates CPO 35A, 521 Lancaster Avenue, Richmond, KY 40475.

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF NET POSITION
June 30, 2015

ASSETS	
Current Assets	
Cash and cash equivalents	$ 58,608,805
Accounts receivable – less allowance of $3,337,897	18,246,646
Loans to students – less allowance of $283,777	316,139
Inventories	373,957
Prepaid expenses	2,210,481
Total current assets	79,756,028
Noncurrent Assets	
Restricted cash and cash equivalents	26,978,573
Investments	17,672,817
Loans to students – less allowance of $622,306	4,780,524
Capital assets – net of accumulated depreciation of $238,287,246	312,750,107
Capital assets not being depreciated	23,690,690
Total noncurrent assets	385,872,711
Total Assets	465,628,739
Deferred Outflows	
Unamortized deferred refunding loss balance	745,199
Contributions to KTRS/KERS Pension	16,009,640
Total deferred outflows	16,754,839
Total Assets and Deferred Outflows	$ 482,383,578

(Continued)

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF NET POSITION
June 30, 2015

LIABILITIES AND NET POSITION	
Current Liabilities	
Accounts payable	$ 7,306,956
Accrued interest	803,961
Accrued salaries and benefits	5,101,095
Accrued compensated absences	5,933,093
Payroll withholding payable	1,216,160
Refundable deposits	617,201
Assets held for others	321,334
Unearned revenue	7,664,795
Bonds payable	5,949,140
Leases payable	1,695,000
Total current liabilities	36,608,735
Noncurrent Liabilities	
Bonds payable, noncurrent portion	66,945,145
Leases payable, noncurrent portion	33,525,000
Net pension liability	381,104,508
Total noncurrent liabilities	481,574,653
Total liabilities	518,183,388
Deferred Inflows	
KTRS/KERS Pension	19,350,946
Total deferred inflows	19,350,946
Net Position	
Net investment in capital assets	244,130,430
Restricted	
Expendable for capital projects	10,992,448
Expendable for loans to students	6,540,228
Expendable for scholarships	1,297,112
Expendable for institutional support	3,114,504
Unexpendable for permanent endowment	11,467,772
Unrestricted	(332,693,250)
Total net position	(55,150,756)
Total Liabilities, Deferred Inflows and Net Position	$ 482,383,578

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2015

ASSETS	
Current assets	
Cash and cash equivalents	$ 4,042,269
Pledges receivable – net	78,240
Cash surrender value of life insurance	205,832
Other assets	62,776
Total current assets	4,389,117
Noncurrent assets	
Investments	60,725,631
Pledges receivable – net	43,144
Property and equipment – net	4,619,336
Total noncurrent assets	65,388,111
Total Assets	$ 69,777,228
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	$ 50,150
Due to University	430,502
Note payable, current maturities	266,441
Total current liabilities	747,093
Noncurrent liabilities	
Note payable – less current maturities	849,025
Deferred gift liabilities	348,495
Assets held for others	17,659,309
Total noncurrent liabilities	18,856,829
Total Liabilities	19,603,922
Net assets	
Unrestricted	5,973,117
Temporarily restricted	17,696,393
Permanently restricted	26,503,796
Total net assets	50,173,306
Total Liabilities and Net Assets	$ 69,777,228

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended June 30, 2015

OPERATING REVENUES	
Tuition and fees – net	$ 90,980,531
Federal grants and contracts	20,456,223
State grants and contracts	25,958,017
Nongovernmental grants, contracts, and gifts	4,232,769
Sales and services of educational activities	6,413,375
Auxiliary enterprises – housing	12,170,360
Auxiliary enterprises – other	3,269,942
Other operating revenues	12,864,958
Total operating revenues	176,346,175
OPERATING EXPENSES	
Educational and general	
Instruction	93,708,918
Research	700,916
Public service	43,376,570
Libraries	3,937,366
Academic support	20,179,592
Student services	19,252,078
Institutional support	32,799,509
Operations and maintenance of plant	22,810,401
Depreciation	13,425,530
Student financial aid	11,799,809
Auxiliary enterprises	
Housing and other auxiliaries	18,586,339
Depreciation	4,128,844
Pension expense	6,493,146
Other operating expenses	291,434
Total operating expenses	291,490,452
Operating loss	(115,144,277)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	68,033,800
Federal and state grants and contracts	42,639,565
Investment income	(612,258)
Interest expense	(2,288,333)
Other nonoperating revenues	2,136,876
Other nonoperating expenses	(637,569)
Net nonoperating revenues	109,272,081
Loss before capital appropriations	(5,872,196)
Capital appropriations	7,980,196
Increase in net position	2,108,000
Net position – beginning of year	320,693,911
Restatement for GASB 68 implementation	(377,952,667)
Net position – beginning of year, as restated	(57,258,756)
Net position – end of year	$ (55,150,756)

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS				
Contributions	$ 666,321	$ 1,963,802	$ 1,550,668	$ 4,180,791
Investment returns – net of investment expenses of $261,225	170,647	1,012,699	-	1,183,346
Net realized and unrealized gains (losses) on investments	136,935	(1,190,280)	-	(1,053,345)
Other income – net	492,685	-	-	492,685
	1,466,588	1,786,221	1,550,668	4,803,477
Net assets released from restrictions	2,766,850	(2,766,850)	-	-
Total revenues, gains (losses) and other support	4,233,438	(980,629)	1,550,668	4,803,477
EXPENSES				
Support for the University	4,304,774	-	-	4,304,774
Management and general	84,260	-	-	84,260
Interest	37,734	-	-	37,734
Bad debts	758,267	-	-	758,267
Depreciation	191,614	-	-	191,614
Total expenses	5,376,649	-	-	5,376,649
Change in net assets	(1,143,211)	(980,629)	1,550,668	(573,172)
Net assets – beginning of year (restated)	7,116,328	18,677,022	24,953,128	50,746,478
Net assets – end of year	$ 5,973,117	$ 17,696,393	$ 26,503,796	$ 50,173,306

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF CASH FLOWS
Year ended June 30, 2015

OPERATING ACTIVITIES	
Tuition and fees	$ 91,779,369
Grants, contracts and gifts	51,446,061
Payments to suppliers	(64,800,565)
Payments for utilities	(8,011,376)
Payments to employees	(133,027,183)
Payments for benefits	(50,857,705)
Payments to students	(11,195,562)
Loans issued to students and employees	(872,866)
Collections of loans to students and employees	1,198,912
Auxiliary enterprise charges	
Residence halls	11,974,711
Other	3,269,942
Sales and services of educational activities	6,413,375
Other receipts	12,200,973
Net cash used in operating activities	(90,481,914)
NONCAPITAL FINANCING ACTIVITIES	
State appropriations	68,033,800
Other nonoperating revenues – grants and contracts	42,639,565
Net cash provided by noncapital financing activities	110,673,365
CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(17,025,934)
Principal paid on bonds payable and capital leases	(6,320,000)
Interest paid on bonds payable and capital leases	(5,325,260)
Proceeds on issuance of bonds payable	15,189,426
State reimbursement of capital lease payments	2,136,876
Capital appropriations	7,980,196
Net cash used in capital and related financing activities	(3,364,696)
INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	9,257,876
Interest on investments	(992,803)
Purchase of investments	(7,629,030)
Net cash provided by investing activities	636,043
Increase in cash and cash equivalents	17,462,798
Cash and cash equivalents – beginning of year	68,124,580
Cash and cash equivalents – end of year	$ 85,587,378

(Continued)

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$ (115,144,277)
Depreciation expense	17,554,372
Changes in operating assets and liabilities	
Accounts receivable – net	998,240
Loans to students – net	326,045
Inventories	13,796
Prepaid expenses	(335,446)
Accounts payable	(370,184)
Accrued liabilities	212,569
Refundable deposits	45,481
Assets held for others	29,808
Unearned revenue	(305,465)
Deferred outflows – pension liability	(4,330,438)
Deferred inflows – pension liability	19,350,946
Net pension liability	(8,527,361)
Net cash flows used in operating activities	$ (90,481,914)
Supplemental cash flows information	
Capital assets acquired through capital lease	$ 25,500,000

See accompanying notes to financial statements.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Eastern Kentucky University (the "University") is a regional, coeducational, public institution of higher education offering general and liberal arts programs, pre-professional and professional training in education and various other fields at both the undergraduate and graduate levels. Located in Richmond, Kentucky, the University has a distinguished record of over nine decades of educational service to the Commonwealth of Kentucky (the "Commonwealth").

Reporting Entity – The University is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth. The University's financial statements, as defined by Statement No. 14 and amended by Statement No. 61 of the Governmental Accounting Standards Board ("GASB"), include the financial operations and financial position of Eastern Kentucky University Foundation, Inc. (the "Foundation"), which is a corporation formed for educational, charitable and public purposes in accordance with the provisions of KRS 273.010 and a discretely presented component unit of the University. Specifically, it was founded to cooperate with the University and with the Board of Regents of the University (the "Board") in the promotion of the educational, civic, and charitable purpose of the University and Board in any lawful manner deemed appropriate by the Board. This purpose includes the encouragement of scholarship and research, the promotion of the prestige, expansion, and development of the University, including the development of its physical plant, its faculty and the assistance of its students and alumni. Certain officers of the Foundation are also officers of the University. The Foundation is included in the University's financial statements as a component unit as it is organized exclusively to benefit the University by generating funding and performing the University's development activities.

Basis of Accounting and Presentation – The financial statements of the University have been prepared using the economic resources measurement focus and 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. Internal activity and balances are eliminated in the preparation of the financial statements. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Investment income and interest expense from government-mandated nonexchange transactions that are not program specific (such as state appropriations) are included in nonoperating revenues and expenses.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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 Position during the reporting period. Actual results could differ from those estimates.

Cash Equivalents – The University considers all liquid investments with original maturities of three months or less to be cash equivalents. Funds held by the Commonwealth are considered cash equivalents.

Restricted Cash and Cash Equivalents – Restricted cash is restricted for the purchase of capital assets.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Investment Income – Investments in equity and debt securities are carried at fair value determined using quoted market prices. Investments in nonnegotiable certificates of deposit, money market accounts, and repurchase agreements are carried at cost which approximates market value. Amounts due for debt service in the upcoming year represent short-term investments; all other investments are classified as long-term.

The University's investments held with the Foundation are governed by the Foundation's investment policies that determine permissible investments by category. The holdings include U.S. and foreign equity securities as well as alternative investments.

Investment income consists of interest and dividend income, realized gains and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable – Accounts receivable consist primarily of tuition and fee charges to students, charges for auxiliary enterprise services provided to students, faculty and staff and receivables from federal, state and private agencies for grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. Estimated uncollectible amounts are determined by considering a number of factors, including the length of time accounts receivable are past due, previous loss history and the condition of the general economy and the industry as a whole.

Loans to Students – The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts.

Inventories – Inventories are stated at the lower of cost or market determined on the first-in, first-out method.

Capital Assets – Capital assets are recorded at cost at the date of acquisition. Gifts are recorded at fair value at the date of donation. The University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expenses are incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the assets; generally 50 years for buildings, 15–20 years for land improvements, 25 years for infrastructure, 10 years for library books, and 3–15 years for equipment.

Costs incurred during the construction of capital assets are recorded as construction in progress and are not depreciated until placed into service. The University capitalizes interest as a component of capital assets constructed for its own use. Total interest incurred and capitalized for the year ended June 30, 2015, was $352,319.

