Eastern Kentucky University

Financial Statements as of and for the
Years Ended June 30, 2008 and 2007, and
Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Finance Committee of
Eastern Kentucky University
Richmond, Kentucky

We have audited the accompanying statements of net assets of Eastern Kentucky University (the "University") and its discretely presented component unit as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and, where applicable, of cash flows for the years then ended. These financial statements are the responsibility of the University's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2008 and 2007, and the respective changes in net assets and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages two through twelve is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2008 on our consideration of Eastern Kentucky University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 22, 2008

Introduction

The audited financial statements for the fiscal years 2008 and 2007 for Eastern Kentucky University (the "University") as well as the statements for the Eastern Kentucky University Foundation, Inc. (the "Foundation"), an affiliated organization and component unit of the University, are on the pages following. Management's Discussion and Analysis is intended to provide an overview of the financial position of the University at June 30, 2008 and 2007, as well as a general discussion of the financial performance for the fiscal years then ended. It should be read in conjunction with the accompanying financial statements and notes.

Financial Highlights

The financial position of the University continued to strengthen during the fiscal year ended June 30, 2008, as indicated in the year end balances included in the Statements of Net Assets. Total assets were $300.6 million at June 30, 2008, an increase of $11.8 million over the June 30, 2007 total assets of $288.8 million. This increase was due to several factors, but primarily is the result of an increase in total cash of $9.2 million and a net change in capital assets, essentially from increases in construction and other projects, of $14.4 million. Additionally, both accounts receivable and investments decreased by $7.2 million and $5.0 million, respectively.

There was a $5.8 million decrease in total liabilities from $86.0 million at June 30, 2007 to $80.2 million at June 30, 2008. This overall decrease was primarily the result of decreases in accounts payable of $5.2 million and deferred revenue of approximately $800,000. Although there was significant activity regarding bonds (one series issued during 2007-08 and housing bonds refunded), the net effect was minimal.

Total net assets increased by $17.7 million, from $202.8 million to $220.5 million, including an increase in unrestricted net assets of $4.7 million.

Before consideration of state appropriations and nonoperating income and expenses, operations for the fiscal year ended June 30, 2008, resulted in a loss of $75.6 million, a loss increase of $1.2 million as compared with a $74.4 million operating loss for the fiscal year ended June 30, 2007. With consideration of nonoperating income and expenses, including state appropriations after a mid-year base budget reduction, net income before capital funding and transfers from Foundation was $3.7 million for the fiscal year ended June 30, 2008, a decrease of $7.2 million over the prior year.

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 the Statements of Net Assets as of June 30, 2008 and 2007, and the Statements of Revenues, Expenses, and Changes in Net Assets and the Statements of Cash Flows for the fiscal years then ended. These statements reflect both the financial position of the University at 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*.

Reporting Entity

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

Statements of Net Assets

The Statements of Net Assets provides a fiscal year-end snapshot of the financial position of the University at June 30, 2008 and 2007. In this statement, assets and liabilities are segregated by their current and noncurrent components and net assets are reported as either capital, restricted, or unrestricted. In addition, the unrestricted net assets are further designated for specific purposes as noted in this discussion and in the notes to the financial statements.

Assets — Total assets at June 30, 2008, were $300.6 million as compared to $288.8 million at June 30, 2007. Discussion of the various asset classifications and their respective variances follows:

- *Cash and Cash Equivalents* — Total cash and cash equivalents at June 30, 2008, was $45.5 million, an increase of $9.2 from June 30, 2007, with both the current and restricted increasing. Cash in excess of current operational needs are required to be transferred to the Commonwealth of Kentucky, where they are maintained and invested on behalf of the University until such time these funds are needed.

- *Investments* — The Foundation holds and manages investments, including long-term investments considered to be owned by the University. The fair value of the University investments held by the Foundation was $27.7 million at June 30, 2008, as compared to $29.1 million at June 30, 2007, a decrease of $1.4 million. This decrease is the result of unrealized losses due to a decline in the overall investment market in the months leading up to the fiscal year end. The spendable return from all investments held in the Foundation is used for University programmatic and scholarship support.

  There was also $4.4 million at June 30, 2008 in other investments held on behalf of the University by various agencies. At June 30, 2007 that amount was $7.9 million.

