EASTERN KENTUCKY UNIVERSITY
Richmond, Kentucky

FINANCIAL STATEMENTS
June 30, 2013 and 2012

EASTERN KENTUCKY UNIVERSITY

FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

To the Board of Regents
Eastern Kentucky University
Richmond, Kentucky
and
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"), as of and for the years ended June 30, 2013 and 2012, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 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.

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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, 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, 2013 and 2012, 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.

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 3 through 13 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 4, 2013

Introduction

The audited financial statements for the fiscal years 2013 and 2012 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, which includes this section, Management's Discussion and Analysis ("MD&A"). The MD&A is intended to provide an overview of the University's financial position at June 30, 2013 with selected comparative information for the years ended June 30, 2012 and 2011. The MD&A should be read in conjunction with the accompanying financial statements and notes.

During fiscal year 2013, the University GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), and certain other new GASB statements became effective. Please see *Adoption of New Accounting Pronouncements* in Note 1 of the financial statements for further details.

Financial Highlights

At June 30, 2013, Eastern Kentucky University's financial position remained strong as reflected in the Statement of Net Position.

- Total assets decreased by $7.2 million to $429.3 million at June 30, 2013 from $436.5 million at June 30, 2012. Of this decrease, $14.8 million was related to the decrease in cash restricted for completing capital projects, offset by an increase in current assets of $5.2 million and an increase in net capital assets of $4.7 million.
- Overall liabilities decreased by $3.2 million to $113.0 million at June 30, 2013 as compared to $116.2 million at June 30, 2012, primarily the result of an $8.3 million decrease in bonds and leases payable due to the FY2013 debt service payments, and the refunding of one outstanding Consolidated Educational Revenue bond and capital lease obligation. This decrease was offset by increases in current liabilities of $5.3 million, primarily the result of liabilities related to the employee Voluntary Buyout Program ("VBP") and unearned revenues. During the year ended June 30, 2013, the University's Board of Regents authorized the development of a Strategic Reallocation of Budget Plan including a plan for a reduction in workforce. Accrued salaries and benefits as of June 30, 2013 included $1.6 million for the VBP.
- Total net position at June 30, 2013 was $316.2 million, a decrease of $4.0 million compared to the June 30, 2012 level of $320.2 million. The decrease is primarily the result of a decrease in revenue and state operating appropriations and the $3.5 million expense that resulted from 130 employees electing the VBP.

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, 2013 and 2012, and the Statements of Revenues, Expenses, and Changes in Net Position and the Statements of Cash Flows for the fiscal years then ended. These statements reflect both the financial position of the University as of the end of the fiscal years noted, 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*.

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Reporting Entity

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

Statements of Net Position

The Statements 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, 2013 were $429.3 million as compared to $436.5 million at June 30, 2012, a decrease of $7.2 million.

Cash and Cash Equivalents – Total cash and cash equivalents at June 30, 2013 totaled $67.8 million, $5.5 million less than the June 30, 2012 level of $73.3 million. While current cash and cash equivalents increased $9.3 million, the decrease is attributable to the decrease of restricted cash and cash equivalents of funds designated primarily for capital project purposes of $14.8 million.

Investments – Total University investments at June 30, 2013 had a market value of $17.4 million as compared to $20.3 million at June 30, 2012, an overall decrease of $2.9 million.

- The Foundation holds and manages investments owned by the University. At June 30, 2013, the market value of investments held by the Foundation on behalf of the University was $17.3 million as compared to $19.3 million at June 30, 2012, a $2.0 million decrease. This resulted primarily from a change in the allocation of the University's portion of investments held by the Foundation during 2013.

- At June 30, 2013, $86 thousand of funds were held on behalf of the University by the University's Bond Trustee. These funds represent net residual bond proceeds and will be used for future debt service payments. This amount at June 30, 2012 was $1.0 million and was used for its intended purposes in 2013.

Capital Assets – The historical cost, less accumulated depreciation, of the University's capitalized assets was $316.4 million as of June 30, 2013, or a net increase, after depreciation, of $4.7 million over the $311.7 million balance at June 30, 2012. This increase includes a $36.2 million net increase in capital assets in service and a decrease in construction in progress of $13.6 million, primarily related to the completion of the energy project and the construction progress of the new residence hall. Net depreciation expense for the fiscal year totaled $17.9 million.

Other Asset Categories – The balances in the various other asset categories, other than accounts and loans receivable, were essentially unchanged at June 30, 2013 as compared to June 30, 2012, or $2.6 million and $2.3 million, respectively. However, accounts receivable, net of allowance, decreased for the year. The balance at June 30, 2013 was $19.9 million versus $23.7 million at June 30, 2012, a decrease of $3.8 million.

Liabilities – Total liabilities at June 30, 2013 were $113.0 million as compared to $116.2 million at June 30, 2012. This decrease of $3.2 million is primarily attributable to a decrease in revenue bonds payable and capital leases of $8.3 million as well as an overall increase in other liabilities of $5.0 million, including an increase of $1.6 million related to the VBP

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Bonds Payable and Capital Lease Obligations – In total, bonds payable and capital lease obligations decreased by $8.3 million as of June 30, 2013 as compared to June 30, 2012. At June 30, 2013, the total for bonds payable and capital lease obligations was $81.9 million versus $90.2 million at June 30, 2012. As explained in more detail in Note 6, the University refinanced approximately $30 million of debt in 2013 which is expected to generate approximately $2.5 million in savings over the life of the new bond.

Other Liability Categories – The balances in various other liability categories increased by $5 million as of June 30, 2013 to $31.1 million as compared to the June 30, 2012 amount of $26.1 million. The majority of the balances in this category are comprised of accounts payable, interest payable, payroll and benefits liabilities, specifically $1.6 million related to liabilities related to the VBP, and deferred revenues associated with tuition and fees billed in June 2013 for July 2013 summer school classes and external contracts and grants.

Net Position – Total Net Position was $316.2 million at June 30, 2013 a decrease of $4.0 million over the $320.2 million balance at June 30, 2012.

Invested in Capital Assets – Net position invested in capital assets increased as of June 30, 2013 by $13.0 million to $234.5 million over the June 30, 2012 level of $221.5 million. The increase is a result of a net increase to capital assets of $4.8 million and the decrease in outstanding debt of $8.3 million.

Restricted Net Position – In total, restricted net position decreased by $16.9 million to $38.2 million at June 30, 2013 as compared to $55.1 million at June 30, 2012. The net decrease is primarily attributable to the decrease in restricted cash for capital projects.

Unrestricted Net Position – Unrestricted net position remained unchanged at $43.5 million at June 30, 2013 as compared to the June 30, 2012.

Unrestricted Net Position

A portion of net position is considered to be unrestricted. The unrestricted net position may be designated for certain uses, but do 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 (in thousands):

	2013	2012	2011
Inventories	$ 378	$ 428	$ 305
Outstanding encumbrances	2,141	2,747	968
Departmental commitments	17,010	17,808	18,586
Designated projects and contingency reserves	13,003	10,749	10,118
Health care self-insurance reserve	2,300	2,300	1,899
Auxiliary working capital	8,620	9,533	7,653
Total unrestricted	$ 43,452	$ 43,565	$ 39,529

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

	2013	2012	2011
ASSETS			
Current assets	$ 74,651	$ 69,442	$ 67,509
Capital assets – net	316,465	311,705	303,628
Other noncurrent assets	38,156	55,370	49,231
Total assets	$ 429,272	$ 436,517	$ 420,368
LIABILITIES			
Current liabilities	$ 38,768	$ 33,466	$ 33,344
Noncurrent liabilities	74,273	82,794	66,602
Total liabilities	$ 113,041	$ 116,260	$ 99,946
NET POSITION			
Investment in capital assets – net of related debt	$ 234,575	$ 221,531	$ 230,949
Restricted – expendable	25,969	42,955	37,737
Restricted – nonexpendable	12,235	12,207	12,207
Unrestricted	43,452	43,565	39,529
Total net position	$ 316,231	$ 320,258	$ 320,422

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 decrease 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 $113.1 million from operations for the fiscal year ended June 30, 2013, prior to consideration of state appropriations and other net nonoperating revenues. This is compared to a loss of $112.2 million from operations for the fiscal year ended June 30, 2012.