Compensated Absences – University employees begin to accumulate annual vacation allocations from the beginning date of employment; however, accrued vacation is not granted until three months of employment have been completed. The maximum accumulation of vacation leave is limited to the number of days that can be accumulated in two years, based on the length of service. Employees are paid their accumulated vacation upon termination, subject to certain limitations.

(Continued)

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

University policy permits most employees to accumulate vacation 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 in effect and related benefit costs at the Statement of Net Position date.

Unearned Revenue – Unearned revenue represents student fees and advances on grants and contract awards for which the University has not met all of the applicable eligibility requirements.

Pensions – For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky Teachers' Retirement system (KTRS) and the Kentucky Employees Retirement System (KERS) and additions to /deductions from KTRS' and KERS' fiduciary net position have been determined on the same basis as they are reported by KTRS and KERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources – Deferred outflows represent the consumption of resources that are applicable to a future reporting period, but do not require any further exchange of goods or services. Deferred outflows of resources in the University's financial statements consist of the unamortized deferred refunding loss balance and pension contributions made after the measurement date. Deferred inflows consist of the KTRS and KERS pension related unamortized balances.

Net Position - Under the provisions of GASB Statement No. 63, resources of the University are classified for accounting and reporting purposes into the following net position categories:

Net investment in Capital Assets: Represents the University's investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to the acquisition, construction, or improvement of those assets.

Restricted – Expendable: Represents resources the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted – Unexpendable: Represents resources the University is legally or contractually obligated to retain in perpetuity.

Unrestricted: The unrestricted component of net position represents assets, deferred outflows, liabilities and deferred inflows whose use by the University is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board. Substantially all unrestricted resources are designated for academic and research programs and initiatives, capital projects and operating reserves.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating and Nonoperating Revenues and Expenses – Operating activities as reported on the Statements of Revenues, Expenses and Changes in Net Position are those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Primarily all of the University's expenses are from exchange transactions. Certain revenue streams are recorded as nonoperating revenues, as required by GASB standards, including state appropriations, federal Pell grant revenue, gifts and investment income. In addition, interest expense is shown as a nonoperating expense.

Release of Restricted Resources – When an expense or outlay is incurred for which both restricted and unrestricted resources are available, the University's policy is to allow each departmental unit the flexibility to determine whether to first apply restricted or unrestricted resources based on the most advantageous application of resources in the particular circumstances.

Scholarship Discounts and Allowances – Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statements of Revenues, Expenses, and Changes in Net Position. 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 government 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. The scholarship allowances on tuition and fees and on housing for the year ended June 30, 2015, were $54,891,010 and $8,619,632 respectively. Payments made directly to students are presented as student financial aid expenses in the Statements of Revenues, Expenses, and Changes in Net Position.

Adoption of New Accounting Pronouncements - During fiscal year 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

Governmental employers participating in a cost-sharing plan are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. Refer to Note 10 for the following required note disclosures:

- Descriptions of the plan and benefits provided
- Significant assumptions employed in the measurement of the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Assumptions related to the sensitivity of the discount rate
- Net pension assets and liabilities

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The objective of Statement No. 71 is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement were required to be applied simultaneously with the provisions of Statement 68.

The adoption of GASB Statement No. 68 and 71 resulted in a decrease in net position at July 1, 2014 of $377,952,667 to reflect the beginning of year net pension liability and deferred outflow of resources.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement specifies the information required to be disclosed by the governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

Recent Accounting Pronouncements - As of June 30, 2015, the GASB has issued the following statements not yet implemented by the University.

GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, issued June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

(Continued)

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* issued on June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015 The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles ("GAAP"). The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 77, *Tax Abatement Disclosures,* issued August 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements.

The University's management has not yet determined the effect these statements will have on the University's financial statements.

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(1) of the Internal Revenue Code, as amended, and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

NOTE 2 – DEPOSITS, INVESTMENTS AND INVESTMENT RETURN

The Commonwealth treasurer requires that all state funds be insured by the Federal Deposit Insurance Corporation ("FDIC"), collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. government obligations. The University's deposits with the Commonwealth treasurer are pooled with funds of other state agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the Commonwealth treasurer may determine, in the state's name.

(Continued)

NOTE 2 – DEPOSITS, INVESTMENTS AND INVESTMENT RETURN (Continued)

The University requires that balances on deposit with financial institutions to be insured by the FDIC or collateralized by securities held by the cognizant Federal Reserve Bank, in the University's name.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the University's deposits may not be returned to the University. As a means of limiting its exposure to losses from custodial credit risk, the University's deposits and investments are held by the Commonwealth treasurer, collateralized by securities in the University's name, and insured by the FDIC or in the University's name.

Deposits as of June 30 consisted of:

	2015
Depository accounts	
Local bank deposits – collateral held as a pledge in the University's name	$ 29,370,462
Cash on hand	9,386
State investment pool – uninsured and uncollateralized	56,207,530
Total deposits	$ 85,587,378

Deposits at June 30 as presented on the Statement of Net Position include:

	2015
Cash and cash equivalents	$ 58,608,805
Restricted cash and cash equivalents	26,978,573
Total deposits	$ 85,587,378

Investments at June 30 consisted of:

	2015
Money market funds	$ 13,508
Restricted assets held by the Foundation	17,659,309
Total investments	$ 17,672,817

Investments in U.S. government securities and the collateral for repurchase agreements are registered in the name of Eastern Kentucky University or held in the University's name by its agents and trustees. The University may legally invest in direct obligations of, and other obligations guaranteed as to principal, the U.S. Treasury and U.S. agencies, and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in equity securities.

University investments held by the Eastern Kentucky University Foundation, Inc. are comprised of the Regional University Excellence Trust Fund and Programs of Distinction endowments (see Note 8). Assets held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

NOTE 2 – DEPOSITS, INVESTMENTS AND INVESTMENT RETURN (Continued)

The assets in the Foundation investment pool at June 30 are invested as follows:

	2015
Percentage of pool invested in:	
Cash equivalents – trustee	10%
Registered investment companies equity funds	63
Registered investment companies fixed income funds	22
Alternative investments	5
Total	100%

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal policy to specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings provide information about the investment's credit risk. The University does not have a formal policy that would limit its investment choices. However, investments are required to be in compliance with Commonwealth statute.

The credit quality of the University's investments as of June 30, 2015, is as follows:

Investment Type	Fair Value	Not Rated	AAA/Aaa	AA, A, and BBB
Cash equivalents – trustee	$ 1,789,576	$ 1,789,576	$ -	$ -
Investments with Foundation	15,883,241	12,538,074	443,908	2,901,259
Total investments	$ 17,672,817	$ 14,327,650	$ 443,908	$ 2,901,259

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The University does not have a formal policy for concentration of credit risk.

Investment Income – Investment income for the year ended June 30, 2015 resulted in a loss of $612,258 consisting primarily of an unrealized loss of investments.

(Continued)

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are recorded net of estimated uncollectible amounts and consist of the following at June 30:

	2015
Student tuition and fees	$ 7,509,792
Auxiliary enterprises	752,391
Federal, state and private grants and contracts	10,175,388
Other state agencies	28,198
Other	3,118,774
Total	21,584,543
Less allowance for uncollectible accounts	(3,337,897)
Accounts receivable – net	$ 18,246,646

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015, is as follows:

	Balance - June 30, 2014	Additions	Reductions	Transfers	Balance – June 30, 2015
Capital assets not being depreciated					
Land	$ 5,637,953	$ 891,652	$ -	$ -	$ 6,529,605
Works of art	31,300	88,817	-	-	120,117
Livestock for educational purposes	461,500	22,100	-	-	483,600
Construction in progress	3,967,508	15,139,930	-	(2,550,070)	16,557,368
Total capital assets not being depreciated	10,098,261	16,142,499	-	(2,550,070)	23,690,690
Other capital assets					
Land improvements	56,040,333	840,440	(810,709)	-	56,070,064
Buildings	404,005,151	24,688,556	(5,042,145)	2,550,070	426,201,632
Leasehold improvements	556,987	-	-	-	556,987
Equipment	27,515,688	1,610,619	(3,928,928)	-	25,197,379
Library books	41,817,717	1,369,917	(176,343)	-	43,011,291
Total other capital assets	529,935,876	28,509,532	(9,958,125)	2,550,070	551,037,353
Less accumulated depreciation for					
Land improvements	(21,693,891)	(3,164,321)	810,709	-	(24,047,503)
Buildings	(152,822,763)	(11,313,025)	4,818,960	-	(159,316,828)
Leasehold improvements	(278,160)	(68,650)		-	(346,810)
Equipment	(20,053,260)	(1,711,749)	3,762,515	-	(18,002,494)
Library books	(35,453,321)	(1,296,633)	176,343	-	(36,573,611)
Total accumulated depreciation	(230,301,395)	(17,554,378)	9,568,527	-	(238,287,246)
Capital assets – net	$ 309,732,742	$ 27,097,653	$ (389,598)	$ -	$ 336,440,797

(Continued)

NOTE 5 – UNEARNED REVENUE

Unearned revenue as of June 30 is as follows:

	2015
Unearned summer school revenue and activity fees	$ 3,294,964
Unearned grants and contracts revenue	4,056,573
Other	313,258
Total	$ 7,664,795

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS

Long-term liabilities as of June 30, 2015, and long-term activity for the year ended June 30, 2015, are summarized as follows:

	Balance - July 1, 2014	Additions	Reductions	Refunding	Balance - June 30, 2015	Balance Due Within One Year
Revenue bonds payable	$ 37,510,000	$ 14,280,000	$ (2,280,000)	$ -	$ 49,510,000	$ 2,870,000
General receipts refunding bonds	22,805,000	-	(2,415,000)	-	20,390,000	2,510,000
Capitalized lease obligations	11,344,999	27,865,441	(3,990,440)	-	35,220,000	1,695,000
Unamortized bond premium	2,652,562	909,426	(567,703)	-	2,994,285	569,140
	$ 74,312,561	$ 43,054,867	$ (9,253,143)	$ -	$ 108,114,285	$ 7,644,140

Consolidated Education Buildings Revenue Bonds – Consolidated Education Buildings Revenue Bonds were sold to construct or renovate certain academic and services buildings on campus or to refinance prior issues. The bonds, originally issued in the amount of $38,340,000 from January 1998 through June 2004, mature in varying amounts through May 1, 2024, with interest payable at rates ranging from 3.0% to 5.0%. Student registration fees are pledged for debt service on these bonds. Total principal outstanding at June 30, 2012, was $8,790,000. As discussed below, on July 3, 2012, the remaining outstanding bond (Consolidated Education Buildings Revenue Bonds Series V) were advanced refunded as part of the 2012 Series A General Receipts Revenue bonds transaction.

General Receipts Revenue Bonds – On August 2, 2007, the University sold $12,920,000 of Eastern Kentucky University General Receipts and Refunding Bonds, Series 2007A, with a net interest rate of 4.41%. The proceeds of this bond issue provided funding for the renovation of the Sidney Clay Residence Hall and the refunding of the Eastern Kentucky University Housing System Revenue Bonds. The bonds mature in varying amounts through May 1, 2027. All of the revenues of the University, except federal and state grants and contracts, RUETF endowment matching grants, POD endowment, capital appropriations, and federal capital support are pledged for debt service on these bonds. During fiscal year 2015, $780,000 of principal and $364,625 of interest was paid on the bonds. Total outstanding principal at June 30, 2015, was $7,785,000.