- *Accounts Receivable* — There was a significant decrease in accounts receivable totaling $7.2 million at June 30, 2008, as compared to June 30, 2007, primarily related to a decrease in federal, state, and private grants and contracts receivables. The total grants and contracts was $20.4 million at June 30, 2008, as compared to $28.2 million at June 30, 2007, a decrease of $7.8 million. Accounts receivable from students increased by $1.1 million, from $5.8 at June 30, 2008, as compared to $4.7 at June 30, 2007. The overall decrease in the grants and contracts receivable primarily results from timing differences in when charges are incurred and billed. For student accounts, the increase is due primarily to increased summer school receivables.

- *Capital Assets* — The historical cost, less accumulated depreciation, of the University's capitalized assets was $190.6 million as of June 30, 2008, or a net increase, after depreciation and disposals, of $14.4 million over the $176.2 million balance at June 30, 2007. This increase included $19.5 million in capitalized building and construction costs and $5.6 million in equipment and library acquisitions. Depreciation expense and net disposals of plant assets for fiscal year 2008 were $10.6 million.

Liabilities — Total liabilities at June 30, 2008, were $80.2 million as compared to $86.0 million at June 30, 2007, or an overall decrease of $5.8 million. Total current liabilities decreased by $5.2 million while noncurrent liabilities decreased by approximately $600,000, with the highlights of such noted below:

- *Accounts Payable and Other Accrued Liabilities* — The total accounts payable and other accrued liabilities decreased by $5.4 million to $9.0 million at June 30, 2008, as compared to $14.4 million at June 30, 2007. This decrease is attributable to timing differences in expenditures and receipt/payment of related invoices at the fiscal year-end.

- *Accrued Salaries and Benefits and Accrued Compensated Absences* — The total of accrued salaries and benefits and accrued compensated balances at June 30, 2008, was $8.4 million as compared to $7.4 million at June 30, 2007, or an increase of $1.0 million. These balances are reflective of both the amount of payroll accrued at fiscal year-end, based on the timing of the payroll cycles, and of the amount of employee vacation time earned but not yet taken.

- *Deferred Revenue* — The amount of deferred revenue of $7.6 million is almost exclusively revenues from grants and contracts received but not yet expended ($4.3 million) and 2008 summer school tuition and fees billed and collected as of June 30, 2008, but attributable to the second summer session, majority of which occurs in July ($3 million). The June 30, 2008 deferred revenues reflect a total decrease of approximately $800,000 compared to deferred revenue at June 30, 2007.

- *Bonds Payable and Capital Lease Obligations* — In total, bonds payable and capital lease obligations decreased by approximately $500,000 as of June 30, 2008, as compared to June 30, 2007. The June 30, 2008, balance for both current and noncurrent bonds was $32.0 million, as compared to $31.5 million at June 30, 2007. For current and noncurrent capital leases payable, the balance at June 30, 2008 was $20.9 million as compared to $21.9 million at June 30, 2007.

  As noted, the overall net increase in bonds payable and capital lease obligations at June 30, 2008 as compared to June 30, 2007 was negligible and not suggestive of the activity that occurred. The most significant of which was the issuance of General Receipts Revenue Bonds for $12.9 million in August 2007, the proceeds from which were used to renovate the Sidney Clay Residence Hall, as well as to refund the remaining outstanding Housing Revenue Bonds for $6.5 million.

Net Assets — Total net assets were $220.5 million at June 30, 2008, an increase of $17.7 million over the $202.8 million at June 30, 2007.

- *Invested in Capital Assets* — Net assets invested in capital assets increased to $137.7 million, an increase of $14.9 million over the June 30, 2007 level of $122.8 million. The overall capital additions for the fiscal year were $25.1 million, the majority of which were construction and renovation projects in process at June 30, 2008. Depreciation for the fiscal year and the retirement of various assets resulted in a decrease of $10.6 million.

- *Restricted Net Assets* — In total restricted net assets decreased by $1.9 million to $35.9 million at June 30, 2008, as compared to $37.8 million at June 30, 2007, primarily the result of the elimination of the debt service for the Housing Revenue Bonds, which were refunded in during the fiscal year.