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Operating Revenues

Below is a summary of operating revenues for fiscal year 2013 as compared to fiscal years 2012 and 2011 (in thousands):

	Year ended June 30,		
	2013	2012	2011
Tuition and fees	$ 130,552	$ 127,850	$ 121,986
Scholarships and discounts	(52,305)	(48,311)	(50,749)
Net tuition and fees	78,247	79,539	71,237
Grants and contracts	49,846	53,072	59,792
Other revenues	17,748	17,142	16,371
Total education and general fund	145,841	149,753	147,400
Auxiliaries	19,822	20,328	17,665
Scholarships and discounts	(6,891)	(6,605)	(6,860)
Net auxiliaries	12,931	13,723	10,805
Total operating revenues	$ 158,772	$ 163,476	$ 158,205

Tuition and Fees – Income from student tuition and fee assessments, shown net of the tuition discount, was $78.2 million for the fiscal year ended June 30, 2013 ($130.6 million for the fiscal year ended June 30, 2013 less $52.3 million in related financial aid) and $79.5 million for the fiscal year ended June 30, 2012. The decrease of $1.3 million in net tuition and fees reflects a slight decrease in enrollment during the year ended June 30, 2013.

Grants and Contracts – For the fiscal year ended June 30, 2013, there was $53.2 million in recognized revenues from all grants and contracts as compared to $53.1 million for the year ended June 30, 2012, or a slight increase of $131,000. 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, $12.9 million is reported for net auxiliary revenues for the year ended June 30, 2013 as compared to $13.7 million for the year ended June 30, 2012. The majority of auxiliary revenues for both fiscal years are attributable to student residence hall fees

Other Operating Revenues – Revenues in the various categories that make up other operating revenues can vary from year to year when unexpected revenues come into the University. For the fiscal year ended June 30, 2013 total other operating revenues were $17.7 million as compared to $17.1 million for June 30, 2012, an increase of $600,000.

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, 2013, total educational and general expenditures were $271.8 million compared to $275.6 million for the fiscal year ended June 30, 2012, resulting in a decrease in educational and general spending of $3.8 million. In April 2013, the University Board of Regents approved a resolution to work collaboratively and cooperatively to initiate a process to reduce the annual operating budget by ten percent and develop a budget reduction for strategic reallocation plan. The reduction of operating expenses for the year ended June 30, 2013 reflects the result of the initiation of this plan.

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, 2013 were $19.9 million as compared to $20.1 million for the year ended June 30, 2012.

Below is a summary of operating expenditures for fiscal year 2013 as compared to fiscal years 2012 and 2011 (in thousands):

	Year ended June 30,		
	2013	2012	2011
Instruction, academic support and libraries	$ 117,583	$ 118,871	$ 110,925
Research and public service	43,226	45,444	46,633
Student services	18,203	18,245	18,777
Institutional support and operations and maintenance of plant	47,019	47,034	46,648
Student financial aid	10,896	12,970	10,978
Depreciation	14,740	12,690	10,482
Other operation expenses	308	244	294
Total educational and general expenses	251,975	255,498	244,737
Auxiliaries	19,869	20,137	18,567
Total operating expenses	$ 271,844	$ 275,635	$ 263,304

Instruction, Academic Support, and Libraries – The total expenditures of these three areas, which directly relate to teaching, academic, and faculty support, decreased $1.3 million to $117.6 million for the year ended June 30, 2013 as compared to $118.9 million for the fiscal year ended June 30, 2012.

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, 2013 total expenditures related to research and public service, the majority of which relates to external contracts and grants, was $43.2 million as compared to $45.4 million for the fiscal year ended June 30, 2012, a decrease of $2.2 million.

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Student Services – Expenditures for student services for fiscal year 2013 remained $18.2 million as compared to fiscal year 2012. The student service 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 operation, noncapital maintenance costs, utility costs, technology support, legal, property and liability insurance, and other similar operational support costs. For each of the fiscal years ended June 30, 2013 and 2012, total expenditures for these areas were $47.0 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 2013, the total financial aid expenditure line indicates $70.1 million as compared to total financial aid expenditures of $67.9 million for the year ended June 30, 2012, as shown in the chart below.

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, 2013 was $10.8 million compared to $13.0 million for the year ended June 30, 2012. The decrease of $1.1 million in net student financial aid resulted from small increases to tuition rates and revisions to the University's institutional funded scholarship award policy which reduced the residual available to refund.

The information below shows the gross dollars associated with financial aid support (in thousands):

	Year ended June 30,		
	2013	2012	2011
Tuition and fee discount	$ 52,305	$ 48,311	$ 50,749
Auxiliary enterprises discount	6,891	6,605	6,860
Student financial aid expense	10,896	12,970	10,978
Student financial aid expense (gross)	$ 70,092	$ 67,886	$ 68,587

Non-operating Revenue/Expenses

State Appropriations – Funding from state appropriations for operations and debt service for the fiscal year ended June 30, 2013 were $67.7 million as compared to the fiscal year ended June 30, 2012 at $70.8 million. Recent reductions in state appropriations had been partially 'back filled' with federal stimulus dollars flowing to the University from the Commonwealth and included in federal grants and contracts revenues. These did not continue into 2013.

Investment Income – Total investment income for the fiscal years ended June 30, 2013 and 2012 were ($85,000) and $782,000, respectively. For fiscal year 2013, the University experienced a decrease of $867,000 in investment income. Investment income from investments managed by the Kentucky Department of Finance reflected a loss of $33,000 compared to earnings of $644,000 for the fiscal year ended June 30, 2012.

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Capital Support – For the year ended June 30, 2013, the University received capital appropriations of $1.5 million. For the year ended June 30, 2012, the University did not receive any capital appropriations, but did return unspent funds in the amount of $133,672 from a completed capital project.

The following represents the information from the Statements of Revenues, Expenses, and Changes in Net Position in a condensed format (in thousands):

	Year ended June 30,		
	2013	2012	2011
Operating revenues	$ 158,772	$ 163,476	$ 158,205
Operating expenses	271,844	275,635	263,304
Operating loss	(113,072)	(112,159)	(105,099)
Nonoperating revenues – net	107,545	112,129	114,454
Income (loss) before capital appropriations	(5,527)	(30)	9,355
Capital appropriations	1,500	(134)	58,061
Increase (decrease) in net position	(4,027)	(164)	67,416
Net Position – beginning of year	320,258	320,422	253,006
Net Position – end of year	$ 316,231	$ 320,258	$ 320,422

Statements of Cash Flows

The Statements of Cash Flows serve to provide information concerning cash sources and uses during a fiscal year. It 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 this 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.

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The following is a condensed representation of the Statements of Cash Flows for the University (in thousands):

	Year ended June 30,		
	2013	2012	2011
Cash provided by (used in)			
Operating activities	$ (86,979)	$ (100,500)	$ (89,590)
Noncapital financing activities	109,182	110,477	110,196
Capital and related financing activities	(29,107)	(5,715)	4,114
Investing activities	16,231	(4,418)	(20,244)
Net change in cash and cash equivalents	9,327	(156)	4,476
Cash and cash equivalents – beginning of year	42,312	42,468	37,992
Cash and cash equivalents – end of year	$ 51,639	$ 42,312	$ 42,468

Capital Asset and Debt Administration

During fiscal years 2013 and 2012, the following were projects completed by the University (in thousands):

	Year ended June 30,	
	2013	2012
Energy Savings Project	$ 31,730	$ -
Begley Locker Room AC	143	-
Leach Driving Range Storage Buildings	185	-
Todd Hall Chiller Replacement	194	-
Leach Driving Range Resurface	250	-
Martin Hall Boiler Replacement	189	-
Power Factor Correction Project	131	-
Palmer Hall Elevator Update	110	-
Business and Technology Buildings Phase II	-	30,914
New Science Building	-	60,846
Intramural Field	-	2,315
Intramural Field Addition	-	834
Walters Hall Renovation	-	11,980
Stratton Building Addition	-	5,786
Other Miscellaneous Projects	362	585
Total	$ 33,294	$ 113,260

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The following are projects still in process at year-end (in thousands):

	Total Expenditures Through June 30, 2013	Estimated Cost to Complete at June 30, 2013
Begley Building Prefab Concrete	$ 39	$ 397
E Campus Renovation	6	589
Thompson/Schwendeman Expansion Project	12	13
Renovate HVAC Systems	960	411
New Student Housing	16,568	4,926
Hummel Planetarium Seating	-	50
Palmer Hall Chiller Replacement	170	10
Begley Building Chiller Replacement	97	18
Dairy Research and Education Center	25	220
Total	$ 17,877	$ 6,634

Long-term debt on June 30, 2013 was $81.9 million compared to $90.1 million on June 30, 2012. The $8.2 million net decrease consisted of debt payments of $38.5 million and $28.1 million additions to bond and capital lease obligations. See Note 6 for additional discussion on the 2013 refinancing. During the year ended June 30, 2012, additional debt was issued in the amount of $23.8 million and reductions were $6.4 million.

