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As of June 30, 2002**

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Eastern Kentucky University
Financial Statements
June 30, 2002

Table of Contents

LETTER OF TRANSMITTAL

MANAGEMENT'S DISCUSSION AND ANALYSISi

AUDITED FINANCIAL STATEMENTS

Independent Auditor's Report.....1
Statement of Net Assets2
Statement of Revenues, Expenses and Changes in Net Assets.....4
Statement of Cash Flows6
Notes to Financial Statements.....8



EASTERN KENTUCKY UNIVERSITY
Serving Kentuckians Since 1906

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Vice President & Treasurer

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October 18, 2002

President Joanne K. Glasser
Chairman C. Fred Rice and
Members of the Board of Regents
Eastern Kentucky University

I am pleased to submit the annual audited financial report of Eastern Kentucky University as of June 30, 2002. The report has 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 report has been prepared on an accrual accounting basis and presents the financial condition of Eastern Kentucky University as of June 30, 2002, and the results of its operations for the year then ended.

The financial statements of Eastern Kentucky University have been audited by the accounting firm of Crowe, Chizek and Company, LLP, and their opinion is included as part of this report.

Sincerely,

J. K. Johnston
Vice President for Financial Affairs
and Treasurer



EASTERN KENTUCKY UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Eastern Kentucky University (the University) is pleased to present its financial statements for fiscal year 2002. The Management Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial performance of the University for the year ended June 30, 2002. Management has prepared this discussion, along with the financial statements and related footnotes, to provide summary financial information. MD&A should be read in conjunction with the accompanying financial statements and notes, which follow this section.

Financial Highlights

- The University's financial position remained strong as of June 30, 2002, with assets of \$247 million and liabilities of \$97 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$150 million or 60% of total assets.
- Financial operations were in accordance with the budget plan approved by the Board of Regents. Operating revenues were \$102 million and operating expenses were \$170 million, resulting in a loss from operation of \$68 million. Nonoperating revenues, including \$73 million in state appropriations, net of nonoperating expenses, were \$72 million, which, when combined with the loss from operations, resulted in an overall increase in net assets of \$4 million before other revenues, expenses, gains or losses.
- Additional capital appropriations of \$14 million include \$9 million for the Law Enforcement Training Building \$5 million for the Business and Technology Building.

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*. These financial statements differ significantly in both the form and the accounting principles utilized from prior financial statements presented. The financial statements presented in prior years focused on accountability of funds, while these statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

In addition to the change in emphasis to a University-wide perspective, another significant change is that revenues and expenses are now categorized as either operating or nonoperating. Significant recurring sources of revenues, including state appropriations and investment income are now considered nonoperating, as defined by GASB Statement No. 35. Further, depreciation of capital assets is now reported in the financial statements as an operating expense.

Reporting Entity

Eastern Kentucky University is a component unit of the Commonwealth of Kentucky.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point in time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of Eastern Kentucky University. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (Assets minus Liabilities). Net assets, the difference between total assets and total liabilities, is an important indicator of the current financial condition, while the change in net assets is an indicator of whether the overall financial position has improved or worsened during the year.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Generally, assets and liabilities are reported using current values. A major exception is capital assets, which are stated at historical cost, less accumulated depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the institution's equity in property, plant and equipment owned by the institution. The next asset category is restricted net assets, which are available for expenditure by the institutions but must be spent for purposes as determined by donors and/or external entities. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution. However, the unrestricted net assets may be committed by the University for various projects and therefore not available for other purposes.

**Condensed Statement of Net Assets
(in thousands)**

ASSETS

Current assets	\$ 74,785
Capital assets, net	166,058
Other assets	<u>6,673</u>
Total Assets	247,516

LIABILITIES

Current liabilities	\$ 24,785
Noncurrent liabilities	<u>72,458</u>
Total Liabilities	97,243

NET ASSETS

Invested in capital assets, net	
of debt	92,757
Restricted – expendable	45,807
Unrestricted	<u>11,709</u>
Total Net Assets	<u>\$ 150,273</u>

Assets As of June 30, 2002, the University’s total assets amount to approximately \$247.5 million. Investment in capital assets (land, building, equipment, etc), net of depreciation, represented the University’s largest asset, totaling \$166.0 million or 67% of total assets. Current assets of \$74.8 million was the next largest at 30%. Current assets consist of cash, current investments, current receivables, and inventories. Other assets would include the noncurrent portion of investments and loan receivables.