- *Unrestricted Net Assets* — The increase in unrestricted net assets of $4.7 million to $46.9 million at June 30, 2008, as compared to $42.2 million at June 30, 2007, is a result of an increase in departmental commitments/encumbrances of $1.8 million, designated project/contingency reserves of $1.0, and auxiliary working capital of $1.9 over the prior year.

The following are the major components reflected in the statements of net assets (in thousands):

	June 30, 2008	June 30, 2007
Assets:		
Current assets	$ 67,452	$ 69,493
Capital assets — net	190,646	176,207
Other noncurrent assets	42,529	43,129
Total assets	$ 300,627	$ 288,829
Liabilities:		
Current liabilities	$ 33,077	$ 38,323
Noncurrent liabilities	47,081	47,707
Total liabilities	$ 80,158	$ 86,030
Net Assets:		
Invested in capital assets — net of related debt	137,728	122,841
Restricted — expendable	23,681	25,599
Restricted — nonexpendable	12,207	12,207
Unrestricted	46,853	42,152
Total net assets	$ 220,469	$ 202,799

Unrestricted Net Assets

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

	2008	2007
Inventories	$ 290	$ 333
Outstanding encumbrances	1,575	2,070
Departmental commitments	21,767	19,453
Designated projects and contingency reserves	14,111	13,090
Health care self-insurance reserve	1,300	1,300
Auxiliary working capital	7,810	5,906
Total unrestricted net assets	$ 46,853	$ 42,152

Statements of Revenues, Expenses, and Changes in Net Assets

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

Operating Results — As indicated in the Statements of Revenues, Expenses, and Changes in Net Assets, there was a net loss of $75.6 million from operations for the fiscal year ended June 30, 2008, prior to consideration of state appropriations and other net nonoperational revenues. This is compared to an operating loss of $74.4 million for the fiscal year ended June 30, 2007.

Operating Revenues

- *Tuition and Fees* — Income from student tuition and fee assessments, shown net of the tuition discount, which is the amount of financial aid from federal, state, and institutional sources that directly offsets tuition and fee charges, was $54.3 million and $48.4 million for the fiscal years ended June 30, 2008 and 2007, respectively or an increase of $5.9 million. The total gross tuition and fee revenues for fiscal year 2008 was $95.8 million, with related tuition discounts of $41.5 million, and for fiscal year 2007 gross tuition and fee revenues were $86.4 million with $38.0 million in discounts. The increase of $9.4 million in gross tuition and fees reflects the increase in tuition and fee charges for the 2008 fiscal year and a slight enrollment increase from fiscal year 2007 levels. The $3.5 million in additional tuition discounts for fiscal year 2008 reflects the increase in tuition and fee related financial aid.

- *Grants and Contracts* — For the fiscal year ended June 30, 2008, there was $98.4 million in recognized revenues from all grants, contracts, and gifts as compared to $98.7 for the fiscal year ended June 30, 2007, or a decrease of approximately $300,000. Although revenues recognized from external grants, contracts, and gifts 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, the change for fiscal year 2008 as compared to fiscal year 2007 was nominal.

- *Auxiliaries* — Auxiliary enterprises consist of University functions provided for the academic and physical wellbeing of students. While these functions are not directly related to providing educational services, they are extremely important to student support. The most common example is the University's providing student housing on campus. 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 Assets, $7.2 million is reported for net auxiliary revenues for the year ended June 30, 2008, of which $5.7 relates to student housing ($12.4 million less related financial aid of $6.7 million), as compared to $6.2 million for the year ended June 30, 2007, of which $5.0 million related to student housing ($11.3 million less related financial aid of $6.3 million). The overall net increase in auxiliary revenue of $1.0 million is primarily due to an increase in student housing fees.

Operating Expenses

- *Educational and General* — Educational and general expenditures are those expenditures associated with both academic instruction and support of the educational mission of the University. These include expenditures related to both operational and restricted activities, 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 aid and scholarship expenses not directly related to tuition or housing, and debt service expenditures.