(Continued)

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS (Continued)

On April 1, 2009, the University sold $12,095,000 of Eastern Kentucky University General Receipt Bonds, Series 2009A, at a net interest cost of 3.98%. The proceeds of this bond issue provided funding for the renovation of the Walters Residence Hall and the construction of intramural fields. The bonds mature in varying amounts through May 1, 2028. During fiscal year 2015, $645,000 of principal and $345,414 of interest were paid on the bonds. Total outstanding principal at June 30, 2015 was $8,480,000.

On December 8, 2011, the University sold $21,480,000 of Eastern Kentucky University General Receipt Bonds, Series 2011A, at a net interest cost of 3.74%. The proceeds of this bond issue provided funding for a new residence hall. The bonds mature in varying amounts through October 1, 2031. During fiscal year 2015, $855,000 of principal and $646,875 of interest were paid on the bonds. Total outstanding principal at June 30, 2015 was $18,965,000.

On July 3, 2012, the University sold $27,700,000 of Eastern Kentucky University General Receipts Refunding Bonds, 2012 Series A bonds, at an effective interest rate of 3.49% to advance refund Consolidated Education Revenue Bonds Series V (June 1, 2004, which refinanced outstanding Housing Revenue Series bonds and provided additional funding for the replacement of the campus underground electrical system) of $8,790,000 and a master lease (September 25, 2008 for an energy savings performance contract) of $21,863,227. The 2012 Series A bond agreement includes certain covenants and guidelines related to the University's indebtedness.

The net proceeds of $31,350,000 (including the Original Issuer's Premium) of the 2012 Series A Bonds were used (after payment of underwriting fees, insurance, and other issuance costs) to purchase U.S. government securities. Those securities were deposited to an irrevocable trust with an escrow agent to provide for all future debt service payments on those Series V bonds and the energy savings lease. As a result, the Series V bonds and energy savings lease are considered to be defeased and the liabilities for these obligations have been removed from the statement of Net Position. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,407,906. This difference, reported under GASB 65 (see Note 1) as a deferred outflow, is being charged to operations through the year 2024 using the effective-interest method. The University completed the advance refunding to reduce its total debt service payments over the next 12 years. The resulting savings on a present value basis is approximately $2.35 million.

During fiscal year 2015, $2,415,000 of principal and $1,091,000 of interest was paid on the bonds. The outstanding principal at June 30, 2015 is $20,390,000.

On April 7, 2015, the University sold $14,280,000 of Eastern Kentucky University General Receipt Bonds, Series 2015A, at a net interest cost of 3.26%. The proceeds of this bond issue provided funding for various athletic projects. The bonds mature in varying amounts through April 1, 2035. During fiscal year 2015, no principal or interest was paid on the bonds. Total outstanding principal at June 30, 2015 is $14,280,000.

(Continued)

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS (Continued)

Capital Lease Obligations – The University has capitalized certain buildings and equipment under various capital lease agreements. In June 2000, the University entered into a financing/lease agreement with the Commonwealth of Kentucky State Property and Buildings Commission to finance the Law Enforcement Basic Training Complex ("Project #66") in the amount of $20,350,000. During the 2002 fiscal year, the University entered into a second financing/lease agreement to finance the Law Enforcement Physical Skills Training Facility ("Project #75") in the amount of $7,075,000. In October 2003, the University entered into a $12,990,000 lease agreement with the Commonwealth of Kentucky State Property and Buildings Commission ("Project #80"), the proceeds of which were used primarily to retire $12,655,000 in lease payments due on the Project #66 lease agreement.

During the fiscal year 2009, the University entered into a master lease agreement with SunTrust Equipment Finance & Leasing Corporation in the amount of $25,364,000 to finance a campus-wide energy management project. As discussed above, this master lease agreement was completely refunded as of July 3, 2012 as part of the 2012 Series A Bonds transaction.

During fiscal year 2015, the University entered into a 20-year lease agreement with Grand Campus Properties, LLC, for a total of $62,698,878 over the life of the lease to be paid in annual rent payments. Grand Campus is an approximately 16-acre property adjacent to campus that holds 2 separate student housing dormitories containing a total of 512 bedrooms. The dormitories also have separate bathrooms, common areas, swimming pool, clubhouse, and parking lot among other amenities.

During fiscal year 2015, $1,625,000 of principal and $2,877,346 of interest were paid on the capital leases, respectively. The principal maturities and interest repayment requirements on bonds and capital leases are as follows:

	Principal	Interest	Total
Years ending June 30,			
2016	$ 7,644,140	$ 5,855,692	$ 13,499,832
2017	7,815,256	5,682,463	13,497,719
2018	8,050,664	5,426,290	13,476,954
2019	8,394,993	5,056,206	13,451,199
2020	8,708,353	4,864,769	13,573,122
2021-2025	25,555,945	17,291,254	42,847,199
2026-2030	22,036,524	10,668,013	32,704,537
2031-2033	19,908,410	15,555,601	35,464,011
	$ 108,114,285	$ 70,400,288	$ 178,514,573

Assets under capital leases at original cost totaled $39,890,000, with accumulated depreciation of $12,243,890 at June 30, 2015.

(Continued)

NOTE 7 – DESIGNATIONS OF UNRESTRICTED NET POSITION

Unrestricted Net Position is designated for specific purposes by action of the Board or University management or may otherwise be limited by contractual agreements. Commitments for the use of Unrestricted Net Position at June 30 are as follows:

	2015
Inventories	$ 373,957
Outstanding encumbrances	6,908,007
Departmental commitments	14,564,437
Designated projects and contingency reserves	6,290,277
Health care self-insurance reserve	3,000,000
Auxiliary working capital	11,271,110
University capital projects	9,344,775
KTRS Pension	(247,320,497)
KERS Pension	(137,125,316)
Total	$ (332,693,250)

NOTE 8 – ASSETS HELD BY OTHERS

The Regional University Excellence Trust Fund ("RUETF") was created by the Kentucky General Assembly with the passage of the Postsecondary Education Improvement Act of 1997 ("House Bill 1"). The RUETF Endowment Match Program, also known as "Bucks for Brains", provides state funds on a dollar-for-dollar match basis. Funds are endowed for the purposes of supporting endowed chairs and professorships. House Bill 1 also established two Eastern Kentucky University endowments for the support of nationally recognized Programs of Distinction ("PODs") for the College of Justice and Safety and for potential future additional Programs of Distinction. The College of Justice and Safety POD was liquidated in 2010 to fund an addition to the Stratton Building.

The total fair market value of the Eastern Kentucky University RUETF and POD endowment as of June 30, 2015 was $17,659,309.

The portion of the RUETF endowment representing the value of the funding received from the Kentucky General Assembly, plus unexpended earnings thereon, was $15,879,388 as of June 30, 2015, and is included in restricted assets held by the Foundation (see Note 2).

The fair market value of the Eastern Kentucky University POD endowments as of June 30, 2015 was $1,779,921, and is included in restricted assets held by the Foundation (see Note 2).

NOTE 9 – RELATED-PARTY TRANSACTIONS

The University and the Foundation are related parties. The University authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to the University. In addition, the Foundation incurs expenses for salaries of certain University staff; however, the salaries are paid by the University.

(Continued)

NOTE 9 – RELATED-PARTY TRANSACTIONS (Continued)

Related party transactions and funds held by the Foundation on behalf of the University are as follows as of and for the year ended June 30:

	2015
Funds disbursed by the University on behalf of the Foundation:	
For employee salaries and benefits	$ 68,248
For scholarships	646,570
Funds held by the Foundation on behalf of or for the benefit of the University as of June 30	17,659,310
Funds due to the University by the Foundation	430,502

NOTE 10 – PENSION PLANS

All full-time University faculty members and certain other staff occupying a position requiring certification or graduation from a four-year college or university as a condition of employment are covered by the Kentucky Teacher's Retirement System ("KTRS"), a defined benefit plan. KTRS, a cost sharing multiple-employer, public employment retirement system , provides retirement benefits based on the employee's highest three or five year average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age 60 or has less than 27 years of participation in the plan. The plan also provides for disability, death and survivor benefits and medical insurance. Under the plan, members hired prior to July 1, 2008 contribute 6.50% of their annual salary and the University contributes 14.18%. Employees participating in KTRS hired after June 1, 2008 contribute 7.16% and the University contributes 14.84%.

Effective August 1, 1996 optional 403(b) defined contribution retirement plans are available for new employees who would otherwise be covered by the KTRS. The providers of the optional retirement plans are Aetna (ING), TIAA/CREF, VALIC, and Fidelity. During the 2008 Kentucky legislative session, the General Assembly passed and the Governor signed, Senate Bill 65, a bill that changed the rate of payment the universities make toward the unfunded liability of the KTRS that is associated with optional retirement plan. The rate previously floated on the annual basis depending upon the unfunded liability of the KTRS. Senate Bill 65 changed the floating rate to a fixed rate of 5.1% effective April 7, 2008. The fixed rate is set to expire on July 1, 2048. As of April 7, 2008, the employee contribution to their selected plan is 6.16% of their annual salary. As determined by the KTRS Board of Trustees, the University contributes 8.74% and also provides an additional 5.10% to KTRS as an unfunded liability.

The KTRS issues a publicly available financial report with required supplementary schedules and a report on the audit of schedules of employer allocations and schedules of pension amounts by employer for KTRS. These reports may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, KY 40601, or visiting the website at http://ktrs.ky.gov.

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.0 - 8.20 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense, including inflation

(Continued)

NOTE 10 – PENSION PLANS (Continued)

Mortality rates were based on the RP-2000 combined mortality table for males or females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a set back of 1 year for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2010.

Discount Rate Assumptions:

(a) Discount rate: The discount rate used to measure the total pension liability was 5.23%.

(b) Projected cash flows: The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rates and that employer contributions will be made at the statutorily required rates.

(c) Long term rate of return: The long-term rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(d) Municipal bond rate: The discount rate determination does use a municipal bond rate (4.35%).

(e) Periods of projected benefit payments: The pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035.

(f) Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	45%	6.40%
International equity	17%	6.50%
Fixed income	24%	1.60%
High yield bonds	4%	3.10%
Real estate	4%	5.80%
Alternatives	4%	6.80%
Cash	2%	1.50%
Total	100%	

(Continued)

NOTE 10 – PENSION PLANS (Continued)

(g) Sensitivity analysis: This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the Eastern Kentucky University's allocated portion of the net pension liability ("NPL") of the system, calculated using the discount rate of 5.23 percent, as well as what the allocated portion of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.23 percent) or one percentage-point higher (6.23 percent) than the current rate:

	1% Decrease (4.23%)	Current Discount Rate (5.23%)	1% Increase (6.23%)
Eastern Kentucky University proportionate share of net pension liability (in thousands)	$ 297,774	$ 237,056	$ 186,947

Contributions: Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.540, 161.550 and 161.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. For the fiscal year ended June 30, 2015, University employees were required to contribute 7.68 percent of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.36 percent of covered payroll. The actuarially determined amount, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The University's total contributions to KTRS for the years ending June 30, 2015 and 2014 were $7,235,381 and $8,529,378, respectively, and were equal to the required contributions for the year. In addition, the Commonwealth of Kentucky contributes ad hoc annual cost of living adjustments provided by the General Assembly for KTRS retirees. These contributions totaled $967,817 for the year ending June 30, 2014 and are approximately $1,175,000 for the year ending June 30, 2015.