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 University fully intends to continue seeking state funding for construction of Phase II of the New Science Building (NSB) in the 2014-16 biennial budget cycle. This project remains the University's top priority. With funding of NSB Phase II, all science departments can be housed together in one state-of-the-art, modern facility.

  Additionally, the University plans to increase the scope of the NSB Phase II funding request to include the complete renovation of the Moore Building as a general classroom building. The Moore Building is very well constructed and with a full renovation will provide modern, technologically advanced classroom space for other academic disciplines on campus. The Moore Building will essentially be vacated once the remaining science departments move to the fully completed NSB Phase II.

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- The level of state appropriated funds coming to 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. Over the past several years, the Council on Post-Secondary Education (CPE) has placed a cap on annual tuition increases, which has limited the ability of the University to generate additional revenue. Improving the affordability of a college education for our students remains vitally important to the University and with every tuition increase there must be a corresponding focus and analysis of student financial aid available to our students.

  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 including unrestricted annual gifts, the Eastern Kentucky University Foundation, funds from University research activities, as well as entrepreneurial venture opportunities. Additionally, the University must continue to find ways to operate as efficiently as possible and continually reduce expenses.

- The fall 2013 semester saw the opening of the University's first new student residence hall in decades. In fact, prior to this year, the last new residence hall opened on our campus in 1969. This new housing stock represents modern concepts in University living and learning environments and is constructed in a suite-style apartment format. Four students live in each suite and each suite includes a kitchen area, dining area, and a living/study area.

  Studies continually show that student success is clearly linked to campus engagement, and living and learning on campus in University housing is a significant factor in engaging students. And, as more students choose to live on campus in University housing, auxiliary revenues will be maximized for further investments on campus.

- Finally, in summary from an overall economic perspective, it's fair to say that the future of Kentucky's economy remains uncertain. Although there is certainly more optimism now than has been seen in the last several years, economic recovery remains slow and fairly sporadic.

  Kentucky's economic health is inextricably linked with the national and international economy. While national markets have been steadily rising and enjoying a great deal of recovery over the past year, investors remain cautious. And the Federal Reserve has downgraded its outlook for the U.S. economy for 2013 and 2014, predicting that the economy will grow just 2% - 2.3% in 2013, and 3% in 2014.

  Kentucky's Consensus Forecasting Group will meet in October, 2013, to begin working toward preliminary revenue estimates for the Commonwealth that will be used to develop the 2014-16 biennial budget. Final estimates will be made in December, 2013. The group consists of eight independent economists and it just elected Eastern Kentucky University economics professor Frank O'Connor as its chairman.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET POSITION
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	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 51,639,329	$ 42,312,167
Investments	-	565,000
Accrued interest receivable	-	363,502
Accounts receivable – less allowance of $2,167,122 for 2013 and $1,988,185 for 2012	19,941,418	23,703,572
Loans to students – less allowance of $81,804 for 2013 and 2012	466,713	514,642
Inventories	377,521	428,314
Prepaid expenses	2,225,709	1,555,102
Total current assets	74,650,690	69,442,299
Noncurrent assets		
Restricted cash and cash equivalents	16,126,806	30,948,360
Investments	17,364,810	19,722,892
Loans to students – less allowance of $824,279 for 2013 and 2012	4,664,753	4,698,546
Capital assets – net of accumulated deprecation of $218,769,608 for 2013 and $203,350,250 for 2012	316,464,644	311,705,497
Total noncurrent assets	354,621,013	367,075,295
Total Assets	$ 429,271,703	$ 436,517,594

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EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET POSITION
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	2013	2012
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	$ 8,219,188	$ 7,396,453
Accrued interest	776,810	706,251
Accrued salaries and benefits	7,201,146	4,297,632
Accrued compensated absences	5,061,215	5,668,664
Payroll withholding payable	1,141,862	1,220,414
Refundable deposits	521,100	454,645
Assets held for others	322,114	337,542
Deferred revenue	7,907,829	6,003,721
Bonds payable	4,938,546	2,715,000
Capital lease obligations	2,677,912	4,666,149
Total current liabilities	38,767,722	33,466,471
Noncurrent liabilities		
Bonds payable	62,023,051	47,950,000
Capital lease obligations	12,250,314	34,843,579
Total noncurrent liabilities	74,273,365	82,793,579
Total liabilities	$ 113,041,087	$ 116,260,050
Net position		
Invested in capital assets	$ 234,574,821	$ 221,530,769
Restricted		
Expendable for capital projects	16,058,845	30,340,427
Expendable for debt service	-	653,709
Expendable for loans to students	6,541,461	6,625,081
Expendable for scholarships	1,489,754	2,931,695
Expendable for institutional support	1,878,383	2,403,920
Unexpendable for permanent endowment	12,235,154	12,206,805
Unrestricted	43,452,198	43,565,138
Total net position	$ 316,230,616	$ 320,257,544

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,705,168	$ 1,538,429
Pledges receivable – net of allowance of $10,000 for 2013 and 2012	282,292	254,865
Accounts and notes receivable – net	52,279	52,739
Due from related parties	277,212	409,737
Prepaid expenses	647	833
Total current assets	2,317,598	2,256,603
Noncurrent assets		
Investments	53,755,763	47,852,189
Pledges receivable – net of allowance of $65,000 for 2013 and $90,000 for 2012	461,869	471,849
Property and equipment – net	5,965,703	6,152,312
Total noncurrent assets	60,183,335	54,476,350
Total Assets	$ 62,500,933	$ 56,732,953
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 208,928	$ 34,892
Due to related parties	387,724	928,421
Fair value adjustment in interest rate swap	76,438	109,015
Bonds payable, current maturities	170,000	165,000
Total current liabilities	843,090	1,237,328
Noncurrent liabilities		
Assets held for others	17,278,764	19,286,339
Bonds payable	985,000	1,155,000
Annuity payments and deferred giving liability	367,764	388,754
Total liabilities	19,474,618	22,067,421
Net assets		
Unrestricted	4,427,646	3,883,214
Temporarily restricted	12,798,029	6,148,733
Permanently restricted	25,800,640	24,633,585
Total net assets	43,026,315	34,665,532
Total Liabilities and Net Assets	$ 62,500,933	$ 56,732,953

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Tuition and fees – net	$ 78,246,475	$ 79,538,917
Federal grants and contracts	32,561,979	33,575,604
State grants and contracts	15,673,810	16,700,587
Nongovernmental grants, contracts, and gifts	1,610,372	2,796,011
Sales and services of educational activities	4,967,709	4,448,420
Auxiliary enterprises – housing	9,025,498	9,654,581
Auxiliary enterprises – other	3,905,795	4,068,689
Other operating revenues	12,780,354	12,693,214
Total operating revenues	158,771,992	163,476,023
OPERATING EXPENSES		
Educational and general		
Instruction	93,119,445	96,349,005
Research	1,740,544	2,378,911
Public service	41,485,864	43,065,330
Libraries	3,668,094	3,726,117
Academic support	20,795,090	18,795,817
Student services	18,202,692	18,245,354
Institutional support	29,924,241	27,046,379
Operations and maintenance of plant	17,095,120	19,987,141
Depreciation	14,739,558	12,689,726
Student financial aid	10,895,565	12,969,767
Auxiliary enterprises		
Housing and other auxiliaries	16,734,732	16,890,183
Depreciation	3,134,427	3,246,652
Other operating expenses	308,463	244,369
Total operating expenses	271,843,835	275,634,751
Operating loss	(113,071,843)	(112,158,728)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	67,673,700	70,823,000
Federal and state grants and contracts	41,508,321	39,654,011
Investment income	(84,840)	782,000
Interest expense	(1,938,749)	(1,948,868)
Other nonoperating revenues	2,167,826	2,807,771
Other nonoperating expenses	(1,781,343)	10,719
Net nonoperating revenues	107,544,915	112,128,633
Loss before capital appropriations	(5,526,928)	(30,095)
Capital appropriations	1,500,000	(133,672)
Decrease in net position	(4,026,928)	(163,767)
Net position – beginning of year	320,257,544	320,421,311
Net position - End of Year	$ 316,230,616	$ 320,257,544