The total educational and general expenditures for the year ended June 30, 2008, were $231.4 million compared to $229.2 million for the year ended June 30, 2007, an increase of $2.2 million:

- *Instruction, Academic Support, and Libraries* — The total expenditures for these three areas, which directly relate to teaching and academic and faculty support, was $105.5 million for the fiscal year ended June 30, 2008, as compared to $98.0 for the fiscal year ended June 30, 2007, or an increase of $7.5 million.

- *Research and Public Service* — Expenditures in these categories are primarily related to external contracts and grants activity. Because it is normal that these external awards and the related activity fluctuate widely from year to year, it is not surprising that expenditures decreased by $4.0 million for fiscal year 2008 as compared to fiscal year 2007 ($56.3 million for fiscal year 2008 and $60.3 million for fiscal year 2007).

- *Student Services* — Expenditures for student services for fiscal year 2008 were $16.2 million as compared to $12.8 million for fiscal year 2007. The student service function includes expenditures for many activities contributing to student development outside the instructional setting. Expenditures for student services increased by $3.4 million in fiscal year 2008 as a result of increases of approximately $800,000 for expenditure reclassifications and $2.0 million for general program enhancements.

- *Institutional Support and Operations and Maintenance of Plant* — These functions provide physical and administrative support for the University and include noncapital maintenance costs, utility costs, technology support, legal, property and liability insurance, and other similar operational support costs. For the fiscal year ended June 30, 2008, total expenditures for these areas was $44.1 million versus $48.1 for the fiscal year ended June 30, 2007, a decrease of approximately $4.0 million.

- *Student Financial Aid* — As indicated above, 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 amounts shown on the Statements of Revenues, Expenses, and Changes in Net Assets for financial aid for both fiscal years are relatively low in relationship to the gross amounts of financial aid expenditures. For fiscal year 2008, the financial aid expenditure is $1.0 million as compared to a total of approximately $49.1 million expended. For fiscal year 2007, this amount was $2.0 as compared to a total of $46.3 million expended. The decrease of $1.0 million in the financial aid expense shown in the expense section of the Statements of Revenues, Expenses, and Changes in Net Assets versus the overall increase, including the financial aid reported as discounts for tuition, fees, and auxiliary services, of $2.8 million is due to more financial aid going directly to offset those areas.

The information below shows the gross dollars associated with financial aid support and that such support increased by $2.8 million for fiscal year 2008 (in thousands):

	For the Year Ended June 30,	
	2008	2007
Tuition and fee discount	$ 41,468	$ 37,983
Auxiliary enterprises discount	6,707	6,333
Student financial aid expense	964	1,992
Student financial aid expense (gross)	$ 49,139	$ 46,308

- *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, 2008, were $15.0 million and for the year ended June 30, 2007, were $9.6 million, or an increase of $5.4 million.

Nonoperating Revenue/Expenses

- *State Appropriations* — The net decrease in funding from state appropriations for operations and debt service for the fiscal year ended June 30, 2008 was $87,000. This modest decrease is a direct result of a mid-year, 3% state budget reduction equivalent to $2.4 million in base budget funding. State appropriations for fiscal year 2008 were initially budgeted at $80.2 million. After the mid-year reduction actual appropriations were $77.8 million.

- *Investment Income* — For fiscal year 2008, investment income was $1.3 million, a decrease of $5.0 million compared to the $6.3 million for fiscal year 2007. This decrease resulted from both lower interest rates for short-term investments and sweep accounts as well as net realized and unrealized market losses for the Regional University Excellence Trust Fund (RUETF) and Program of Distinction (POD) funds held on behalf of the University by the Foundation and invested as a part of the endowment portfolio. Also contributing to lower investment income was a decrease in invested plant funds reserves that were utilized in the refinancing of long-term debt as discussed previously.

Program of Distinction Transfer — During fiscal year 2007, the Eastern Kentucky University Foundation transferred the Programs of Distinction funds held by the Foundation to the University. The $10.3 million transfer listed in the Statement of Revenues, Expenses, and Changes in Net Assets for 2007 reflects this change.

Capital S**upport** — For the current year there was $14.0 million in state support appropriated for construction of the Manchester Center ($9 million), and planning and developing of the new Science Building ($5 million). There were no specific capital appropriations for projects for the fiscal year ended June 30, 2007.