Collective Net Pension Liability*:* At June 30, 2015, the University reported a liability for its proportionate share of the net pension liability that reflected a reduction for pension support provided to the University by the Commonwealth of Kentucky. The amount recognized by the University as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the University were as follows:

University's proportionate share of the net pension liability	$ 237,056,212
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	26,898,447
	$ 263,954,659

The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on the University's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2014, the University's proportion was 1.10 percent and the Commonwealth of Kentucky's proportion associated with the University was 0.12 percent.

(Continued)

NOTE 10 – PENSION PLANS (Continued)

Measurement Date: June 30, 2013 is the actuarial valuation date upon which the TPL is based. An expected TPL is determined as of June 30, 2014 using standard roll forward techniques. The procedure used to determine the TPL as of June 30, 2014 is shown in the GASB 67 report for KTRS submitted on December 11, 2014.

Changes in Assumptions and Benefit Terms: A change in the municipal bond index rate from the prior measurement date to the measurement date resulting in the SEIR changing from 5.13% at the prior measurement date to 5.23% at the measurement date. The change in the discount rate is considered a change in actuarial assumptions under GASB 68.

Changes Since Measurement Date: There were no changes in assumptions or benefit terms since the prior measurement date.

Pension Expense: For the year ended June 30, 2015, the University recognized pension expense of $12,934,065 and revenue of $1,318,053 for support provided by the Commonwealth of Kentucky.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. As noted in the previous section, the amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive system members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period.

The table below provides a summary of the deferred inflows and outflows as of the measurement date.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions or other inputs	$ -	$ 3,207,657
Net difference between projected and actual earnings on pension plan investments	-	14,292,009
Employer contributions subsequent to the measurement date	7,235,381	-
Total	$ 7,235,381	$ 17,499,666

(Continued)

NOTE 10 – PENSION PLANS (Continued)

At June 30, 2015, the University reported $7,235,381 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Deferred inflows of resources at June 30, 2015, related to pensions will be recognized in pension expense as follows:

Deferred Amounts to be recognized in Fiscal Years
Following the Reporting Date

Fiscal Years	Amount
2016	$ 4,241,338
2017	4,241,338
2018	4,241,338
2019	4,241,338
2020	534,314
Total	$ 17,499,666

Substantially all other full-time University employees are required by law to participate in the Kentucky Employees Retirement System (“KERS”), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System ("KRS"), an agency of the Commonwealth. Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees (“Board”) of KRS administers the KERS, County Employees Retirement System and State Police Retirement System. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to members of that plan, and a pro rate share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630.

More specifically, within KERS, Eastern Kentucky University employees participate in the non-hazardous portion of the plan, which covers all regular full-time members employed in non-hazardous duty positions of any state department, board, or agency directed by executive order to participate in KERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may also be extended to beneficiaries of plan members under certain circumstances.

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of KRS also administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by KRS. The assets of the insurance fund are invested as a whole. The KERS issues a publicly available financial report that includes financial statements and required supplementary information for the KERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

(Continued)

NOTE 10 – PENSION PLANS (Continued)

Benefits Provided: The information below summarizes the major retirement benefit provisions of KERS-Non-Hazardous. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

Non-Hazardous Normal Retirement:

Members whose participation began before 8/1/2004:

Age requirement:	65
Service requirement:	At least one month of non-hazardous duty service credit.
Amount:	If a member has at least 48 months of service, the monthly benefit is 1.97% times final average compensation times years of service. For members who were participants in any one of the state retirement systems from January 1, 1998 through January 1, 199, the benefit factor is 2.00%. For those members who retired between January 1, 1999 and January 31, 2009 with at least 240 months of service, the benefit factor is 2.20%. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 8/1/2004, but before 9/1/2008:

Age requirement:	65
Service requirement:	At least one month of non-hazardous duty service credit.
Amount:	If a member has at least 48 months of service, the monthly benefit is 2.00% multiplied by final average compensation, multiplied by years of service. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

(Continued)

NOTE 10 – PENSION PLANS (Continued)

Members whose participation began on or after 9/1/2008 but before 1/1/2014:

Age/Service Requirement: Age 65 with 60 months of non-hazardous duty service credit, or age 57 if age plus service equals at least 87

Amount: The monthly benefit is the following benefit factor based on service credit at retirement plus 2.00% for each year of service greater than 30 years, multiplied by final average compensation, multiplied by years of service.

Service Credit	Benefit Factor
10 years or less	1.10%
10 - 20 years	1.30%
20 - 26 years	1.50%
26 - 30 years	1.75%

Final compensation is calculated by taking the average of the last (not highest) five (5) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

Members whose participation began on or after 1/1/2014:

Age/Service Requirement: Age 65 with 60 months of non-hazardous duty service credit, or age 57 if age plus service equals at least 87

Amount: Each year that a member is an active contributing member to the system, the member and the member's employer will contribute 5.00% and 4.00%, respectively, of creditable compensation into a hypothetical account. The hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the system's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year.

Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the system as a lump sum or annuitized into a single life annuity option.

(Continued)

NOTE 10 – PENSION PLANS (Continued)

Contributions: For the fiscal year ended June 30, 2015, plan members who began participating prior to September 1, 2008 were required to contribute 5% of their annual creditable compensation. The Commonwealth was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the fiscal years ended June 30, 2015 and 2014, participating employers contributed 38.77% and 26.79%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2015 were and 45.28%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investments earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the one percent was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the pension fund (see Kentucky Administrative Regulation 105KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the cash balance plan. The cash balance plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense, including inflation

(Continued)

NOTE 10 – PENSION PLANS (Continued)

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2008.

Discount Rate Assumptions:

(a) Discount rate: The discount rate used to measure the total pension liability was 7.75%.

(b) Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

(c) Long-term rate of return: The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the system. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(d) Municipal bond rate: The discount rate determination does not use a municipal bond rate.

(e) Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2116. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

NOTE 10 – PENSION PLANS (Continued)

(f) Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30%	8.45%
International equity	22%	8.85%
Emerging market equity	5%	10.50%
Private equity	7%	1.25%
Real estate	5%	7.00%
Core U.S. fixed income	10%	5.25%
High-Yield U.S. fixed income	5%	7.25%
Non-U.S. fixed income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	100%	

(g) Sensitivity analysis: This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the Eastern Kentucky University's allocated portion of the net pension liability ("NPL") of the system, calculated using the discount rate of 7.75 percent, as well as what the allocated portion of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage-point higher (8.75 percent) than the current rate (in thousands):

	1% Decrease (6,75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Eastern Kentucky University's proportionate share of net pension liability (in thousands)	$ 162,050	$ 144,048	$ 127,818

Employer's Portion of the Collective Net Pension Liability: The proportionate share of the NPL, as indicated in the prior table, is $144,048,296 or 1.61%. The liability was distributed based on 2014 actual employer contributions to the plan.

Measurement Date: June 30, 2014 is the actuarial valuation date upon which the TPL is based. No update procedures were used to determine the TPL. An expected TPL is determined as of July 1, 2013 using standard roll back techniques. The roll back calculation subtracts the annual normal cost (also called the service costs), adds the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The procedure was used to determine the TPL as of July 1, 2013, as shown in the GASB 67 report for KERS submitted on November 17, 2014.

Changes in Assumptions and Benefit Terms: There were no changes in assumptions or benefit terms since the prior measurement date.

NOTE 10 – PENSION PLANS (Continued)

Changes Since Measurement Date: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Pension Expense: Eastern Kentucky University recognized $10,887,000 of pension expense during 2015.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. As noted in the previous section, the amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive system members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period.

The table below provides a summary of the deferred inflows and outflows as of the measurement date.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 1,851,280
Employer contributions subsequent to the measurement date	8,774,260	-
Total	$ 8,774,260	$ 1,851,280

At June 30, 2015, the University reported $8,774,260 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Deferred inflows of resources at June 30, 2015, related to pensions will be recognized in pension expense as follows:

Deferred Amounts to be Recognized in Fiscal Years
Following the Reporting Date

Fiscal Years	Amount
2016	$ 462,820
2017	462,820
2018	462,820
2019	462,820
Total	$ 1,851,280

(Continued)

NOTE 10 – PENSION PLANS (Continued)

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.5 percent
Salary increase	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Summary Pension Plan Information:

	KERS	KTRS	Total
Net pension liability	$ 144,048,296	$ 237,056,212	$ 381,104,508
Deferred outflows of resources	8,774,260	7,235,381	16,009,641
Deferred inflows of resources	1,851,280	17,499,666	19,350,946
Pension expense	10,887,000	12,934,065	23,821,065

NOTE 11 – RISK MANAGEMENT

The University is exposed to various risks of loss from torts, theft of, damage to or destruction of assets, business interruption, workers' compensation, employee injuries and illnesses, natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from these risks, other than employee health. Settled claims have not exceeded this commercial coverage in any of the three preceding years. As a sovereign entity of the Commonwealth, the Kentucky Board of Claims handles tort claims on behalf of the University.

The University maintains a self-insurance program for employee's health insurance. Under this plan, the University pays premiums based on estimated claims. The University pays approximately 75% of the expenses of the plan for permanent full-time employees and their families. Expenses incurred to cover claims paid by the University under the plan for year ended June 30, 2015, totaled $14,527,416. Administrative fees incurred for the year ended June 30, 2015, were $890,296.

(Continued)

NOTE 11 – RISK MANAGEMENT (Continued)

Changes in the liability for self-insurance at June 30 are as follows:

	2015
Liability – beginning of year	$ 1,823,611
Accruals for current year claims and changes in estimate	16,387,182
Claims paid	(14,527,416)
Other costs	(1,856,886)
Liability – end of year	$ 1,826,491

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Construction Commitments – The estimated cost to complete construction projects under contract at June 30, 2015, is approximately $179.4 million. The projects are to be financed principally by appropriations from the Commonwealth, proceeds from bonds, internal funds and gifts.

Claims and Litigation – The University is subject to various litigation and other claims in the ordinary course of business. University officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the University's financial position or results of operations.

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 of unused grant proceeds or disallowed expenditures. University management believes disallowances, if any, will not have a material adverse effect on the University's financial statements. Upon notification of final approval by the granting department or agency, the grants are considered closed.

NOTE 13 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the years ended June 30 are as follows:

	2015
Salaries and wages	$ 133,134,690
Employee benefits	50,913,514
Supplies and other services	56,183,010
Travel	5,391,713
Depreciation	17,554,374
Student scholarships and financial aid	11,195,562
Utilities	8,011,376
Pension expense	6,493,146
Other operating expenses	2,613,068
Total	$ 291,490,453

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Eastern Kentucky University Foundation, Inc. ("Foundation") is a corporation formed for educational, charitable, and public purposes in accordance with the provisions of KRS 273.0010. The Foundation is a component unit of Eastern Kentucky University ("University"). Specifically, it was founded to cooperate with the University and with the University's Board of Regents ("Board") in the promotion of the educational, civic, and charitable purposes of the University and the Board in any lawful manner deemed appropriate by the Foundation's Board of Directors. This purpose includes the encouragement of scholarship and research, the promotion of the prestige, expansion, and development of the University's physical plant and faculty, and the assistance of its students and alumni.