Liabilities As of June 30, 2002, the University’s liabilities totaled approximately \$97.2 million. Bonds and leases payable for educational buildings and the housing system represented \$73.3 million or 75% of total liabilities. Those due for repayment during the upcoming year amount to \$6.8 million, \$3.7 million of which are funded by earmarked state appropriations and an additional \$.9 million by lease agreements with the state. The remainder is funded from housing revenues.

Net Assets Net assets at June 30, 2002, totaled approximately \$150.3 million, or 60% of total assets. Net assets invested in capital, net of related debt, totaled \$92.8 million or 62% of total net assets. Restricted net assets totaled \$45.8 million or 30% of total net assets. Restricted net assets are subject to externally imposed restriction governing their use. Unrestricted net assets accounted for \$11.7 million or 8% of total net assets. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the unrestricted net assets have been designed for support of academic programs and initiatives, capital projects or working capital requirements. These current designations for these unrestricted assets are as follows:

Designation of Unrestricted Net Assets

Inventories	\$ 454,931
Outstanding encumbrances	1,958,495
Incomplete university-funded capital projects	2,859,104
Indirect cost commitment	171,743
Healthcare self insurance reserve	1,000,000
Departmental commitments	1,938,590
State trust funds	1,496,670
Deferred maintenance	500,000
Auxiliary working capital	698,813
Unexpended plant funds	11,750
Uncommitted funds	<u>618,731</u>
Unrestricted Net Assets	<u>\$11,708,827</u>

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

This statement is prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the goods or services, regardless of when cash is exchanged. All items that increase or decrease net assets must appear on the Statement of Revenues, Expenses, and Changes in Net Assets

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are considered under GASB Statement 35 to be nonoperating because they are considered to be provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for this revenue. Accordingly the University reports a net operating loss for the year prior to the addition of nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition must be reduced by institutional scholarships and governmental aid and is reported net of scholarship allowances in the financial statements.

**2002 Condensed Statement of Revenues, Expenses and Changes in Net Assets
(in thousands)**

Operating revenues		\$ 102,068
Operating expenses		<u>170,411</u>
Operating loss		(68,343)
Nonoperating revenues and expenses		<u>72,129</u>
Income (Loss) Before Other Revenues, Expenses, Gains or Losses		3,786
Other revenues, expenses, gains or losses		<u>14,499</u>
Increase in Net Assets		18,285
Net Assets at Beginning of Year	277,507	
Cumulative effect of changes in accounting principles	<u>(145,519)</u>	
Net Assets at Beginning of Year-Adjusted		<u>131,988</u>
Net Assets at End of Year		<u>\$ 150,273</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the year. Some highlights of the information presented on the statement are as follows:

- Gross tuition revenue (prior to netting of scholarship allowances of \$17,817,135) increased by \$6.9 million. The increase was principally the result of a 7.5% tuition increase and a slight increase in enrollment and credit hour production. In addition, \$1.9 million was a result of the shift in the start of Summer term.
- State appropriations were budgeted to increase 11% for 2001-2002 including increases for trust funds, debt service and maintenance of new buildings. The general appropriation increase was 3.7%. During the year, general appropriations were decreased 1.87% or \$1.2 million. This reduction was offset by specified reductions in operating budgets and utilization of a portion of the contingency budget. In addition, the appropriations budget for the maintenance of new buildings (originally \$1.8 million) was not received because the buildings did not come on-line until after the end of the year.
- Governmental grants and contracts increased to \$60 million from \$53 million in 2000-2001.

- Capital appropriations were received for \$13.8 million composed of \$8.8 million for the Law Enforcement Training Building and \$5.0 million for the first phase of the Business and Technology Building.
- Personnel costs increased approximately 4.2% because of a 3% general salary increase, utilization of trust fund monies for personnel, and the increase in university funded health insurance costs.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities, and includes cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets to the net cash used by operating activities.