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS				
Contributions	$ 258,013	$ 1,068,340	$ 1,167,055	$ 2,493,408
Investment returns – net of investment expenses of $241,133	68,447	1,023,314	-	1,091,761
Net realized and unrealized losses on investments	539,678	6,010,021	-	6,549,699
Other income – net	662,928	-	-	662,928
Net assets released from restrictions – satisfaction of program and time restrictions	1,452,379	(1,452,379)	-	-
Total revenues and gains	2,981,445	6,649,296	1,167,055	10,797,796
EXPENSES				
Payments and support for the University	2,437,013	-	-	2,437,013
Change in net assets	544,432	6,649,296	1,167,055	8,360,783
Net assets – Beginning of year	3,883,214	6,148,733	24,633,585	34,665,532
Net assets – end of year	$ 4,427,646	$12,798,029	$ 25,800,640	$ 43,026,315

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS				
Contributions	$ 769,357	$ 1,178,110	$ 601,417	$ 2,548,884
Investment returns – net of investment expenses of $223,547	119,307	828,032	-	947,339
Net realized and unrealized losses on investments	(154,547)	(837,908)	-	(992,455)
Other income – net	673,175	-	-	673,175
Net assets released from restrictions – satisfaction of program and time restrictions	1,177,325	(1,177,325)	-	-
Total revenues and gains	2,584,617	(9,091)	601,417	3,176,943
EXPENSES				
Payments and support for the University	3,916,911	-	-	3,916,911
Change in net assets	(1,332,294)	(9,091)	601,417	(739,968)
Net assets – Beginning of year	5,215,508	6,157,824	24,032,168	35,405,500
Net assets – end of year	$ 3,883,214	$ 6,148,733	$ 24,633,585	$ 34,665,532

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2013 and 2012

	2013	2012
OPERATING ACTIVITIES		
Tuition and fees	$ 79,754,408	$ 76,933,284
Grants, contracts, and gifts	53,856,755	50,833,916
Payments to suppliers	(55,859,963)	(63,632,390)
Payments for utilities	(7,762,426)	(7,877,804)
Payments to employees	(131,522,336)	(132,144,515)
Payments for benefits	(46,221,549)	(43,589,402)
Payments to students	(10,198,968)	(11,451,721)
Loans issued to students and employees	(953,183)	(589,836)
Collections of loans to students and employees	1,034,905	937,557
Auxiliary enterprise charges		
Residence halls	9,151,632	9,659,688
Other	3,905,795	4,068,689
Sales and services of educational activities	4,967,709	4,448,420
Other receipts	12,868,808	11,904,344
Net cash used in operating activities	(86,978,413)	(100,499,770)
NONCAPITAL FINANCING ACTIVITIES		
State appropriations	67,673,700	70,823,000
Other nonoperating revenues – grants and contracts	41,508,321	39,654,011
Net cash provided by noncapital financing activities	109,182,021	110,477,011
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(23,329,322)	(21,737,853)
Proceeds from issuance of bonds payable	-	21,480,000
Principal paid on bonds payable and capital leases	(7,892,732)	(6,329,010)
Interest paid on bonds payable and capital leases	(1,868,190)	(1,856,813)
State reimbursement of capital lease payments	2,167,826	2,807,771
Proceeds from sale of capital assets	315,249	54,998
Capital appropriations	1,500,000	(133,672)
Net cash used in capital and related financing activities	(29,107,169)	(5,714,579)
INVESTING ACTIVITIES		
Change in restricted cash	14,821,554	(5,416,606)
Proceeds from sales and maturities of investments	7,258,055	4,414,671
Interest on investments	278,663	764,867
Purchase of investments	(6,127,549)	(4,181,391)
Net cash provided by (used in) investing activities	16,230,723	(4,418,459)
(Decrease) increase in cash and cash equivalents	9,327,162	(155,797)
Cash and cash equivalents – beginning of year	42,312,167	42,467,964
Cash and cash equivalents – end of year	$ 51,639,329	$ 42,312,167

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2013 and 2012

	2013	2012
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (113,071,843)	$ (112,158,728)
Depreciation expense	17,873,985	15,936,378
Changes in operating assets and liabilities		
Accounts receivable – net	3,762,154	(3,628,587)
Loans to students – net	81,722	347,723
Inventories	50,793	(123,664)
Prepaid expenses	(670,607)	376,456
Accounts payable	822,735	(311,117)
Accrued liabilities	2,217,513	1,052,904
Refundable deposits	66,455	(41,103)
Assets held for others	(15,428)	7,559
Deferred revenue	1,904,108	(1,957,591)
Net cash flows used in operating activities	$ (86,978,413)	$ (100,499,770)

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 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.

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 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.

(Continued)

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 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. Livestock for educational purposes is recorded at estimated fair value. 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 years ended June 30, 2013 and 2012, was $720,444 and $1,676,261, respectively.

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

Net Position – The University's Net Position is classified as follows:

Invested in Capital Assets – Net of Related Debt: The University's investment in capital assets, net of outstanding debt obligations related to the acquisition, construction, or improvement of those assets.

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

Restricted– Unexpendable: 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.

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, 2013, were $52,305,485 and $6,890,581, respectively. The scholarship allowances on tuition and fees and on housing for the year ended June 30, 2012, were $48,310,730 and $6,605,055, respectively. Payments made directly to students are presented as student financial aid expenses in the Statements of Revenues, Expenses, and Changes in Net Position.

(Continued)

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

Cash Flow Statement – Significant noncash transactions excluded from the June 30, 2013 Statement of Cash Flows are comprised of 1) unrealized gain of $572,445 on the Regional University Excellence Trust Fund investment, 2) unrealized gain of $320,890 on Programs of Distinction investments, 3) unrealized loss of $978,175 on the remaining investments, 4) capital assets acquired by obtaining capital leases of $0, and 5) gain on disposal of fixed assets of $11,232. In addition, in 2013 the bond refinancing of $31,350,000 is a noncash transaction.

Significant noncash transactions excluded from the June 30, 2012 Statement of Cash Flows are comprised of 1) unrealized loss of $57,965 on the Regional University Excellence Trust Fund investment, 2) unrealized loss of $43,575 on Programs of Distinction investments, 3) unrealized loss of $4,109 on the remaining investments, 4) capital assets acquired by obtaining capital leases of $2,344,718, and 5) gain on disposal of fixed assets of $10,719.

Adoption of New Accounting Pronouncements - In fiscal year 2013, the provisions of the following GASB Statements became effective:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership into which state and local governments are increasingly entering.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, issued November 2010. The provisions of this Statement are effective for periods beginning after June 15, 2012. This Statement is designed to improve financial reporting for government entities by amending the requirements of Statement No. 14, *The Financial Reporting Entity* and Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments,* to better meet user needs and to address reporting entity issues that have arisen since those Statements were issued in 1991 and 1999, respectively.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* issued December 2010. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board and American Institute of Certified Public Accountants pronouncements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. In addition, the pronouncement does change the name of the Statement of Net Assets to the Statement of Net Position. A corresponding change has been made to the Statement of Revenues, Expenses and Changes in Net Position.

(Continued)

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

The adoption of these GASB statements had no significant impact on the University's financial condition, operating results or financial statements. In addition, because the University had no deferred outflows or deferred inflows at June 30, 2013 and 2012, it has elected not to present these captions on the Statement of Net Position

Recent Accounting Pronouncements - As of June 30, 2013, the GASB has issued the following statements not yet implemented by the University.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement is intended to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, *Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2014. This Statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013. The provisions of this Statement are effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

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.

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.

(Continued)

NOTE 2 – DEPOSITS, INVESTMENTS AND INVESTMENT RETURN

The Commonwealth treasurer requires that all state funds be insured by 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.