Basis of Presentation - The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Under established financial reporting standards for not-for-profit organizations, net assets, revenues, expenses, and gains (losses) are classified based on the existence or absence of donor imposed restrictions.

(Continued)

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets, except that contributions which impose restrictions that are met in the same fiscal year they are received are included in unrestricted revenues. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

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

Cash and Cash Equivalents - The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. Periodically throughout the year, the Foundation's cash and cash equivalents balances exceed the amount insured by the Federal Deposit Insurance Corporation.

Investments - Investments in equity securities having a readily determinable market value and all debt securities are carried at fair value. Income from investments includes dividends and interest income and realized and unrealized gains and losses on investments reported at fair value. Income from investments which is initially restricted by donor stipulation and for which the restriction will be satisfied in the same fiscal year is included in unrestricted net assets. Other income from investments is reflected in the accompanying statement of activities as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.
Alternative investments, consisting of hedge funds and limited partnerships, are carried at estimated fair value provided by the management of the alternative investment funds as of year-end. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. The estimated fair value of the Foundation's alternative investments total approximately $5,022,000 as of June 30, 2015.

The Foundation invests the endowment matching funds for the Regional University Endowment Trust Fund on behalf of the University. Dividends and interest income and realized and unrealized gains and losses on investments are allocated between the Foundation and the University based on the percentage of investments owned.

The Foundation previously adopted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). Under UPMIFA, net appreciation on endowment fund investments, whose income is otherwise unrestricted as to use, is reported as temporarily restricted net assets until appropriated for expenditure by the Foundation, unless the donor has permanently restricted such net appreciation. In cases where the donor has placed temporary restrictions on the use of the income from endowed gifts, related net appreciation is subject to those restrictions and is reported as a part of temporarily restricted net assets until the restriction has been met.

(Continued)

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - Property and equipment is stated at cost and is depreciated on the straight-line method over the estimated useful lives of the assets; 40-50 years for buildings and building improvements, 15-20 years for land improvements, and 5-15 years for equipment. The Foundation's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Renovations to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expenses are incurred.

The Foundation reviews for the impairment of long-lived assets subject to depreciation and amortization, including property and equipment, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. No such impairment losses have been recognized with respect to year ended June 30, 2015.

Deferred Gift Liabilities - The carrying amount for deferred gift liabilities is the actuarially determined present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements.

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

Contributions - Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with donor stipulations that limit their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

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

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

(Continued)

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional promises to give expected to be collected within one year are reported at their net realizable value. Unconditional promises to give expected to be collected in future years are recorded at the present value of estimated future cash flows. The resulting discount is computed using a risk-free interest rate applicable to the years in which the unconditional promises are received (discount rates ranging from 1.14% to 6.09%). Amortization using the level-yield method is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Income Taxes - The Internal Revenue Service ("IRS") has determined that the Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code ("Code"). The Foundation is however subject to federal income tax on any unrelated business taxable income. Additionally, the Foundation has been determined by the IRS not to be a private foundation within the context of Section 509(a) of the Code.

GAAP prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits or liabilities will be recognized only if the tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit or liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely- than-not test, no tax benefit or liability will be recorded. Management is not aware of any tax benefits or liabilities which would warrant recognition as of June 30, 2015, nor does it expect this to change in the next 12 months.

The Foundation would recognize interest and penalties related to uncertain tax positions in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties as of June 30, 2015.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Foundation's exposure to foreign currency risk derives from pooled non-U.S. equity fund investments with a fair value totaling approximately $14,998,000 as of June 30, 2015. The Foundation's endowment investment policy allows managers to invest a portion of funds in non-U.S. securities in accordance with the guidelines established in the investment policy.

Subsequent Events - Management has performed an analysis of the activities and transactions subsequent to year-end to determine the need for any adjustments to and/or discussions within the accompanying financial statements as of and for the year ended June 30, 2015. Management has performed its analysis through the date of the Independent Auditor's Report, the date the financial statements were available to be issued.

(Continued)

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

B. FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

This guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are described below:

- Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value of financial instruments as of June 30, 2015 is as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs Level 3
Money market funds	$ 6,150,253	$ 6,150,253	$ -	$ -
Equities	36,424,867	36,424,867	-	-
Fixed income	13,128,921	13,128,921	-	-
Alternatives:				
Hedge funds	2,019,394	-	2,019,394	-
Limited partnerships	3,002,196	-	-	3,002,196
	$ 60,725,631	$ 55,704,041	$ 2,019,394	$ 3,002,196

The fair values of money market funds, equity investments, and fixed income investments are determined using quoted market prices and are classified as Level 1 financial instruments. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions, and third-party pricing services.

(Continued)

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

For other investments for which there is no active market, generally referred to as "alternative investments," such as alternative hedge funds and private equities, the fair values are initially based on valuations determined by the respective investment managers using net asset values ("NAVs") as of their most recent statements, adjusted for cash receipts, cash disbursements, and other anticipated income or loss through June 30. The NAVs of the funds are determined on the accrual basis of accounting in conformity with GAAP; in certain instances, secondary investments require reporting other than GAAP such as International Financial Reporting Standards or Tax Basis accounting, in which case the investment managers adjust values to more accurately comply with GAAP. The managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. For holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values. Holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, appraisals, and/or the income approach. Pursuant to GAAP, management has considered redemption restrictions to assess classification of fair value inputs. For alternative investments with redemption periods of 90 days or less, the assets are considered a Level 2 fair value measurement. Investments that are redeemable in greater than 90 days are considered a Level 3 fair value measurement due to the inability to redeem the asset at NAV in the near term.

Management has performed an independent review of valuations reported by investment managers and determined that NAV is a reasonable and prudent estimate of fair value. Alternative investments are not readily marketable and their estimated value is subject to uncertainty. Therefore, there may be a material difference between their estimated value and the value that would have been used had a readily determinable fair value for such investments existed.

Description of Alternative Investments Strategy and Liquidity

As of June 30, 2015, the Foundation's alternative investments consist of hedge funds and limited partnerships. Additional disclosure relative to the underlying strategies for these types of investments is as follows:

- **Hedge funds** - As of June 30, 2015, the Foundation invests in various hedge funds which employ the following investment strategies. The categories represent the variety of investment strategies used rather than a description of each hedge fund.

  1) Equity hedged - The strategy of these funds is to take long positions in equities that are perceived to be undervalued and go short on equities that are perceived to be overvalued.

  2) Event driven - This strategy invests in debt securities created by significant transactional events such as spin-offs, mergers and acquisitions, bankruptcy reorganizations, and recapitalizations.

  3) Capital structure arbitrage - The strategy of these funds typically involves taking long and short positions in different financial instruments and asset classes within the capital structure of the same company (debt and equity investments).

(Continued)

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

4) Convertible arbitrage - The strategy of these funds is to take long positions in convertible securities and hedge those positions by selling short the underlying common stock.

5) Fixed income arbitrage - The strategy of these funds is to take long positions in fixed income securities and hedge those positions by selling short the underlying common stock.

6) Long/short - This strategy consists of a core holding of long equities hedged at all times with short sales of stocks and/or stock index options.

7) Macro - The strategy of these funds is to invest by making leveraged bets on anticipated price movements of stock markets, interest rates, foreign exchange rates, and physical commodities.

8) Multi-strategy - The objective of these funds is to strategically allocate capital to various hedge fund strategies based on their perceived risk and return profiles.

9) Volatility arbitrage - This strategy undertakes the buying and selling of volatility, primarily using options across various markets to take advantage of dislocations in volatility created by directional investors.

- **Limited partnerships -** As of June 30, 2015, the Foundation invests in various limited partnerships which employ the following investment strategies. The categories represent the variety of strategies used rather than a description of each limited partnership.

1) Buyout funds - These funds invest in more established companies that are in need of repair or growth to boost returns. Generally, interests are purchased through some combination of preferred shares and debt. There are various investment opportunities in buyout, such as “buy and build,” “spinoffs,” ”ownership transitions,” and “recapitalizations.”

2) Debt funds - These funds provide lending to companies that are being restructured or re-capitalized. Among debt funds, there are two major sub-sectors: mezzanine debt and distressed debt. Mezzanine funds initiate lending to companies of all sizes, both private and public. Mezzanine funds have a subordinated claim on the underlying assets relative to senior lenders (banks, bondholders, etc.) and, in return, can charge a higher interest rate on the debt. Distressed debt funds buy existing public and/or private debt of distressed companies. Distressed debt funds can be further broken down into two groups: 1) those where the general partners take control of the distressed companies and work through the bankruptcy process to pick new managers and strategies for restructuring, and 2) those where the general partners do not take control of these companies, but instead focus on trading the distressed securities.

(Continued)

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

3) Funds of funds (FOFs) - These funds invest in several partnerships within private equity (venture, buyout, debt, and real estate). FOFs that commit capital to many partnerships in one sector (such as biotech, software, or telecommunications) or one sub-class (all venture funds or all debt funds) are called “concentrating” funds. FOFs that invest across sectors and sub-classes are “diversifying” funds. There are also FOFs, referred to as “hybrid” funds, which mix investments in limited partnerships with direct investments in underlying platforms. Finally, FOFs that buy existing partnerships that are for resale are referred to as “secondaries” funds.

4) Real estate funds - These funds provide capital to meet a number of different needs including new construction, renovation, or a change in property ownership or management. These investments may involve equity or debt. The major sub-sectors that comprise equity investments include the purchase of land (including timberland and farmland), the purchase of fully or partially leased commercial properties, and the purchase of renovation properties (buying existing properties and upgrading them), as well as investments in new construction (called “development”). There are also investments that can be made on the debt side, including first mortgage lending, mezzanine lending, distressed lending (senior lending to troubled assets), and the purchase of real estate bank loans (pools of loans sold off by banks that want to lower the level of reserve capital that must be held against suchloans).

5) Venture capital funds - These funds invest in young companies with varying degrees of infrastructure, revenues, and profits. Investments are typically made in cash through the purchase of preferred shares in the company. If the investment is in a concept alone, it is called “see stage.” Depending on the degree to which the product line is complete, management positions are fully staffed, revenues are being generated, and/or profits are being made, the investments are referred to as “early stage” (very new companies, largely undeveloped), “mid stage” (more infrastructure, but no profits), and “late stage” (sufficiently developed to possibly issue public stock or to soon attract interest from a strategic buyer).

The following table provides additional information as of June 30, 2015 relative to alternative investments:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds	$ 2,019,394	$ -	Quarterly	60 days
Limited partnerships	3,002,196	-	Fund Dissolved	N/A

The respective limited partnerships have incorporation dates ranging from 2005 to 2008. Each of the limited partnerships have a term of fifteen years, provided, however, that the fund manager, in its sole discretion, may elect to extend such term for up to three one-year periods if it believes such extensions are necessary or desirable in order to effect an orderly liquidation of the limited partnership investments. The fund manager may, in its sole discretion, elect to terminate the limited partnership prior to the end of the term or any extension period.