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

	For the Year Ended June 30, 2008	2007
Operating revenues	$ 171,347	$ 164,627
Operating expenses	246,948	239,032
Operating loss	(75,601)	(74,405)
Nonoperating revenues — net	79,271	85,322
Income before capital appropriations and transfers from the Foundation	3,670	10,917
Capital appropriations and transfers from the Foundation	14,000	10,307
Increase in net assets	17,670	21,224
Net assets — Beginning of year	202,799	181,575
Net assets — End of year	$ 220,469	$ 202,799

Statements of Cash Flows

The Statements of Cash Flows serve to provide information concerning cash sources and utilization during a fiscal year. It focuses on three areas: cash generated/used in 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 Assets.

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

	For the Year Ended June 30, 2008	2007
Cash provided by (used in):		
Operating activities	$ (63,687)	$ (65,830)
Noncapital financing activities	77,837	77,924
Capital and related financing activities	(11,060)	(15,410)
Investing activities	2,888	5,564
Net change in cash and cash equivalents	5,978	2,248
Cash and cash equivalents — Beginning of year	30,579	28,331
Cash and cash equivalents — End of year	$ 36,557	$ 30,579

Capital Asset and Debt Administration

During fiscal years 2008 and 2007, the following were projects completed by the University (in thousands):

	For Year Ended June 30, 2008	For Year Ended June 30, 2007
Meadowbrook Farm Building	$ 4	$ 203
High Voltage Electrical Distribution System	65	258
Gibson Roof Replacement	138	
Telford Hall Roof Replacement	204	
Model Lab Roof Replacement	218	
Blanton House Garage Roof Replacement	2	
Keene Hall Roof Replacement	301	
Combs Hall Renovation	60	
Electrical Project		1,055
Southeast Regional Post Secondary (Corbin)		2
Pollution Abatement Project		175
Crabbe Library Roof Replacement		375
Memorial Science Roof Replacement		10
Heat Plant Emissions Abatement		2,033
Football Synthetic Turf — Practice Field		366
Women's Soccer Field and Building		145
Business and Technology Center		128
Total	$ 992	$ 4,750

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

	Total Expenditures Through June 30, 2008	Estimated Cost to Complete at June 30, 2008
Science Complex	$ 6,639	$ 52,469
Manchester Postsecondary Education Center	6,587	5,913
Business & Technology Phase II	1,750	31,100
Intramural Field	146	2,154
Clay Hall Renovation	6,120	1,718
Library Studio	9	4,291
Foster Building HVAC	92	2,208
Tom Samuel Track Project	388	120
Various Other Deferred Maintenance Projects	1,338	2,038
Total	$ 23,069	$ 102,011

Economic and Other Factors Impacting Future Periods

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

2020 Goals and Statewide Agenda — The Commonwealth of Kentucky, through the Council on Postsecondary Education, continues to discuss and clarify its goals relative to baccalaureate degree production. Essentially the state's goal is to double the number of such degrees awarded by the year 2020. There is an expectation that each public higher education institution will contribute their fair share of this increase without a decrease in educational quality. In the case of Eastern Kentucky University, the expectation at this time is the number of baccalaureate degrees will increase by about 90% over the next twelve years.

Enrollment (Recruitment and Retention) — The University experienced significant growth for the few years leading up to fiscal year 2006. However, since that time enrollment has remained almost level. Demographic data suggests traditional aged college students will begin to decline. In addition, enrollment and graduation expectations will increase significantly given the Commonwealth of Kentucky's public agenda for higher education. Coupled with rising costs for recruiting, remediation, and overall retention of students, the University's goals in this area must be well defined, both from an enrollment perspective as well as funding requirements.

The University is aware of these enrollment pressures and is working toward plans to achieve enrollment, retention, and graduation goals. The University has and continues to take steps to strengthen and take a more holistic approach to enrollment management, including rethinking the best and most effective ways to spend scholarship dollars for recruitment and retention.

State Appropriations — During fiscal year 2008, all public universities in Kentucky experienced a 3% mid-year reduction in state appropriations, as well as an announcement of an additional 3% reduction, effective for fiscal year 2009. The University has been able to address these significant reductions in a strategic manner. The potential of future state appropriation reductions and the downfall in the national economy and financial markets will require the University to monitor the situation in Frankfort and continue to plan for the potential of such reductions.