The University requires that balances on deposit with financial institutions 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:

	2013	2012
Depository accounts		
Local bank deposits – collateral held as a pledge in the University's name	$ 22,462,328	$ 26,465,629
Cash on hand	11,033	16,447
State investment pool – uninsured and uncollateralized	45,292,774	46,778,452
Total deposits	$ 67,766,135	$ 73,260,528

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

	2013	2012
Cash and cash equivalents	$ 51,639,329	$ 42,312,167
Restricted cash and cash equivalents	16,126,806	30,948,360
Total deposits	$ 67,766,135	$ 73,260,527

Investments at June 30 consisted of:

	2013	2012
Money market funds	$ 86,046	$ 1,001,553
Restricted assets held by the Foundation	17,278,764	19,286,339
Total investments	$ 17,364,810	$ 20,287,892

(Continued)

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

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.

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

	2013	2012
Percentage of pool invested in:		
Cash equivalents – trustee	7%	3%
Registered investment companies equity funds	78	80
Registered investment companies fixed income funds	15	17
Total	100%	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, 2013, is as follows:

Investment Type	Fair Value	Not Rated	AAA/Aaa	AA, A, and BBB
Cash equivalents – trustee	$ 1,178,198	$ 1,178,198	$ -	$ -
Investments with Foundation	16,186,612	14,579,587	516,213	1,090,812
Total investments	$ 17,364,810	$ 15,757,785	$ 516,213	$ 1,090,812

(Continued)

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

The credit quality of the University's investments as of June 30, 2012, is as follows:

Investment Type	Fair Value	Not Rated	AAA/Aaa	AA, A, and BBB
Cash equivalents – trustee	$ 1,579,205	$ 1,579,205	$ -	$ -
Investments with Foundation	18,708,687	15,927,713	1,611,696	1,169,278
Total investments	$ 20,287,892	$ 17,506,918	$ 1,611,696	$ 1,169,278

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, 2013 resulted in a loss of $84,840 consisting primarily of unrealized losses of investments and an interest accrual adjustment from the Kentucky Department of Finance who manages the University's cash investments. For the year ended June 30, 2012, investment income was $782,000.

NOTE 3 – ACCOUNTS RECEIVABLE

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

	2013	2012
Student tuition and fees	$ 8,233,263	$ 7,968,535
Auxiliary enterprises	464,144	590,123
Federal, state and private grants and contracts	11,239,860	15,118,775
Other state agencies	28,198	28,198
Other	2,143,575	1,986,126
Total	22,109,040	25,691,757
Less allowance for uncollectible accounts	(2,167,622)	(1,988,185)
Accounts receivable – net	$ 19,941,418	$ 23,703,572

(Continued)

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013, is as follows:

	Balance - June 30, 2012	Additions	Reductions	Transfers	Balance - June 30, 2013
Capital assets not being depreciated					
Land	$ 5,637,953	$ -	$ -	$ -	$ 5,637,953
Works of art	18,000	5,000	-	-	23,000
Livestock for educational purposes	446,900	-	(112,180)	-	334,720
Construction in progress	31,467,288	19,703,845	-	(33,293,863)	17,877,270
Total capital assets not being depreciated	37,570,141	19,708,845	(112,180)	(33,293,863)	23,872,943
Other capital assets					
Land improvements	24,524,039	-	-	31,501,034	56,025,073
Buildings	379,286,472	24,055	-	1,719,700	381,030,227
Leasehold improvements	483,858	-	-	73,129	556,987
Equipment	31,495,993	1,409,395	(1,743,958)	-	31,161,430
Library books	40,280,754	1,354,066	(621,743)	-	41,013,077
Capitalized bond costs	1,414,490	440,788	(280,763)	-	1,574,515
Total other capital assets	477,485,606	3,228,304	(2,646,464)	33,293,863	511,361,309
Less accumulated depreciation for					
Land improvements	(15,752,261)	(2,795,153)	-	-	(18,547,414)
Buildings	(132,335,029)	(10,334,651)	-	-	(142,669,680)
Leasehold improvements	(116,094)	(81,572)	-	-	(197,666)
Equipment	(20,964,750)	(3,251,633)	1,719,594	-	(22,496,789)
Library books	(33,913,828)	(1,263,839)	621,743	-	(34,555,924)
Amortization – capitalized bond costs	(268,288)	(147,136)	113,289	-	(302,135)
Total accumulated depreciation	(203,350,250)	(17,873,984)	2,454,626	-	(218,769,608)
Capital assets – net	$ 311,705,497	$ 5,063,165	$ (304,018)	$ -	$ 316,464,644

(Continued)

NOTE 4 – CAPITAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2012, is as follows:

	Balance - June 30, 2011	Additions	Reductions	Transfers	Balance – June 30, 2012
Capital assets not being depreciated					
Land	$ 5,581,504	$ 56,449	$ -	$ -	$ 5,637,953
Works of art	18,000	-	-	-	18,000
Livestock for educational purposes	203,100	243,800	-	-	446,900
Construction in progress	126,927,699	17,799,731	-	(113,260,142)	31,467,288
Total capital assets not being depreciated	132,730,303	18,099,980	-	(113,260,142)	37,570,141
Other capital assets					
Land improvements	21,972,053	-	-	2,551,986	24,524,039
Buildings	268,890,822	579,587	(892,093)	110,708,156	379,286,472
Leasehold improvements	431,410	52,448	-	-	483,858
Equipment	31,378,972	3,729,993	(3,612,972)	-	31,495,993
Library books	39,690,429	1,115,948	(525,623)	-	40,280,754
Capitalized bond costs	934,490	480,000	-	-	1,414,490
Total other capital assets	363,298,176	5,957,976	(5,030,688)	113,260,142	477,485,606
Less accumulated depreciation for					
Land improvements	(14,421,119)	(1,331,142)	-	-	(15,752,261)
Buildings	(123,204,105)	(10,021,355)	890,431	-	(132,335,029)
Leasehold improvements	(43,146)	(72,948)	-	-	(116,094)
Equipment	(21,350,010)	(3,185,095)	3,570,355	-	(20,964,750)
Library books	(33,175,838)	(1,263,613)	525,623	-	(33,913,828)
Amortization – capitalized bond costs	(206,063)	(62,225)	-	-	(268,288)
Total accumulated depreciation	(192,400,281)	(15,936,378)	4,986,409	-	(203,350,250)
Capital assets – net	$ 303,628,198	$ 8,121,578	$ (44,279)	$ -	$ 311,705,497

NOTE 5 – UNEARNED REVENUE

Unearned revenue as of June 30 is as follows:

	2013	2012
Unearned summer school revenue and activity fees	$ 3,472,578	$ 1,879,754
Unearned grants and contracts revenue	4,037,942	3,906,263
Other	397,309	217,704
Total	$ 7,907,829	$ 6,003,721

(Continued)

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS

Long-term liabilities as of June 30, 2013, and long-term activity for the year ended June 30, 2013, are summarized as follows:

	Balance - July 1, 2012	Additions	Reductions	Refunding	Balance - June 30, 2013	Balance Due Within One Year
Revenue bonds payable	$ 50,665,000	$ -	$ (2,150,000)	$ (8,790,000)	$ 39,725,000	$ 2,215,000
General receipts refunding bonds	-	27,715,000	(2,585,000)	-	25,130,000	2,325,000
Capitalized lease obligations	39,509,728	-	(2,718,274)	(21,863,227)	14,928,227	2,677,912
Unamortized bond premium	-	3,953,961	(682,467)	-	3,271,494	618,932
Unamortized deferred refunding	-	(1,407,906)	243,009	-	(1,164,897)	(220,386)
	$ 90,174,728	$ 30,261,055	$ (7,892,732)	$ (30,653,227)	$ 81,889,824	$ 7,616,458

Long-term liabilities as of June 30, 2012, and long-term activity for the year ended June 30, 2012, are summarized as follows:

	Balance - June 30, 2011	Additions	Reductions	Balance - June 30, 2012	Amounts Due Within One Year
Revenue bonds payable	$ 31,020,000	$ 21,480,000	$ (1,835,000)	$ 50,665,000	$ 2,715,000
Capital lease obligations	41,659,020	2,344,718	(4,494,010)	39,509,728	4,666,149
Total bonds payable and capital lease obligations	$ 72,679,020	$ 23,824,718	$ (6,329,010)	$ 90,174,728	$ 7,381,149

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. During fiscal year 2012, $545,000 of principal and $437,489 of interest were paid on the bonds. In addition to the annual payments of principal and interest, there were reserve requirements equal to 25% of annual requirements for principal and interest until the maximum annual requirement remaining for all series is accumulated with the trustee. At June 30, 2012, the required debt service reserve of $988,236 was on deposit with a trustee and included in short-term investments on the Statements of Net Position. 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 and the requirement for a debt service reserve no longer exists.