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The year ended June 30, 2015 activity with respect to the investments reflected as Level 3 is as follows:

Beginning of year	$ 3,454,404
Net gains or losses (realized/unrealized) included in the change in net assets	(467,608)
Purchases, issuances, and settlements	15,400
End of year	$ 3,002,196

The amount of total gains or losses for the year ended June 30, 2015 relating to Level 3 investments still held at June 30, 2015 is as follows:

Limited partnerships	$ (467,608)

See also Note 14, Letter G with respect to deferred gift liabilities (Level 3 fair value measurement).

C. ENDOWMENT

The Foundation's endowment consist of approximately 400 individual funds established for a variety of purposes. The endowment includes both donor restricted endowment funds and funds designated by the Foundation's Board Directors to function as endowments (Board designated endowment funds). As required by GAAP, net assets associated with endowment funds, including funds designated by the Foundation's Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

In 2010, the *Uniform Prudent Management of Institutional Funds Act* ("UPMIFA") was adopted by the Commonwealth of Kentucky. The Foundation interprets UPMIFA 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 Foundation 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 Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

(Continued)

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

C. ENDOWMENT (Continued)

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The purposes of the endowment fund
- The duration and preservation of the endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the "historic dollar value" level the Foundation is required to preserve as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported in unrestricted net assets. There are no such funds with deficiencies as of June 30, 2015.

At June 30, 2015, endowment net assets consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 5,524,453	$ -	$ -	$ 5,524,453
Donor restricted	-	13,223,408	26,451,874	39,675,282
	$ 5,524,453	$13,223,408	$26,451,874	$45,199,735

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 2,804,406	$15,979,176	$24,901,206	$43,684,788
Contributions	2,472,687	-	1,550,668	4,023,355
Investment return				
Net investment income	148,273	1,012,699	-	1,160,972
Net unrealized and realized appreciation (depreciation)	125,980	(880,807)	-	(754,827)
Appropriation of endowment assets for expenditure	(26,893)	(2,887,660)	-	(2,914,553)
End of year	$ 5,524,453	$13,223,408	$26,451,874	$45,199,735

(Continued)

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

C. ENDOWMENT (Continued)

Return Objectives and Risk Parameters - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain over time the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Foundation must hold in perpetuity or for a donor specified period(s), as well as Board designated funds. Under the Foundation's policies, endowment assets are invested in a manner that emphasizes total return. Specifically, the primary objective is to emphasize long-term growth of principal while avoiding excessive risk, to achieve a balanced return of current income and modest growth of principal, and to achieve a rate of return equal to or higher than the Endowment and Foundation Index or other benchmarks as determined by the Foundation's Board of Directors.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (dividends and interest). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The endowment assets of the Foundation are invested in a broad range of equities and debt securities, thereby limiting the market risk exposure in any single investment manager or individual investment.

Spending Policy and How the Investment Objectives Relate to the Spending Policy - The Foundation has a policy of appropriating for distribution each year up to 5.0% of a three year rolling average of the fund's value. Likewise, it is the policy of the Foundation that, annually, up to 1.5% of a three year rolling average of the fund's value be designated for unrestricted use by the Foundation in furtherance of its singular mission to provide support for the advancement of the University. The policies are monitored by the Executive Committee of the Foundation's Board of Directors and may be amended in accordance with market conditions. Earnings above the annually designated portions are reinvested in the corpus to insure long-term growth and stability.

(Continued)

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

D. PLEDGES RECEIVABLE

At June 30, 2015, net pledges receivable consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current pledges receivable:				
Estimated to be collected in less than one year	$ -	$ 26,318	$ 92,400	$ 118,718
Less allowance	-	-	(40,478)	(40,478)
	$ -	$ 26,318	$ 51,922	$ 78,240
Long-term pledges receivable:				
Estimated to be collected in one to five years	$ -	$ 53,756	$ 27,000	$ 80,756
Estimated to be collected thereafter	-	-	100	100
Less allowance	-	-	(21,239)	(21,239)
Less discounts to net present value	-	(10,612)	(5,861)	(16,473)
	$ -	$ 43,144	$ -	$ 43,144
	$ -	$ 69,462	$ 51,922	$ 121,384

E. PROPERTY AND EQUIPMENT

At June 30, 2015, net property and equipment consists of the following:

Land	$ 1,558,723
Land improvements	523,225
Buildings and building improvements	3,435,083
	5,517,031
Less accumulated depreciation	(897,695)
	$ 4,619,336

During the year ended June 30, 2015, the Foundation contributed to the University certain fixed assets with a net book value totaling approximately $977,000 (see also Note 14, Letter I). Such items largely represented contributions received over time by the Foundation on the University's behalf.

Depreciation expense for the year ended June 30, 2015 totals $191,614.

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

F. NOTE PAYABLE

During the year ended June 30, 2014, the Foundation entered into a $1,500,000 commercial bank note payable, the proceeds of which were used to retire the Variable Rate Demand Economic Development Revenue Bonds, Series 2008 issuance. The uncollateralized/unsecured bank note payable bears interest at fixed rate of 2.97% and is payable in monthly principal and interest payments totaling $24,665 through May 2019, with a final balloon payment due at maturity (June 2019). The outstanding principal balance at June 30, 2015 is $1,115,466.

At June 30, 2015, the aggregate maturities required on the bank note payable are as follows:

Year ending June 30	
2016	$ 266,441
2017	274,463
2018	282,726
2019	291,836
	$ 1,115,466

G. DEFERRED GIFT LIABILITIES

Over time, the Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value.

The accompanying statement of financial position reflects a liability at June 30, 2015 totaling $348,495, which represents the estimated present value of the future annuity obligations calculated using discount rates ranging from 5.5% to 8.4%. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancy, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate (represents the discount rate at the date of the contribution determined in accordance with the Internal Revenue Code). The carrying amount of the deferred gift liabilities estimates fair value and is calculated using Level 3 inputs (see also Note 2).

The year ended June 30, 2015 activity with respect to deferred gift liabilities is as follows:

Beginning of year	$ 364,328
Payment obligations	(10,837)
Net actuarial gain	(4,996)
End of year	$ 348,495

At June 30, 2015, investments (which are reflected at fair value) relative to such deferred gift liabilities total $642,352.

(Continued)

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

H. ASSETS HELD FOR OTHERS

Assets held for others represent resources in the possession of, but not under the control of, the Foundation. At June 30, 2015, assets held for others consist of the following:

Regional University Endowment Trust Fund	$ 15,879,388
Programs of Distinction	1,779,921
	$ 17,659,309

I. RELATED PARTY TRANSACTIONS

Eastern Kentucky University - The University provides various administrative services to the Foundation. In addition, during the year ended June 30, 2015, the University expended $646,570 and $68,248 on behalf of the Foundation with respect to scholarships and employee salaries/related benefits. Such amounts are ultimately reimbursed by the Foundation. At June 30, 2015, the amount due to the University totals $430,502. Such amount is reflected as due to related party per the accompanying statement of financial position.

As indicated in Note 14, Letter E, during the year ended June 30, 2015, the Foundation transferred to the University certain fixed assets with a net book value totaling approximately $977,000.

Arlington Golf Course - The Foundation owns the Arlington Golf Course property (a golf course built and owned by the Foundation on Foundation owned property; $3,976,830 of the gross property and equipment amount per Note 14, Letter E). The Foundation leases such property to Arlington Association, Inc. (“Arlington”) under the terms of a year-to-year lease agreement which can be terminated by either party with notice. Currently, the monthly lease payment is $24,665. Arlington bears all expenses associated with the operation and maintenance of the golf course and related facilities. Arlington receives the related income from the operation thereof. Various University departments are permitted to use the golf course and related facilities for instructional purposes. At June 30, 2015, Arlington owes the Foundation $1,406,484 with respect to unpaid lease payments.

Additionally, at June 30, 2015, Arlington owes the Foundation $329,982 under the terms of a $400,000 line of credit agreement (in addition to $270,000 borrowed by Arlington from May 2011 through February 2012 under a separate borrowing arrangement), the proceeds of which have been used by Arlington to fund on-going capital improvements to the golf course and related facilities. The line of credit bears interest at 4.0%. Interest is paid monthly. The line of credit agreement does not provide for a maturity date.

Lastly, at June 30, 2015, Arlington is also indebted to the Foundation in the amount of $348,608. Such amount represents an obligation originally due from Arlington to the University which the University then subsequently “transferred” to the Foundation in 2009.

Based upon management’s review of the financial condition of Arlington and its operating activity, an allowance totaling $2,355,074 has been provided as of June 30, 2015. Such allowance amount represents 100% of the various amounts due from Arlington as of June 30, 2015. Bad debts expense per the accompanying statement of activities totals $758,267, $750,391 of which represents increasing the Arlington related allowance during the year ended June 30, 2015.

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

I. RELATED PARTY TRANSACTIONS (Continued)

Other - At June 30, 2015, outstanding gross pledges receivable due from related parties (members of the Foundation's Board of Directors) total $41,381. Such gross pledges receivable amounts are included in the amounts reflected in Note 14, D.

J. PRIOR PERIOD ADJUSTMENTS AND RECLASSIFICATION

During 2015, management made the determination that certain pledges receivable had previously been misstated ($355,402 and $100 decrease in permanently and temporarily restricted net assets, respectively) and that the cash surrender value of life insurance had not previously been recorded ($205,832 increase in unrestricted net assets). Accordingly, net assets as previously reported as of July 1, 2014 decreased from $50,896,148 to $50,746,478. The $149,670 restatement had no effect on the previously reported change in net assets as of and for the year ended June 30, 2014.

During 2015, management also made the determination that certain unrestricted ($2,276,465) and temporarily restricted ($250,031) net assets as of June 30, 2014 were misclassified as permanently restricted. The classifications of unrestricted, temporarily restricted, and permanently restricted net assets as of July 1, 2014 have been restated to correct the misclassifications. The $2,526,496 reclassification had no effect on the previously reported change in net assets as of and for the year ended June 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(in thousands)
June 30, 2015

KERS		2015
University's proportion of the net pension liability		1.61%
University's proportionate share of the net pension liability	$	144,048
University's covered-employee payroll	$	27,312
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll		527.42%
Plan fiduciary net position as a percentage of the total pension liability		22.32%

KTRS		2015
University's proportion of the net pension liability		1.10%
University's proportionate share of the net pension liability	$	237,056
State's proportionate share of the net pension liability associated with the University		26,899
Total	$	263,955
University's covered-employee payroll	$	53,531
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll		442.84%
Plan fiduciary net position as a percentage of the total pension liability		45.59%

* The amounts presented for each fiscal year were determined as of the year end that occurred one year prior.