Condensed Statement of Cash Flows (in thousands)

Cash provided (used) by:	
Operating activities	\$(55,399)
Noncapital financing activities	68,587
Capital and related financing activities	(9,036)
Investing activities	<u>1,642</u>
Net change in cash	5,794
Cash, beginning of year	<u>34,255</u>
Cash, end of year	<u><u>\$ 40,049</u></u>

Capital Asset and Debt Administration

The University had no significant facility capital asset additions that were completed during the year being reported. Construction continued during the year however on the Student Services Building and the Law Enforcement Training Building. This is reflected in an increase in Construction in Progress from \$28.4 million in 2001 to \$51.8 million in 2002. The Student Services Building was occupied in August 2002 and a portion of the Law Enforcement Training Building in July 2002.

Three new bond issues were completed during the year. Housing bonds Series O were issued for \$5.5 million for the renovation of Combs Hall and the construction of new student housing. The repayment of these bonds will be covered from housing revenue. Consolidated Education Building bonds Series U were issued for \$9 million to retire ConEd Series Q Series at \$8.6 million. Repayment of these bonds is covered by state appropriations, which are adjusted each year to cover actual principal and interest payments. State Project 75 Revenue Bonds were issued for \$7.1 million to fund additional construction for the Law Enforcement Training Building. These bonds are reflected on the books of the university as a lease payable and are covered by annual lease payments from the State Justice Cabinet for use of the facility.

Economic Factors Impacting Future Periods

The following are known facts and circumstances that could affect future financial results:

- The General Assembly of the Commonwealth of Kentucky has not adopted a budget for the 2002-2004 biennium. Governor Paul Patton implemented, by executive order, an emergency-spending plan for fiscal year 2003. The Board of Trustees of the University has approved an operating budget for fiscal year 2003.
- Tuition rates for fiscal year 2003 were increased approximately 9.5% undergraduate students and 9.0% for graduate students, resident and nonresident. The reduced rate for undergraduate students from targeted out-of-state counties was applied to graduate students as well. The net increase is expected to generate additional operating revenues of approximately \$3 million.



CROWE CHIZEK

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statement of net assets of Eastern Kentucky University as of June 30, 2002, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The scope of such tests and procedures equaled or exceeded the minimum audit scope compliance requirements of Kentucky Revised Statutes 164A.550 to 164A.630 (House Bill 622). An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

As described in Note 1 to the financial statements, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 35, "Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities", as of July 1, 2001.

The Management's Discussion and Analysis (MD&A) on pages i through vii is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

Louisville, Kentucky
September 27, 2002

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF NET ASSETS
June 30, 2002

ASSETS

Current assets

Cash and cash equivalents	\$ 40,049,084
Investments	18,936,218
Accrued interest receivable	492,865
Accounts receivable, less allowance of \$4,890,000	14,041,448
Loans to students, less allowance of \$50,390	797,610
Inventories	454,931
Prepaid expenses	12,800
Total current assets	74,784,956

Noncurrent assets

Investments	1,977,074
Loans to students, less allowance of \$296,685	4,696,124
Capital assets, net of accumulated depreciation of \$145,233,582	166,057,402
Total noncurrent assets	172,730,600
Total assets	247,515,556

LIABILITIES

Current liabilities

Accounts payable	3,702,787
Accrued salaries and benefits	4,715,109
Payroll withholding payable	1,387,324
Refundable deposits	783,741
Deferred revenue	7,360,405
Bond payable-current portion	5,925,000
Lease payable-current portion	910,000
Total current liabilities	24,784,366

Noncurrent liabilities

Bonds payable-noncurrent portion	41,485,000
Lease payable-noncurrent portion	24,980,000
U.S. governmental grants refundable	5,993,333
Total noncurrent liabilities	72,458,333
Total liabilities	97,242,699

Continued

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF NET ASSETS
June 30, 2002

NET ASSETS	
Invested in capital assets, net of related debt	92,757,402
Restricted for:	
Expendable	
Capital projects	36,930,732
Debt service	8,016,351
Loan match requirement	859,545
Unrestricted	<u>11,708,827</u>
 Total net assets	 <u><u>150,272,857</u></u>

See notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended JUNE 30, 2002

REVENUES

Operating revenues:

Student tuition and fees	
(Net of scholarship allowances of \$17,817,135)	\$ 25,760,243
Federal grants and contracts	43,883,977
State and local grants and contracts	16,002,650
Nongovernmental grants and contracts	790,071
Sales and services of educational departments	4,772,793
Auxiliary enterprises revenues-housing	
(Net of scholarship allowances of \$2,973,027)	4,516,164
Auxiliary enterprises revenues-other	843,441
Other operating revenues	5,498,820
Total operating revenues	<u>102,068,159</u>

EXPENSES

Operating expenses:

Educational and general	
Instruction	59,372,967
Research	573,577
Public service	30,635,859
Libraries	2,810,636
Academic support	16,834,208
Student services	8,904,226
Institutional support	16,429,508
Operations and maintenance of plant	12,888,623
Depreciation	10,358,911
Student Aid	5,333,425
Auxiliary enterprises	
Housing and other auxiliaries	5,106,278
Depreciation	974,444
Other expenditures	188,427
Total operating expenses	<u>170,411,089</u>

Operating loss	<u>(68,342,930)</u>
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NONOPERATING REVENUES (EXPENSES)

State appropriations	72,730,807
Investment income	1,307,370
Interest on capital asset-related debt	(3,550,738)
Bond issuance costs	(98,214)
Other nonoperating revenues	1,739,724
Net nonoperating revenues	<u>72,128,949</u>
Income before other revenues, expenses, gains, losses	<u>3,786,019</u>

Continued

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended JUNE 30, 2002

Capital appropriations	13,856,070
Capital grants and gifts	455,000
Federal capital support	187,809
Total other revenues	<u>14,498,879</u>
Increase in net assets	<u>18,284,898</u>
NET ASSETS	
Net assets-beginning of year	277,507,135
Cumulative effects of change in accounting principle, adoption of GASB Statement No. 35:	<u>(145,519,176)</u>
Net assets-beginning of year, as adjusted	<u>131,987,959</u>
Net assets-end of year	<u><u>\$ 150,272,857</u></u>

See notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 24,219,528
Research grants and contracts	60,905,800
Payments to suppliers	(27,101,554)
Payment for utilities	(3,755,642)
Payments to employees	(95,475,910)
Payments for benefits	(24,978,309)
Payments to students	(5,333,425)
Refunds to grantors	(9,496)
Loans issued to students and employees	(1,013,956)
Collection of loans to students and employees	933,940
Federal reimbursement of cancelled loans	204,789
Auxiliary enterprise charges	
Resident halls	5,142,461
Other	841,175
Sales and services of educational	4,772,793
Other receipts (payments)	5,248,519
Net cash used by operating activities	<u>(55,399,287)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	<u>68,587,281</u>
Net cash provided by noncapital financing activities	<u>68,587,281</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Proceeds from capital debt	21,580,000
Capital appropriations	18,187,406
Purchase of capital assets	(29,899,686)
Principal paid on capital debt and leases	(15,255,000)
Interest paid on capital debt and leases	(3,550,738)
Bond issuance costs	(98,214)
Net cash used by capital financing activities	<u>(9,036,232)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	21,298,763
Interest on investments	1,410,357
Purchase of investments	(21,066,882)
Net cash provided by investing activities	<u>1,642,238</u>

Net increase in cash and cash equivalents	5,794,000
Cash and cash equivalents-beginning of the year	<u>34,255,084</u>
Cash and cash equivalents-end of year	<u>40,049,084</u>

Continued

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended JUNE 30, 2002

Reconciliation of net operating income (loss) to net cash used by operating activities:	
Operating income (loss)	\$ (68,342,930)
Adjustments to reconcile net operating income (loss) to net cash provided used by operating activities:	
Depreciation expense	11,333,355
Loan cancellations	204,789
Changes in assets and liabilities:	
Receivables, net	(2,531,752)
Inventories	68,372
Other assets	951,350
Accounts payable	749,264
Accrued salaries and benefits	529,843
Payroll taxes payable	3,628
Deferred revenue	1,496,564
Refundable deposits	112,225
Loans to students	(98,874)
U.S. governmental grants refundable	124,879
Net cash used by operating activities	<u><u>\$ (55,399,287)</u></u>

See notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: 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, Eastern has a distinguished record of over nine decades of educational service to the Commonwealth.