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

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 years 2013 and 2012, $720,000 and $695,000 of principal and $418,625 and $446,592 of interest were paid on the bonds. Total outstanding principal at June 30, 2013 and 2012, was $9,315,000 and $10,035,000, respectively.

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 years 2013 and 2012, $610,000 and $595,000 of principal and $376,872 and $389,330 of interest was paid on the bonds. Total outstanding principal at June 30, 2013 and 2012 was $9,750,000 and $10,360,000, respectively.

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 2013, $820,000 of principal was paid on the bonds. During fiscal years 2013 and 2012, $732,977 and $329,556 of interest was paid on the bonds. Total outstanding principal at June 30, 2013 and 2012 is $20,660,000 and $21,480,000, respectively.

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 as a deduction from bonds payable, 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. The balance of the defeased debt in the escrow account at June 30, 2013 is approximately $8.6 million.

(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 years 2013 and 2012, $24,581,501 and $4,494,010 of principal and $755,622 and $1,808,541 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,			
2014	$ 7,616,458	$ 3,701,840	$ 11,318,298
2015	7,354,995	3,364,244	10,719,239
2016	7,101,596	3,059,202	10,160,798
2017	7,079,666	2,763,391	9,843,057
2018	7,321,684	2,430,829	9,752,513
2019-2023	28,175,745	6,430,449	34,606,194
2024-2028	11,699,680	2,352,685	14,052,365
2029-2032	5,540,000	454,200	5,994,200
	$ 81,889,824	$ 24,556,840	$ 106,446,664

Assets under capital leases at original cost totaled $29,763,102 and $31,470,613, with accumulated depreciation of $12,920,447 and $11,713,593 at June 30, 2013 and 2012, respectively.

(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:

	2013	2012
Inventories	$ 377,521	$ 428,315
Outstanding encumbrances	2,141,357	2,747,309
Departmental commitments	17,009,836	17,807,791
Designated projects and contingency reserves	13,781,831	10,748,745
Health care self-insurance reserve	2,300,000	2,300,000
Auxiliary working capital	8,620,394	9,532,976
Total	$ 44,230,939	$ 43,565,136

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, 2013 and 2012 was $17,278,764 and $19,286,339, respectively.

The portion of the RUETF endowment representing the value of the funding received from the Kentucky General Assembly, plus unexpended earnings thereon, was $15,603,291 and $17,542,419 as of June 30, 2013 and 2012, respectively, 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, 2013 and 2012 was $1,675,473 and $1,743,920, respectively, 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:

	2013	2012
Funds disbursed by the University on behalf of the Foundation:		
For employee salaries and benefits	$ 245,393	$ 376,753
For scholarships	339,836	366,667
Funds held by the Foundation on behalf of or for the benefit of the University as of June 30	17,278,764	19,286,339
Funds due to the University by the Foundation	387,724	928,421

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 an 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/CRFF, 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 the Optional Retirement Plan. The rate previously floated on an 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 that includes financial statements and required supplementary information. This report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, KY 40601, or by calling (502) 573-3266.

(Continued)

NOTE 10 – PENSION PLANS (Continued)

Substantially all other full-time University employees are required by law to participate in the Kentucky Employee's Retirement System ("KERS"), a cost sharing multiple-employer, public employee retirement system. KERS provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age 65 or has less than 27 years of service. The plan also provides for disability, death and survivor benefits, and medical insurance. Employees in nonhazardous positions contribute 5% of salary. Employers contribute at the rate determined by the KERS Board of Trustees to be necessary for the actuarial soundness of the systems as required by KRS 61.565. The employer rate is reviewed annually following valuation of the plan. Effective July 1, 2011 the University contribution rate to KERS is 19.82%. Employees hired prior to September 1, 2008 contribute 5% of their annual salary, employees hired after September 1, 2008, contribute 6%.

The KERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Kentucky Employees Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601, or by calling (502) 564-4646.

Currently, there are no University employees occupying positions that would be considered hazardous under KERS regulations.

The total pension cost for all retirement plans for the years ended June 30, 2013, 2012 and 2011 was $19,549,000, $17,944,000 and $16,715,000, respectively. Employees contributed approximately $7,175,000, $6,993,000 and $6,775,000, in fiscal years 2013, 2012 and 2011, respectively. The University's total payroll costs were approximately $133,187,000, $132,269,000 and $129,795,000, respectively for the years ended June 30, 2013, 2012 and 2011. The payroll for employees covered by the retirement plan was approximately $114,882,000, $115,417,000 and $111,721,000, for the years ended June 30, 2013, 2012 and 2011, respectively.

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 years ended June 30, 2013 and 2012, totaled $16,637,422 and $15,838,333, respectively. Administrative fees incurred for the years ended June 30, 2013 and 2012, were $1,303,066 and $1,216,996, respectively.

(Continued)

NOTE 11 – RISK MANAGEMENT

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

	2013	2012	2011
Liability – beginning of year	$ 1,178,653	$ 1,274,668	$ 1,233,696
Accruals for current year claims and changes in estimate	17,961,835	16,959,314	14,941,226
Claims paid	(16,637,422)	(15,838,333)	(13,932,709)
Other costs	(1,303,066)	(1,216,996)	(967,545)
Liability – end of year	$ 1,200,000	$ 1,178,653	$ 1,274,668

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Construction Commitments – The estimated cost to complete construction projects under contract at June 30, 2013, is approximately $6.6 million. The projects are to be financed principally by appropriations from the Commonwealth, proceeds from bonds, internal funds and gifts.

Voluntary Buyout Program ("VBP") – During the year ended June 30, 2013, the University's Board of Regents authorized the development of a Strategic Reallocation of Budget Plan including a plan for a reduction in workforce. The expense for the year June 30, 2013 related to the 130 employees who elected the VBP is $3,365,696. At June 30, 2013, $1,610,742 of this expense is to be paid in fiscal 2014 and is included in accrued salaries and benefits.

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.

(Continued)

NOTE 13 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

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

	2013	2012
Salaries and wages	$ 133,187,298	$ 132,269,290
Employee benefits	46,774,099	44,517,531
Supplies and other services	50,905,426	55,978,107
Travel	4,813,444	5,725,488
Depreciation	17,873,985	15,936,378
Student scholarships and financial aid	10,198,968	11,451,721
Utilities	7,762,426	7,877,804
Other operating expenses	328,189	1,878,432
Total	$ 271,843,835	$ 275,634,751

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. (the “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. Specifically, it was founded to cooperate with Eastern Kentucky University (the “University”) and with the Board of Regents of the University (the “Board”) in the promotion of the educational, civic and charitable purposes of the University and Board in any lawful manner deemed appropriate by the Foundation’s Board of Directors. This purpose includes the encouragement of scholarship and research and 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. Under established financial reporting standards for not-for-profit organizations, net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions.

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.

(Continued)

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

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

Cash and Cash Equivalents – The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents, which are stated at cost which approximates fair value. Periodically throughout the year, the Foundation's cash balance exceeds the amount insured by the Federal Deposit Insurance Corporation, including at year-end.

Investments – Investments in equity securities having a readily determinable market value and all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income and realized and unrealized gains and losses on investments reported at fair value. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

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 June 30, 2013 and 2012. 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 Foundation's total alternative investments were approximately $8,249,000 and $7,479,000 as of June 30, 2013 and 2012, respectively.

The Foundation has 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.

Property and Equipment – Property and equipment are stated at cost and are depreciated on the straight-line method over the estimated useful lives of the assets; generally 50 years for buildings, 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 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.

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 these assets may not be recoverable in accordance with ASC 350 and ASC 360. If this review were to result in the conclusion that the carrying value of long-lived assets would not be recoverable, then a write down of the assets would be recorded through a charge to earnings equal to the difference in the fair market value of the assets and their carrying value. No such impairment losses were recognized for the years ended June 30, 2013 and 2012.

(Continued)

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

Split-Interest Agreements – The carrying value of liabilities for payment to beneficiaries of split-interest unitrust agreements are determined based on the present value of the discounted estimated future cash flow using current market interest rates at the date of donation.

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 statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are included in unrestricted net assets.