** This is a ten-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE UNIVERSITY'S CONTRIBUTIONS
(in thousands)
June 30, 2015

KERS	2015
Contractually required contribution	$ 8,774
Contributions in relation to the contractually required contribution	(8,774)
Contribution deficiency (excess)	$ -
University's covered-employee payroll	$ 27,312
Contributions as a percentage of covered-employee payroll	32.13%

KTRS	2015
Contractually required contribution	$ 7,235
Contributions in relation to the contractually required contribution	(7,235)
Contribution deficiency (excess)	$ -
University's covered-employee payroll	$ 53,531
Contributions as a percentage of covered-employee payroll	13.52%

* This is a ten-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITOR'S 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*

Board of Regents
Eastern Kentucky University and
The Secretary of Finance and Administration
Cabinet of the Commonwealth of Kentucky

We have audited, in accordance with the 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, the financial statements of the business-type activities and the discretely presented component unit of Eastern Kentucky University ("the University" or "University") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 30, 2015. Our report includes a reference to other auditors who audited the financial statements of Eastern Kentucky University Foundation, Inc., as described in our report on the University's financial statements. The financial statement of Eastern Kentucky University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 30, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Regents
Eastern Kentucky University and
The Secretary of Finance and Administration
Cabinet of the Commonwealth of Kentucky

Report on Compliance for Each Major Federal Program

We have audited Eastern Kentucky University's ("the University" or "University") compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2015. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance 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, 2015.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 30, 2015

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct Programs –			
Student Financial Aid Cluster			
Federal Pell Grant Program		84.063	$ 26,561,242
Federal Supplemental Educational Opportunity Grant		84.007	572,683
Federal Work Study Program		84.033	656,161
Federal Work Study Service Tutors		84.033	52,277
Federal Work Study Job Location/ Development		84.033	49,995
Federal Perkins Loan Program		84.038	850,392
Teach Grant		84.379	33,981
Federal Direct Student Loan - PLUS		84.268	12,275,171
Federal Direct Student Loan		84.268	81,408,681
Total Student Financial Aid Cluster			122,460,583
TRIO Cluster			
NOVA Student Support Services FY 13		84.042A	3,950
NOVA Student Support Services FY 14		84.042A	56,981
NOVA Student Support Services FY 15		84.042A	280,433
Educational Talent Search FY 14		84.044A	57,673
Educational Talent Search FY 15		84.044A	275,733
Upward Bound 2014		84.047A	1,965
Upward Bound 2015		84.047A	427,390
Upward Bound 2016		84.047A	77,666
Ronald McNair Post Baccalaureate Program FY 13		84.217A	2,461
Ronald McNair Post Baccalaureate Program FY 14		84.217A	65,564
Ronald McNair Post Baccalaureate Program FY 15		84.217A	130,520
Total TRIO Cluster			1,380,336
PREPaRE FY 14		84.325	201,165
			1,581,501
			124,042,084
Pass-Through Programs –			
Kentucky Cabinet for Workforce Development			
Field Based Teacher Education FY 15	PON2 540 1400003123 1	84.048A	59,308
Perkins Basic Grant FY 14	PON2 540 1300003024 1	84.048	(170)
Perkins Basic Grant FY 15	PON2 540 1300003740 1	84.048	65,165
Perkins Teacher Educational Award FY 15	PON2 540 1400003446 1	84.048	13,223
			137,526

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION (Continued)			
Pass-Through Programs (Continued) –			
Kentucky Department of Education			
Kentucky Instructional Discipline FY 15	PON2 540 1400002762 1	84.027	$ 645,368
Southeastern Kentucky Migrant Administration (SEMAC)	PON2 540 1300002920 1	84.011A	179,534
Migrant Education Regional Service	PON2 540 1500000074 1	84.011A	257,978
21st Century Community Learning FY 15	PON2 540 1400002916 1	84.287	431,413
ITP P-12 Educational Interpreter In-Service 2015-2016	PON2 540 1400003016 1	84.027	444,599
Center for Learning Excellence FY 14	PON2 540 1300002513 1	84.377A	64,831
			2,023,723
Kentucky Department of Vocational Rehabilitation			
Interpreter Training Program Deaf & Hard	PON2 531 1400002445 1	84.126	79,707
Interpreter Training Program FY 2015	PON2 531 1400002445 1	84.126	313,708
Vocational Rehab Interpreting FY 15	PON2 531 1400002441 1	84.126	378,407
			771,822
Kentucky Education Professional Standards Board			
Kentucky Teacher Internship Program FY 14	PON2 183 14000001760 1	84.048	657
Council on PostSecondary Education			
Madison County Adult Education FY 15	PON2 415 1400001101 1	84.002	116,709
Clay County Adult Education FY 15	PON2 415 1400001101 1	84.002	90,680
Garrard County Adult Education FY 15	PON2 415 1400001101 1	84.002	38,341
Gear Up Statewide eMentoring Legacy	PON2 415 1200006940 1	84.334	59,963
			305,693
National Writing Project			
Professional Development High Need: Jackson County High School	92-KY02-SEED 2013	84.367	5,214
			3,244,635
Total Department of Education			127,286,719

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures
RESEARCH AND DEVELOPMENT			
Direct Programs –			
Department of Agriculture			
Proposed Synthesis of Ergovaline		10.001	$ 3,935
Stream Restoration Monitoring		10.xxx	4,940
Understanding Use Patterns: Red River		10.xxx	2,048
			10,923
Department of Education			
TerpTube: An Online Portfolio		84.133	425
TerpTube: An Online Portfolio Year 3		84.133	42,378
			42,803
Department of Health and Human Services			
Estrogen Mediated Reg MiRNA		93.837	5,787
Treatment of Traumatically Injured		93.853	27,616
Terp Tube		93.433	50,052
			83,455
Department of the Interior			
Distribution, Movement KY Arrow Darter		15.650	8,959
Long-Term Evaluation of the Interacting Effect of Fire and White-Nose Syndrome on Endangered Bats		15.232	27,800
			36,759
National Science Foundation			
Enhancing Research Capacity: LCW		47.074	134,780
Building and Sustaining a Research Database for a Global Biodiversity Hotspot		47.074	17,080
			151,860
			325,800
Pass-Through Programs –			
Department of Interior			
Kentucky Waterways Alliance			
Utilization of eDNA – Mussels	Letter of Agreement	15.657	1,225
eDNA Survey – Kentucky Cave Shrimp	MOA 10/19/12	15.625	1,212
Kentucky Arrow Darter	MOA 01/17/13	15.650	177
Resolving the Phylogenetic Placement	Letter of Agreement	15.660	1,000
			3,614
Kentucky Natural Lands Trust			
Management Strategies Running Buffalo Clover	MOA 07/23/13	15.657	4,009
Alabama Division of Wildlife & Freshwater Fishiers			
Conversation Genetics Gopher Frogs	MOA 08/26/13	15.615	2,049

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures
RESEARCH AND DEVELOPMENT (Continued)			
Pass-Through Programs (Continued) –			
Arkansas Game and Fish Commission			
DNA Barcode Reference Library eDNA	Letter of Agreement	15.634	$ 292
North Carolina Wildlife Resources Commission			
Conservation Genetics of Gopher Frogs in North Carolina	WM-0292	15.634	1,072
University for Kentucky Research Foundation			
Pesticide Occurrence and Amphibian Species Richness in Salt River Basin, Kentucky	3048108119-15-207	15.805	1,451
Department of Defense			
Kentucky Department of Military Affairs			
Biological Assess EKY Training Site – ARRA	PON2 095 1500001763 1	12.401	30,497
Blue Grass Army Depot			
Running Buffalo Clover and Deer Survey	W22G1F-13-P-0069	12.xxx	9,702
Department of Health and Human Services			
University of Louisville			
KBRIN Lead Faculty Award FY 14	ULRF 09-0109D1-04	93.859	554
KBRIN Lead Faculty Award FY 15	ULRF-13-1493-16	93.859	28,418
Immunomodulatory Role of Estrogen in Ovulation	ULRF-13-1493-06	93.859	41,440
Role of Monocytes in Ovulation	ULFR 09-0109D1-04	93.859	316
			70,728
University of Kentucky			
Bridging the Gap: Appalachian Students in Biomedical Research	3048109749-13-130	93.859	273,260
Environmental Protection Agency			
Kentucky Division of Water			
Statewide Validation KY-WRAM (Jr2)	PON2 129 1400002408 1	66.461	101,368
University of Louisville Research Foundation, Inc.			
Assessment of Hydrologic Functions in Combined Stream and Floodplan Restoration	ULRF-13-1246-01	66.461	21,295

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures
RESEARCH AND DEVELOPMENT (Continued)			
Pass-Through Programs (Continued) –			
National Science Foundation			
Clemson University			
CEDAR (Collaborative Research: Dev.)	1612-206-2008750	47.050	$ 2,100
University of Kentucky Research Foundation Astronomy through the Curriculum	Letter of Agreement	47.079	9,300
EdLab Group Foundation Science Adventures, Solving the mystery of the disappearing diamond	Letter of Agreement	47.076	780
University of Kentucky Research Foundation Communicating STEM Research	3048108525-14-101	47.081	459
			12,639
Kentucky EPSCOR			
Effect of Bromoenol Lactone	Letter of Agreement	47.079	16,875
Hydrocarbon Synthesis Iron Catalysts	3048108525-14-084	47.081	4,118
Overcome Barriers to Ecosystem Restoration	3048108525-14-086	47.081	26,087
Genetic Variation Dusky Gopher Frog	3048108525-14-087	47.081	3,982
Protein-Based Diagnostics Through Immobilized Nano-Patterned Protein	Letter of Agreement	47.079	22,585
			73,647
			605,623
Total Research and Development			931,423
DEPARTMENT OF DEFENSE			
Direct Programs –			
Defense Intelligence Agency			
Bluegrass State Intelligence Community Center of Academic Excellence		12.598	197,871
Total Department of Defense			197,871
DEPARTMENT OF AGRICULTURE			
Direct Programs –			
Office of Rural Development			
Student Internship USDA Forest Service		10.xxx	3,880
Rural Business Enterprise: CEDET Technical Training Program FY 15		10.769	62,579
			66,459

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures
DEPARTMENT OF AGRICULTURE (Continued)			
Pass-Through Programs –			
Kentucky Department of Education			
Upbound Bound Summer 2014 Good Program	Letter of Agreement 5.8.14	10.559	11,562
Kentucky Cabinet for Health and Family Services			
UTC FY 14	PON2 736 1300002117 1	10.561	$ 1,521
UTC FY 15	PON2 736 1400001493 1	10.561	500,564
UTC Cost Center FY 15	Letter of Agreement 6.25.14	10.561	83,286
			585,371
			596,933
Total Department of Agriculture			663,392
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs –			
Health Resources and Service Administration			
BCHC FY 15 Community Health Center		93.224	1,611,916
BCHC Outreach and Enroll 2015/2016		93.224	205,298
BCHC FY 16 BG Community Health Center		93.224	556,546
Kentucky Environmental Public Health Traineeships Program		93.964	64,684
			2,438,444
Pass-Through Programs –			
Office of the Kentucky Health Benefits Exchange			
Kentucky Health Benefits Exchange FY 15	PON2 713 1400001925 1	93.525	170,118
Kentucky Health Benefits Exchange FY 15	PON2 713 1400001925 1	93.778	12,298
Kentucky Health Benefits Exchange FY 15	PON2 713 1400001925 1	93.767	2,050
			184,466
Madison County Health Department			
Family Planning FY 15	15 176 270 03	93.217	43,440
Kentucky Cabinet for Health and Family Services			
Education Pays FY 15/16	PO2 736 1200004121 1	93.558	397,694
Department for Medicaid Services FY 15	PON2 746 1400001181 1	93.778	35,448
Early Childhood Mental Health FY 13	PON2 728 1200002379 1	93.505	(68)
Early Childhood Mental Health FY 15	PON2 728 1400001656 1	93.505	58,699