Reporting Entity: Eastern Kentucky University is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statement of the Commonwealth. These financial statements do not include the financial operations and financial positions of the Eastern Kentucky University Foundation, Inc. The Eastern Kentucky University Foundation is a corporation formed for educational, charitable, and public purposes in accordance with the provision of KRS 273.010. Specifically, it was founded to cooperate with Eastern Kentucky University and with the Board of Regents of Eastern Kentucky University in the promotion of the educational, civic and charitable purpose of the University and Board in any lawful manner deemed appropriate by the Board of Directors. This purpose includes the encouragement of scholarship and research and 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. Although these entities benefit the University, they are governed by an independent Board of Directors and are not controlled by the University.

Financial Statement Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB).

Effective July 1, 2001, Eastern Kentucky University adopted GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 37. The University also adopted GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, on July 1, 2001. The standards for external financial reporting for public colleges and universities requires that the University’s net assets be 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 net assets – nonexpendable*** - Net assets subject to externally imposed stipulations that the principal is to be maintained permanently by the University.
- ***Restricted net assets – expendable*** – Resources the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- ***Unrestricted net assets*** – Net assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation established by GASB Statement No. 35 is intended to provide a comprehensive, entity-wide perspective of the University’s assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows. It replaces the fund group perspective previously required.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

In order to reflect the applications of the GASB Statement No. 35's provisions, beginning of the year fund balances have been restated as follows:

June 30, 2001 combined fund balances, as previously reported	\$ 277,507,135
GASB Statement No. 35 adjustments:	
Accumulated depreciation, beginning of the year	(136,606,323)
Grants and contracts restricted fund balances required by GASB 35 to be reported as deferred revenue	(3,044,399)
Loan fund balances required by GASB 35 to be reported as liabilities	<u>(5,868,454)</u>
Total GASB Statement No. 35 adjustments	<u>(145,519,176)</u>
Combined fund balances, restated as net assets	<u>\$ 131,987,959</u>

Accrual Basis: The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. For reporting purposes, the University is considered a special-purpose government agency engaged only in business-type activities (BTA). BTAs are those activities that are financed in whole or part by fees charged to external parties for goods and services.

Inventories: Inventories are stated at cost (first-in, first-out basis), or average cost.

Investments: Investments are stated at fair value.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. The University's capitalization policy includes all items with a unit cost of \$500 or more, and an estimated useful life of greater than one year. Livestock for educational purposes is recorded at estimated fair value. 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 expense was 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, 10 years for library books and 5-15 years for equipment.

Operating Activities: Operating activities, reported on the Statement of Revenues, Expenses, and Changes in Net Assets, are those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Most of the University's expenses are from exchange transactions. Certain revenues, such as state appropriations, gifts, and investment income, are recorded as nonoperating revenues.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided the University, and the amount that is paid by students and/or third parties making payments on the student's behalf. Scholarship allowances for 2001-02 were \$17,817,135. Certain government grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as operating revenues in the University's financial statements.

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents: As of June 30, 2002, the carrying amount of the University's deposits with the State Treasurer and other financial institutions was \$60,962,376. This amount consisted of deposits with the State Treasurer (\$40,327,434); U.S. financial institutions (\$12,137,240); trusts related to the University's various bond indenture agreements (\$8,471,292) and petty cash and change funds (\$26,410). Included in deposits with the State Treasurer are amounts invested through the State Treasurer's Cash Management Program totaling \$3,300,540 at June 30, 2002. For financial reporting purposes, these deposits have been classified as cash equivalents.

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

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

Deposits: At June 30, 2002, the University held non-negotiable certificates of deposit totaling \$35,000. These certificates of deposit are fully insured by Federal Deposit Insurance. For financial reporting purposes, these deposits have been classified as investments.

Investments: The University's investments are categorized as to credit risk as either (1) insured or registered, with securities held by the University or its agent in the University's name, (2) uninsured and unregistered, with securities held by the counter party's trust department or agent in the University's name, or (3) Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent, but not in the University's name.