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 for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional 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 risk-free interest rate applicable to the years in which the promises are received. Amortization using the level-yield method is included in contribution revenue. Conditional gifts are not included as support until the conditions are substantially met.

Income Taxes – The Internal Revenue Service has determined that the Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Accounting principles generally accepted in the United States of America (“U.S. GAAP”) prescribe 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 being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit or liability will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2013 and 2012 and does not 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, 2013 and 2012. The Foundation is no longer subject to examination by taxing authorities for the years before June 30, 2009.

(Continued)

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

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

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 of $18,184,196 and $15,055,248 at June 30, 2013 and 2012, respectively. 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 June 30, 2013 to determine the need for any adjustments to and/or discussions within the audited financial statements for the year ended June 30, 2013. Management has performed their analysis through October 4, 2013 which is the date that financial statements were issued.

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported changes in net assets or total net assets.

B. INVESTMENTS AND INVESTMENT RETURNS

Investments held at June 30, 2013 and 2012, by the Foundation were as follows:

	2013	2012
Money market funds	$ 3,563,842	$ 2,003,036
Common stock	-	345,184
Fixed income funds	7,337,828	7,008,837
Equity funds	34,592,781	31,015,810
Real estate	12,026	-
Alternatives	8,249,286	7,479,322
Total investments	$ 53,755,763	$ 47,852,189

The Foundation invests the endowment matching funds for the Regional University Endowment Trust Fund on behalf of the University, which is reflected for both the years ended June 30, 2013 and 2012. Interest and dividend income and unrealized and realized gains and losses on investments were allocated between the Foundation and the University based on the percentage of investments owned.

(Continued)

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS

U.S. 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, 2013 is as follows:

	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 3,563,842	$ 3,563,842	$ -	$ -
Common stock, primarily of financial institutions				
Fixed income funds	7,337,828	7,337,828	-	-
Equity funds	34,592,781	34,592,781	-	-
Real Estate	12,026	12,026	-	-
Alternatives:				
Hedge funds	4,798,215	-	4,798,215	-
Limited partnerships	3,451,071	-	-	3,451,071
Total investments	$ 53,755,763	$ 45,506,477	$ 4,798,216	$ 3,451,071
Interest rate swap	$ 76,438	$ -	$ 76,438	$ -

(Continued)

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments as of June 30, 2012 is as follows:

	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 2,003,036	$ 2,003,036	$ -	$ -
Common stock, primarily of financial institutions	345,184	345,184	-	-
Fixed income funds	7,008,837	7,008,837	-	-
Equity funds	31,015,810	31,015,810	-	-
Alternatives:				
Hedge funds	4,342,999	-	4,342,999	-
Limited partnerships	3,136,323	-	-	3,136,323
Total investments	$ 47,852,189	$ 40,372,867	$ 4,342,999	$ 3,136,323
Interest rate swap	$ 109,015	$ -	$ 109,015	$ -

The fair values of money market funds, common stock, fixed income funds, and equity funds 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.

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 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 30th. The NAVs of the investment funds are determined on the accrual basis of accounting in conformity with U.S. GAAP; in certain instances, secondary investments require reporting other than U.S. GAAP such as International Financial Reporting Standards or Tax Basis accounting, in which case the investment managers adjust values to more accurately comply with U.S. 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, and 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 U.S. 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 Level 3 fair value measurements due to the inability to redeem the asset at NAV in the near term.

(Continued)

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Foundation management has done 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.

Derivative contracts are valued using quoted market prices and significant other observable inputs. The Foundation's only such financial instrument is an interest rate swap contract. Interest rate swaps do not have observable market quotes. For this financial instrument, the Foundation's swap counterparty provides an annual valuation using the difference between the fixed rate paid by the Foundation and the counterparty's interest rate forecast discounted at the swap yield curve. The models are based on observable inputs for forward interest rates and discounts rates. As such, these derivative instruments are classified within Level 2 of the fair value hierarchy.

Description of Alternative Investments Strategy and Liquidity:

As of June 30, 2013 and 2012, 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, 2013 and 2012, 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) 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.

    2) 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.

    3) 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.

    4) Capital structure arbitrage – This investment strategy typically involves taking long and short positions in different financial instruments and asset classes within the capital structure of the same company (equity and debt classes primarily).

    5) 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.

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

    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 and physical commodities.

(Continued)

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

8) 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.

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, 2013 and 2012, 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 some 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”. In addition to needing an equity infusion, some companies need to change their capital structure to facilitate growth.

2) 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 attract interest from a strategic buyer soon).

3) 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 such loans).

4) 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 telecom) or one sub-class (for example 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 that mix investments in limited partnerships with direct investments in underlying platforms, and these are called “hybrid” funds. Finally, FOFs that buy existing partnerships that are for resale by LPs are called “secondaries” funds.

(Continued)

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

5) 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 GPs take control of the distressed companies and work through the bankruptcy process to pick new managers and strategies for restructuring, and 2) those where GPs do not take control of these companies and instead focus on trading the distressed securities.

A summary of the alternative investment restrictions on redemption and liquidity as of June 30, 2013, is presented as follows:

	Balance at June 30, 2013	Unfunded Commitments	Redemption Notice	Redemption Frequency
Hedge fund	$ 4,798,216	$ -	60 days	Quarterly
Limited partnerships	$ 3,451,071	$ -	N/A	Fund Dissolved

The limited partnerships (the “Funds”) have incorporation dates ranging from 2005 to 2008. Each of the limited partnerships has 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 liquidations of the Fund’s investments. In addition, for each of the limited partnerships, the Fund Manager may, in its sole discretion, elect to terminate the Fund prior to the end of such term or any extension period.

The following is the Level 3 investment activity for the years ending June 30, 2013 and 2012:

	2013	2012
Balance, beginning of year	$ 3,136,323	$ 2,648,019
Total gains or losses (realized/unrealized) included in earnings (or changes in net assets)	(49,804)	27,754
Purchases, issuances and settlements, net	364,552	460,550
Balance, end of year	$ 3,451,071	$ 3,136,323

(Continued)

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The amount of total gains or losses for the years ended June 30, 2013 and 2012 relating to Level 3 assets still held at June 30, 2013 and 2012 is as follows:

	2013	2012
Limited partnerships	$ (49,804)	$ 27,754

D. ENDOWMENT

The Foundation's endowment consists of 369 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (board-designated endowment funds). As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – Prior to 2011, the Foundation's Board of Directors interpreted the Uniform Management of Institutional Funds Act ("UMIFA"), adopted in Kentucky in 1976 as requiring preservation of the "historic dollar 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 donor-restricted endowment funds is classified as unrestricted or temporarily restricted net assets, depending on donor stipulations.

Effective in July 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. In addition, UPMIFA provides for allowing certain Board restricted net assets to be classified as permanently restricted. As discussed in Note 1, this change in law caused the Foundation to reclassify net assets from unrestricted and temporarily restricted to permanently restricted.

(Continued)

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

D. ENDOWMENT (Continued)

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

(1) The duration and preservation of the fund
(2) The purposes of the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Foundation
(7) 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 that are to be reported in unrestricted net assets were $55,933 and $72,105 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of permanently restricted contributions.