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)			
Pass-Through Programs (Continued) – Kentucky Cabinet for Health and Family Services (Continued)			
DBHDID FY 15	PON2 729 1400000885 1	93.958	$ 434,542
Medicaid Waiver Management Application FY 15	PON2 746 1500000971 1	93.778	34,589
DBHDID FY 15	PON2 729 1400000885 1	93.959	564,138
DBHDID FY 15	PON2 729 1400000885 1	93.104	72,795
DBHDID FY 15	PON2 729 1400000885 1	93.234	57,470
DBHDID FY 15	PON2 729 1400000885 1	93.243	49,654
DBHDID FY 15	PON2 727 1300001935 1	93.563	1,368
Child Support FY 14	Letter of agreement 6.25.14	93.658	226,204
UTC Cost Center FY 15	Letter of agreement 6.25.14	93.558	37,461
UTC Cost Center FY 15	Letter of agreement 6.25.14	93.667	1,244
UTC Child Support Cost Center FY 15	Letter of agreement	93.563	4,920
Child Support FY 15/16	PON2 727 1400001601 1	93.563	36,030
Child Support Conference FY 15/16	PON2 727 1400001601 1	93.563	29,293
UTC FLY 15	PON2 736 1300002117 1	93.658	88,728
UTC FY 14	PON2 736 1300002117 1	93.778	(4,323)
UTC FY 14	PON2 736 1300002117 1	93.558	(992)
UTC FY 14	PON2 736 1300002117 1	93.087	14,368
UTC FY 14	PON2 736 1300002117 1	93.556	44,046
UTC FY 14	PON2 736 1300002117 1	93.669	3,233
UTC FY 14	PON2 736 1300002117 1	93.667	519
UTC FY 14	PON2 736 1300002117 1	93.590	69,750
UTC FY 14	PON2 736 1300002117 1	93.674	17,317
UTC FY 14	PON2 736 1300001493 1	93.658	2,594,713
UTC FY 14	PON2 736 1300001493 1	93.558	1,014,214
UTC FY 14	PON2 736 1300001493 1	93.087	229,558
UTC FY 14	PON2 736 1300001493 1	93.575	126,979
UTC FY 14	PON2 736 1300001493 1	93.556	797,111
UTC FY 14	PON2 736 1300001493 1	93.669	192,828
UTC FY 14	PON2 736 1300001493 1	93.667	2,894
UTC FY 14	PON2 736 1300001493 1	93.590	512,329
UTC FY 14	PON2 736 1300001493 1	93.674	709,079
			8,453,832
University of Louisville Research Foundation			
Project SAFESPACE FY 14	ULRF-14-0146-03	93.652	868
Project SAFESPACE FY 15	ULRF-14-0146C-03	93.652	10,649
			11,517
University of Kentucky			
NIOSH Education Research Center	3048110720-14-050	93.262	8,037
NIOSH Education Research Center	3048811844-15-045	93.262	83,233
			91,270
			8,784,525
Total Department of Health and Human Services			11,222,969

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures
DEPARTMENT OF HOMELAND SECURITY			
Direct Programs –			
Office of Domestic Preparedness			
Office of Domestic Preparedness Training Center 10 (233061)		97.005	$ 288,444
Pass-Through Programs –			
Center for Rural Development			
Rural Domestic Preparedness Consortium FY 13: Task 1	FY13-K00155-65-I&Q-EKU	97.005	450,558
Rural Domestic Preparedness Consortium FY 13: Task 2 and 3	FY13-K00155-65-I&Q-EKU	97.005	7,352
Rural Domestic Preparedness Consortium FY 13: Task 3	FY13-K00155-65-I&Q-EKU	97.005	13,950
Rural Domestic Preparedness Consortium FY 14: Task 1	EMW-2014-CA-00092-S01	97.005	14,148
Rural Domestic Preparedness Consortium FY 14: Task 2	EMW-2014-CA-00092-S01	97.005	3,951
Rural Domestic Preparedness Consortium FY 14: Task 3	EMW-2014-CA-00092-S01	97.005	123,443
			613,402
Total Department of Homeland Security			901,846
FEDERAL COMMUNICATIONS COMMISSION			
Direct Programs –			
Deafblind Equipment Distribution Program FY 14		32.XXX	(5,385)
Deafblind Equipment Distribution Program FY 15		32.xxx	17,196
			11,811
Total Federal Communications Commission			11,811
DEPARTMENT OF COMMERCE			
Direct Programs –			
National Institute of Standards & Technology			
NIST Summer Undergraduate Research Fellowship		11.609	5,585
Total for Department of Commerce			5,585
DEPARTMENT OF LABOR			
Direct Programs –			
Occupational Safety and Health Administration			
Susan Harwood Training Grant		17.502	13,240
Total Department of Labor			13,240

See accompanying notes to schedule of expenditures of federal awards.

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures
NATIONAL SCIENCE FOUNDATION			
Direct Programs –			
SEEing Science in Appalachia		47.076	$ 16,522
Total National Science Foundation			16,522
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
Pass-Through Programs –			
Northern Kentucky University			
Increasing Qualified STEM Educators	4000972-S2	43.008	17,013
Total National Aeronautics and Space Administration			17,013
ENVIRONMENTAL PROTECTION AGENCY			
Pass-Through Programs –			
Southeast Environmental Education Alliance			
Teaching Environmental Service Learning	MOA 12/6/13	66.951	3,457
State of Florida Department of Environmental Protection			
Watershed Service Learn Field Exp.	G0376	66.951	2,792
Total Environmental Protection Agency			6,249
DEPARTMENT OF TRANSPORTATION			
Pass-Through Programs –			
Kentucky Transportation Cabinet			
Sidewalk- Hall Dr. to Kit Carson Dr.	PO2-628-1500002150	20.205	36,651
Total Department of Transportation			36,651
SMALL BUSINESS TRANSPORTATION			
Federal pass-through programs from:			
University of Kentucky			
Small Business Development Center FY 14	Letter of agreement	59.037	$ 26,816
Small Business Development Center FY 15	Letter of agreement	59.037	55,522
Total Small Business Administration			82,338
Total Federal Expenditures			$ 141,393,629

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures
Subtotals of Multiple Awards/CFDA Numbers			
Adult Education – Grants to States		84.002	$ 245,730
Migrant Education Program		84.011A	437,512
Special Education - Grants to States		84.027	1,089,967
Career and Technical Education – Grants to States		84.048	138,183
University Training Consortium Program		93.087	243,926
Bluegrass Community Health Center		93.224	2,373,759
Early Childhood Mental Health		93.505	58,631
University Training Consortium Program		93.556	841,158
University Training Consortium Program		93.558	1,448,376
Child Support		93.563	71,611
University Training Consortium Program		93.590	582,079
University Training Consortium Program		93.658	2,909,645
University Training Consortium Program		93.667	4,657
University Training Consortium Program		93.669	196,060
University Training Consortium Program		93.674	726,396
Medical Assistance Program		93.778	78,012
Domestic Preparedness Training Consortium		97.005	901,845

See accompanying notes to schedule of expenditures of federal awards.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying schedule of expenditures of federal awards includes the federal grant activity of Eastern Kentucky University (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.

NOTE 2 – LOANS

The University disbursed funds under the Federal Direct Loan Programs (including Stafford Loans, Supplemental Loans for Students, and Parents Loans for Undergraduate Students) during the current year.

Eastern Kentucky University had the following loan balances outstanding at June 30, 2015. Loans made during the year are included in federal expenditures presented in the schedule.

Cluster/Program Title	Amount Outstanding
Student Financial Aid – Federal Perkins Loan Program	$ 5,989,989
Nursing Student Loans	6,900
Nurse Faculty Loan Program	2,609

NOTE 3 – INDIRECT COST

Predetermined indirect cost rates have been approved for the period from July 1, 2014 through June 30, 2018. The rate for on-campus activities ranges from 40.0% to 52.5% and the rate for off-campus activities ranges from 22.0% to 26.0% for the approved period.

NOTE 4 – SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the University provided federal awards to the following subrecipients:

Grant	Subrecipients	Amount
National Science Foundation Building and Sustaining a Research Database for a Global Biodiversity Hotspot	Northern Kentucky University	$ 3,923
Defense Intelligence Agency Bluegrass State Intelligence Community Center of Academic Excellence	Morehead State University	76,089

(Continued)

NOTE 4 – SUBRECIPIENTS (Continued)

Grant	Subrecipients	Amount
Department of the Interior		
Long-term evaluation of the Interacting Effect of Fire and White-Nose Syndrome on Endangered Bats	University of Kentucky	$ 10,487
Kentucky Cabinet for Health and Family Services		
Child Support FY 15/16	Kentucky State University TRC	3,554
UTC FY 15	Western Kentucky University	7,536
	University of Kentucky Research Foundation	884,854
	Brescia University	6,839
	Campbellsville University	8,669
	Spalding University	5,715
Federal Communications Commission		
Deafblind Equipment Distribution Program FY 15	Office of Vocational Rehabilitation	2,945
Department of Education		
PREPaRE FY 14	University of Kentucky	97,531
Kentucky Department of Military Affairs		
Biological Assess EKY Training Site – ARRA	University of Kentucky Research Foundation	323
		$ 1,108,465

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None Reported
Type of auditors' report issued on compliance for major programs	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?		Yes	X	None Reported

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster Number
	Total Student Financial Aid Cluster (consisting of):
84.063	Federal Pell Grant Program
84.007	Federal Supplemental Educational Opportunity Grant Program
84.033	Federal Work Study Program
84.038	Federal Perkins Loan Program
84.379	TEACH Grant
84.268	Federal Direct Loan Program
84.027	Special Education Grants to States
84.126	Rehabilitation Services
	Total Research and Development Cluster (consisting of):
10.xxx	Stream Restoration Monitoring
10.001	Agricultural Research
12.xxx	Running Buffalo Clover and Deer Survey
12.401	National Guard Military O&M Projects
15.232	Wildland Fire Research and Studies Program
15.615	Cooperative Endangered Species Conservation Fund
15.625	Wildlife Conservation and Restoration
15.634	State Wildlife Grants
15.650	Kentucky Arrow Darter
15.657	Endangered Species Conservation
15.660	Endangered Species – Candidate Conservation Action Funds
15.805	Assistance to State Water Resources Research Institutes

(Continued)

PART I: SUMMARY OF AUDITORS' RESULTS (Continued)

CFDA Number(s)	Name of Federal Program or Cluster Number
	Total Research and Development (consisting of) (continued):
47.050	Geosciences
47.074	Biological Sciences
47.076	Science Adventures, Solving the Mystery of the Disappearing Diamond
47.079	Office of International Science and Engineering
47.081	Office of Experimental Program to Stimulate Competitive Research
66.461	Regional Wetland Program Development Grants
84.133	TerpTube: An Online Portfolio
93.433	ACL National Institute on Disability, Independent Living and Rehabilitation Research
93.837	Cardiovascular Diseases Research
93.853	Extramural Research Programs in the Neurosciences And Neurological Disorders
93.859	Biomedical Research and Research Training
	University Training Consortium Program (consisting of the following individual programs):
10.561	Supplemental Nutrition Assistance Program
93.556	Promoting Safe and Stable Families
93.558	Temporary Assistance for Needy Families
93.590	Community-Based Child Abuse Prevention Grants
93.658	Foster Care – Title IV-E
93.674	Chafee Foster Care Independence Program

Dollar threshold used to distinguish between Type A and Type B programs	$ 567,991			
Auditee qualified as low-risk auditee?	X	Yes		No

PART II – FINANCIAL STATEMENT FINDINGS

None

PART III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

PART IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None