At June 30, 2002, the University's investments consisted of the following:

	June 30, 2002			Fair Value
	Risk Category		3	
	1	2		
Repurchase Agreements	\$12,407,000			\$12,407,000
Trust Funds	<u>8,471,292</u>			<u>8,471,292</u>
	20,878,292			20,878,292
Investments not subject to categorization:				
Certificates of deposit				<u>35,000</u>
Total Investments				<u>\$20,913,292</u>

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 3. LOANS, ACCOUNTS, AND OTHER RECEIVABLES

Loans, accounts, and other receivables are recorded net of estimated uncollectible amounts and consisted of the following at June 30, 2002:

	<u>Gross</u> <u>Receivable</u>	<u>Allowance</u>	<u>Net</u> <u>Receivable</u>
Student tuition and fees	\$ 7,606,994	\$ 4,890,000	\$ 2,716,994
Interest receivable	492,865	-	492,865
Auxiliary enterprises	746,008	-	746,008
Federal, state, and private grants and contracts	8,490,004	-	8,490,004
Other state agencies	1,077,577	-	1,077,577
Student Loans	5,840,809	347,075	5,493,734
Other	<u>1,010,865</u>	<u>-</u>	<u>1,010,865</u>
Total	<u>\$ 25,265,122</u>	<u>\$ 5,237,075</u>	<u>\$ 20,028,047</u>
Current Portion	\$ 20,272,313	\$ 4,940,390	\$ 15,331,923
Non-current Portion	<u>4,992,809</u>	<u>296,685</u>	<u>4,696,124</u>
Total	<u>\$ 25,265,122</u>	<u>\$ 5,237,075</u>	<u>\$ 20,028,047</u>

NOTE 4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2002 are summarized as follows:

	<u>Balance</u> <u>June 30,</u> <u>2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30,</u> <u>2002</u>
Capital assets not being depreciated				
Land	\$ 4,995,004	\$ -	\$ -	\$ 4,995,004
Land improvements	9,833,119	-	-	9,833,119
Livestock for educational purposes	320,154	58,020	-	378,174
Construction in progress	<u>28,464,889</u>	<u>23,402,075</u>	<u>-</u>	<u>51,866,964</u>
Total capital assets not being depreciated	<u>\$ 43,613,166</u>	<u>\$ 23,460,095</u>	<u>\$ -</u>	<u>\$ 67,073,261</u>
Other capital assets				
Buildings	\$152,888,854	\$ 219,014	\$ -	\$153,107,868
Equipment	56,408,163	6,724,086	(2,706,096)	60,426,153
Library books	<u>29,421,316</u>	<u>1,262,386</u>	<u>-</u>	<u>30,683,702</u>
Total other capital assets	238,718,333	8,205,486	(2,706,096)	244,217,723
Less accumulated depreciation for				
Buildings	(74,263,440)	(3,005,480)	-	(77,268,920)
Equipment	(38,634,286)	(7,347,507)	2,706,096	(43,275,697)
Library books	<u>(23,708,597)</u>	<u>(980,368)</u>	<u>-</u>	<u>(24,688,965)</u>
Total accumulated depreciation	<u>(136,606,323)</u>	<u>(11,333,355)</u>	<u>2,706,096</u>	<u>(145,233,582)</u>
Total other capital assets, net	<u>\$102,112,010</u>	<u>\$ (3,127,869)</u>	<u>\$ -</u>	<u>\$ 98,984,141</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 4. CAPITAL ASSETS, NET (Continued)

	Balance June 30, <u>2001</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2002</u>
Capital Asset Summary				
Capital assets not being depreciated	\$ 43,613,166	\$ 23,460,095	\$ -	\$ 67,073,261
Other capital assets, at cost	<u>238,718,333</u>	<u>8,205,486</u>	<u>(2,706,096)</u>	<u>244,217,723</u>
Total cost of capital assets	282,331,499	31,665,581	(2,706,096)	311,290,984
Less accumulated depreciation	<u>(136,606,323)</u>	<u>(11,333,355)</u>	<u>2,706,096</u>	<u>(145,233,582)</u>
Capital assets, net	<u>\$145,725,176</u>	<u>\$ 20,332,226</u>	<u>\$ -</u>	<u>\$166,057,402</u>