Endowment net asset composition by type of fund as of June 30, 2013 and 2012 is as follows:

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (55,933)	$14,371,287	$ 37,372,355	$ 51,687,709
Board-designated endowment funds	6,158,567	-	-	6,158,567
Total	6,102,634	14,371,287	37,372,355	57,846,276
Less endowment held for others	(1,675,473)	(3,368,137)	(12,235,154)	(17,278,764)
Total endowment net assets	$ 4,427,161	$11,003,150	$ 25,137,201	$ 40,567,512

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (72,105)	$ 8,565,278	$ 36,199,216	$ 44,692,389
Board-designated endowment funds	5,440,634	-	-	5,440,634
Total	5,368,529	8,565,278	36,199,216	50,133,023
Less endowment held for others	(1,743,920)	(5,335,614)	(12,206,805)	(19,286,339)
Total endowment net assets	$ 3,624,609	$ 3,229,664	$ 23,992,411	$ 30,846,684

(Continued)

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

D. Endowment (Continued)

Changes in endowment net assets for the years ended June 30, 2013 and 2012 are as follows:

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 5,368,529	$ 8,565,278	$ 36,199,216	$ 50,133,023
Investment returns – net of fees	136,894	1,023,314	-	1,160,208
Net change in unrealized appreciation (depreciation) on investments	539,678	6,010,021	-	6,549,699
Total revenues and gains (losses)	676,572	7,033,335	-	7,709,907
Contributions	57,533	94,407	1,173,139	1,325,079
Appropriation of endowment net assets for expenditures	-	(1,321,733)	-	(1,321,733)
Changes in endowment net assets	734,105	5,806,009	1,173,139	7,713,253
Endowment net assets at end of year	6,102,634	14,371,287	37,372,355	57,846,276
Changes in assets held for others	(68,447)	(1,967,477)	28,349	(2,007,575)
Changes in endowment net assets during year	802,552	7,773,485	1,144,790	9,720,828
Endowment net assets – beginning of year	3,624,609	3,229,664	23,992,411	30,846,684
Endowment net assets – end of year	$ 4,427,161	$11,003,149	$ 25,137,201	$ 40,567,512

(Continued)

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

D. Endowment (Continued)

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 5,540,789	$ 8,393,368	$ 35,554,568	$ 49,488,725
Investment returns – net of fees	119,307	828,032	-	947,339
Net change in unrealized appreciation (depreciation) on investments	(154,547)	(837,908)	-	(992,455)
Total revenues and gains (losses)	(35,240)	(9,876)	-	(45,116)
Contributions	44,455	1,184,585	644,648	1,873,688
Appropriation of endowment net assets for expenditures	(181,475)	(1,002,799)	-	(1,184,274)
Changes in endowment net assets	(172,260)	171,910	644,648	644,298
Endowment net assets at end of year	5,368,529	8,565,278	36,199,216	50,133,023
Changes in assets held for others	(43,575)	(57,965)	-	(101,540)
Changes in endowment net assets during year	(128,685)	229,875	644,648	745,838
Endowment net assets – beginning of year	3,753,294	2,999,789	23,347,763	30,100,846
Endowment net assets – end of year	$ 3,624,609	$ 3,229,664	$ 23,992,411	$ 30,846,684

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 & Foundation Index or other benchmarks as determined by the Board of Directors.

(Continued)

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

D. Endowment (Continued)

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 (interest and dividends). 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 Foundation has outsourced its Investment Office to a Pennsylvania-based firm serving as Chief Investment Officer, to manage the Foundation's endowment assets under the guidance of the Foundation's Investment Policy and in consultation with the Investment Committee of the Board of Directors. 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 Spending Policy – The Foundation has a policy of appropriating for distribution each year up to 5% 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.

E. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2013 and 2012, consisted of the following unconditional promises to give:

	2013				2012
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Current pledges receivable:					
Due within one year	$ 347	$ 54,394	$ 237,551	$ 292,292	$ 264,865
Allowance	-	-	(10,000)	(10,000)	(10,000)
Total current pledges receivable	347	54,394	227,551	282,292	254,865
Long-term pledges receivable:					
Due after one year to four years	1,029	25,000	8,919	34,948	45,590
Due after four years	-	-	493,140	493,140	517,340
Allowance	-	-	(65,000)	(65,000)	(90,000)
Discount to NPV	(2)	(46)	(1,171)	(1,219)	(1,081)
Total long-term pledges receivable	1,027	24,954	435,888	461,869	471,849
Net pledges receivable	$ 1,374	$ 79,348	$ 663,439	$ 744,161	$ 726,714

Outstanding pledges receivable due from related parties of the Foundation were $521,062 and $645,064 as of June 30, 2013 and 2012, respectively.

(Continued)

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

F. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2013 and 2012 consisted of:

	2013	2012
Land	$ 2,450,373	$ 2,450,373
Land improvements	523,225	523,225
Buildings and improvements	3,435,082	3,435,082
Machinery and equipment	152,050	145,171
Works of Arts	5,722	-
Capitalized bonds costs	61,422	61,422
	6,627,874	6,615,273
Less accumulated depreciation	662,171	462,961
Property and equipment – net	$ 5,965,703	$ 6,152,312

G. NET ASSETS

Temporarily Restricted Net Assets – Temporarily restricted net assets, net of amounts held for others, is available for scholarships and other program support.

Permanently Restricted Net Assets – Permanently restricted net assets consist of restricted endowments requiring principal to be invested in perpetuity. The income is available for scholarships, chairs and other University programs.

Net Assets Released From Restrictions – Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restrictions consisted of the following at June 30, 2013 and 2012:

	2013	2012
Purpose restrictions accomplished/time restrictions expired:		
Scholarship program expenses	$ 339,836	$ 366,667
Other educational program areas and support	1,112,543	810,658
	$ 1,452,379	$ 1,177,325

(Continued)

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

H. RELATED-PARTY TRANSACTIONS

Arlington Golf Course and Facilities – The Foundation has leased for a nominal amount the Arlington Golf Course and facilities (a golf course built and owned by the Foundation on Foundation land) to the Arlington Association, Inc. ("Arlington") for its use for a term of one year with automatic renewal for each successive year. The lease can be terminated by either party with notice. As consideration for this lease, various departments of the University are permitted to use the golf course and related facilities for instructional purposes. Arlington bears all expenses for operation and maintenance of the golf course facility and, in return, receives all fees related to its operation. Arlington owes the Foundation $825,012 and $572,925 at June 30, 2013 and 2012, respectively, for unpaid lease payments. During fiscal year 2011, the Foundation extended a $100,000 line of credit to Arlington to be used for ongoing capital improvements to buildings and property owned by the Foundation. This line of credit was increased to $270,000 during 2012. The outstanding balance remains at $270,000 at June 30, 2013. Based upon a review of the financial condition of Arlington and its operating activity, an allowance of $872,191 and $572,191 has been established as of June 30, 2013 and 2012, respectively, as an estimate of the ultimate collectability of these receivables.

Eastern Kentucky University – The University provides various administrative services to the Foundation. As a result of these related-party services and other transactions, the Foundation has recorded a payable to the University of $387,724 and $928,421 as of June 30, 2013 and 2012, respectively.

The University disbursed $245,393 and $376,753 on behalf of the Foundation for employee salaries and benefits during the years ended June 30, 2013 and 2012, respectively. The University disbursed $339,836 and $366,667 on behalf of the Foundation for scholarships during the years ended June 30, 2013 and 2012, respectively. These disbursements are not reimbursed by the Foundation.

I. BONDS PAYABLE

The Foundation issued Variable Rate Demand Economic Development Revenue Bonds, Series 2008, in the amount of $1,770,000 through Fifth Third Bank to help finance the Arlington renovation project (see Note 8). The bonds mature in 2017 and have a variable interest rate that is based on the USD – SIFMA Municipal Swap Index. To protect the Foundation against a potential interest rate increase, the Foundation entered into an interest rate swap agreement, thereby locking into a fixed interest rate of 3.4% for the duration of the loan term. At June 30, 2013 and 2012, the interest rate swap had a total notional amount of $1,155,000 and $1,320,000, respectively. The fair value of the swap agreement reflects an obligation of the Foundation of $76,438 and $109,015 at June 30, 2013 and 2012, respectively. This change in value is recognized as an increase in net assets and is included in net unrealized gains (losses) on the statement of activities. In addition to the unrealized gains (losses) noted above, the net settlements from the interest rate swap agreements are included within interest expense which is included in payments and support for the University. For the years ended June 30, 2013 and 2012, the net settlements resulted in an increase to interest expense in the amounts of $38,558 and $43,887, respectively. The swap agreement expires in 2017.

(Continued)

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

I. BONDS PAYABLE (Continued)

Scheduled principal repayment requirements are as follows:

Year ending June 30,	
2014	$ 170,000
2015	180,000
2016	190,000
2017	195,000
2018	420,000
Total	$ 1,155,000

J. ASSETS HELD FOR OTHERS

Assets held for others represent resources in the possession of, but not under the control of, the Foundation. Assets held for others were as follows at June 30:

	2013	2012
Eastern Kentucky University – investments held for		
Regional University Endowment Trust Fund	$ 15,603,291	$ 17,542,419
Programs of Distinction	1,675,473	1,743,920
Total	$ 17,278,764	$ 19,286,339

K. ANNUITIES AND TRUSTS PAYABLE

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 Foundation has recorded a liability at June 30, 2013 and 2012 of $367,764 and $388,754, respectively, which represents the present value of the future annuity obligations which was determined by using discount rates ranging from 5.5% to 8.4%.