NOTE 5. LONG-TERM LIABILITIES

	Balance June 30, <u>2001</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2002</u>	Amounts due within one year
Bonds payable and capital lease obligations					
Revenue bonds payable	\$ 47,375,000	\$ 14,505,000	\$ 14,470,000	\$ 47,410,000	\$ 5,925,000
Capital lease obligations	<u>19,600,000</u>	<u>7,075,000</u>	<u>785,000</u>	<u>25,890,000</u>	<u>910,000</u>
Total bonds payable and capital lease obligations	66,975,000	21,580,000	15,255,000	73,300,000	6,835,000
Other Liabilities					
U.S. Governmental Grants Refundable	<u>5,868,454</u>	<u>124,879</u>	<u>0</u>	<u>5,993,333</u>	<u>0</u>
Total Long-Term Liabilities	<u>\$ 72,843,454</u>	<u>\$ 21,704,879</u>	<u>\$ 15,255,000</u>	<u>\$ 79,293,333</u>	<u>\$ 6,835,000</u>

Consolidated Educational Buildings Revenue Bonds: The Consolidated Educational Buildings Revenue Bonds, Series A through U were sold to construct or renovate certain academic and service buildings on campus or to refinance prior issues. The bonds mature in varying amounts through May 1, 2011 with interest payable at rates ranging from 3.9% to 6.2%. Student registration fees are pledged for debt service on these bonds. During the fiscal year, \$12,985,000 of principal and \$1,532,687 of interest were paid on the bonds. On June 30, 2002, the required debt service of \$5,660,144 was on reserve with the Trustee. Total principal outstanding at June 30, 2002 was \$32,745,000.

Housing System Revenue Bonds: The Housing System Revenue Bonds, Series A through O, were sold to construct or renovate certain housing facilities on campus or to refinance prior issues. The bonds mature at varying amounts through February 1, 2022, with interest payable at rates ranging from 3.0% to 6.3%. Rental income is pledged for debt service on these bonds. During the fiscal year \$1,485,000 of principal and \$471,295 of interest were paid on the bonds. On June 30, 2002, the required debt service reserve of \$2,247,246 was on deposit with the Trustee. Total principal outstanding at June 30, 2002 was \$14,665,000.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 5. LONG-TERM LIABILITIES (Continued)

Capital Lease Obligations: The University entered into a financing/lease agreement with the State Property and Buildings Commission to finance the Law Enforcement Basic Training Complex in the amount of \$20,350,000. During the last fiscal year, the University entered into a second financing/lease agreement to finance the Law Enforcement Physical Skills Training Facility in the amount of \$7,075,000. The Commission has issued long-term bonds for the project and the University is responsible for the debt service payments on these bonds.

The principal maturities and interest repayment requirements on bonds and capital leases for the next five years and thereafter are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 6,835,000	\$ 3,357,948	\$ 10,192,948
2004	6,380,000	3,129,681	9,509,681
2005	6,210,000	2,846,639	9,056,639
2006	6,505,000	2,570,433	9,075,433
2007	6,280,000	2,277,965	8,557,965
2008 and thereafter	<u>41,090,000</u>	<u>13,449,504</u>	<u>54,539,504</u>
Total	<u>\$73,300,000</u>	<u>\$27,632,170</u>	<u>\$100,932,170</u>

NOTE 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2002 are as follows:

Payable to vendors and contractors	\$3,702,787
Accrued expenses, primarily payroll and vacation leave	4,715,109
Employee withholdings and deposits payable to third parties	1,387,324
Non-refundable deposits	<u>783,741</u>
Total	<u>\$10,588,961</u>

NOTE 7. DEFERRED REVENUE

Deferred Revenue as of June 30, 2002 is as follows:

Unearned summer school revenue	\$ 1,643,579
Unearned grants and contracts revenue	5,515,943
Other - Athletic tickets	44,239
- Community workforce and development	103,986
- Auxiliary enterprises	41,235
- Housing system debt service interest subsidy	<u>11,423</u>
Total	<u>\$ 7,360,405</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 8. PENSION PLANS

All full time Eastern Kentucky 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. Under the plan, members contribute 6.16% of their annual salary and Eastern Kentucky University contributes 13.84%.

Effective August 1, 1996 there are three optional 403(b) defined contribution retirement plans available for new employees who would otherwise be covered by the Kentucky Teacher's Retirement System (KTRS). The providers of the optional retirement plans are Aetna (ING), TIAA/CRFF and Valic. The employee contribution to their selected plan is 6.16% of their annual salary. The University contributes 9.26% and also provides an additional 4.58% to KTRS as an unfunded liability.

Kentucky Employees Retirement System (KERS) is a defined benefit retirement plan for all regular full time employees working in positions that do not require certification or a 4-year college degree. Employees in nonhazardous positions contribute 5% of salary. Employers contribute at the rate determined by the KETS 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. The current Eastern Kentucky University contribution rate to KERS is 5.89%. Note: Currently there are no EKU employees occupying positions that would be considered as hazardous under KERS regulations.

The total pension cost for all retirement plans for the year ended June 30, 2002 was \$9,470,288. Pension costs for years ended June 30, 2001 and 2000 were \$9,092,266 and \$9,135,044 respectively.

NOTE 9. 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. As of June 30, 2002, the University has recorded an accrued vacation liability of \$2,284,038.

NOTE 10. OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the year ended June 30, 2002, the University's operating expenses by natural classification were as follows:

Salaries and wages	\$ 98,159,782
Employee benefits	22,827,908
Supplies and other services	24,324,561
Travel	3,180,573
Depreciation	11,333,355
Student scholarships and financial aid	5,333,425
Utilities	3,755,641
Other operating expenditures	<u>1,495,844</u>
Total	<u>\$170,411,089</u>

(Continued)

NOTE 11. COMMITMENTS AND CONTINGENCIES

The University has a self-insured health insurance plan. Under this plan, the University pays premiums based on estimated claims and has catastrophe insurance that covers claims in excess of 125% of estimated claims. The University has made a non-discretionary allocation to the healthcare self-insurance reserve, which is the estimated difference between the premiums and the catastrophe insurance coverage, in the current funds.

The estimated cost to complete construction projects under contract at June 30, 2002 is approximately \$34,409,000. The projects are principally financed by appropriations from the Commonwealth of Kentucky and proceeds from bonds.

The University is a party to various litigations 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 effect on the financial position of the University.

NOTE 12. RISK MANAGEMENT

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

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

NOTE 13. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specifically identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets, liabilities, that are required by an external party to be accounted for separately. The University has one segment that meets the reporting requirements of GASB Statement No. 35; the Eastern Kentucky University Housing System Revenue Bonds.

The Housing and Residence Life Division is an organizational unit that manages the University's student residence hall units. Revenues from the student residence hall units are pledged for retirement of the Housing System Revenue Bonds.

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 13. SEGMENT INFORMATION (Continued)

Condensed Statement of Net Assets at June 30, 2002

	<u>Housing</u>
Assets:	
Current assets	\$ 9,289,888
Capital assets, net	<u>13,808,653</u>
Total assets	<u>23,098,541</u>
Liabilities:	
Current liabilities	1,766,673
Noncurrent liabilities	<u>12,975,000</u>
Total liabilities	<u>14,741,673</u>
Net assets:	
Invested in capital, net of related debt	(856,347)
Restricted	<u>9,213,215</u>
Total net assets	<u>\$ 8,356,868</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2002

	<u>Housing</u>
Operating revenues	\$ 8,301,393
Operating expenses	(8,407,182)
Depreciation expense	<u>(974,444)</u>
Operating loss	(1,080,233)
Nonoperating revenue	250,784
Nonoperating expense	<u>(601,679)</u>
Deficiency of revenues over expenses	(1,431,128)
Transfers to other University units	<u>(209,187)</u>
Change in net assets	(1,640,315)
Net assets, beginning of year	<u>9,997,183</u>
Net assets, end of year	<u>\$ 8,356,868</u>

Condensed Statement of Cash Flows

	<u>Housing</u>
Net cash flows provided by operating activities	\$ 262,927
Net cash flows provided by investing activities	129,824
Net cash flows used in capital and related financing activities	<u>3,439,866</u>
Net increase in cash and cash equivalents	3,832,617
Cash and cash equivalents, beginning of year	<u>2,531,825</u>
Cash and cash equivalents, end of year	<u>\$ 6,364,442</u>