Capital Funding — Bond issuance and related funding for debt service will continue to be very important to the University, both from the aspects of enrollment growth, as noted above, as well as consideration of an aging infrastructure. This will be an area of strong focus as plans are solidified in terms of enrollment targets, including the effect on the extended campus sites. The current credit market will, most likely, make funding for these projects much more difficult in the near and intermediate terms.

Fundraising — It is important that the Foundation continue its fundraising efforts to provide both long-term support through endowed funds, as well as current operational support. This will give the University more financial stability in years where state appropriations could be stagnant and there is either a formal and/or market driven ceiling on tuition increases.

Contracts and Grants — The University continues to be very successful in attracting external grant funding, primarily in various areas of public service. It is important that efforts continue in this area. Not only does this bring new funds to the University, it has the ability to engage faculty, students, and community individuals in projects that can have significant social and/or economic impact in the region and the Commonwealth.

Affordability and Accessibility — The University recognizes the importance of making higher education affordable and accessible to the citizens of the Commonwealth and has consciously worked at keeping tuition levels reasonable. This has been difficult over the past several years given the state appropriation cuts and/or modest increases, although such support improved somewhat in fiscal year 2007. In addition, the University has increased its support of need based financial aid and will continue to review all institutional scholarship and grant programs to make certain recruitment and retention goals for such are being met.

Energy Management Project — The University has initiated a campus-wide energy management project to implement numerous innovative strategies, including energy-efficient lighting; water-conserving technologies and methods; heating, ventilation and air conditioning system retrofits; building automation; and employee training. When completed, it is expected to result in a 30-percent reduction in annual utilities costs for the University.

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 36,557,352	$ 30,579,047
Investments	3,970,000	4,110,000
Accrued interest receivable	393,928	250,427
Accounts receivable — less allowance of $2,579,982 for 2008 and $2,157,056 for 2007	25,126,326	32,344,273
Loans to students — less allowance of $36,046 for 2008 and $35,833 for 2007	365,002	503,279
Inventories	289,816	332,985
Prepaid expenses	749,133	1,372,725
Total current assets	67,451,557	69,492,736
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	8,899,238	5,679,063
Investments	28,067,933	32,928,296
Loans to students — less allowance of $741,135 for 2008 and $322,497 for 2007	5,561,576	4,521,728
Capital assets — net of accumulated depreciation of $165,437,434 for 2008 and $158,169,581 for 2007	190,646,487	176,207,403
Total noncurrent assets	233,175,234	219,336,490
TOTAL ASSETS	$300,626,791	$288,829,226

(Continued)

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007

	2008	2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 9,036,197	$ 14,264,218
Accrued interest	391,605	510,358
Accrued salaries and benefits	4,016,474	3,559,818
Accrued compensated absences	4,348,434	3,829,293
Payroll withholding payable	1,012,202	1,194,125
Other accrued liabilities		108,067
Refundable deposits	564,648	498,841
Assets held for others	316,145	319,608
Deferred revenue	7,553,758	8,379,529
Bonds payable	3,970,000	4,110,000
Capital lease obligations	1,867,968	1,549,667
Total current liabilities	33,077,431	38,323,524
NONCURRENT LIABILITIES:		
Bonds payable	28,005,000	27,395,000
Capital lease obligations	19,075,768	20,311,577
Total noncurrent liabilities	47,080,768	47,706,577
Total liabilities	80,158,199	86,030,101
NET ASSETS:		
Invested in capital assets — net of related debt	137,727,751	122,841,159
Restricted:		
Expendable for capital projects	8,160,587	5,055,375
Expendable for debt service	4,049,625	6,644,600
Expendable for loans to students	6,914,947	7,279,545
Expendable for academic support	556,776	1,525,767
Expendable for scholarships	2,163,334	2,723,502
Expendable for institutional support	1,835,880	2,370,818
Unexpendable for permanent endowment	12,206,805	12,206,805
Unrestricted	46,852,887	42,151,554
Total net assets	$220,468,592	$202,799,125

See notes to financial statements.

(Concluded)

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,594,752	$ 3,659,527
Pledges receivable — net of allowance of $50,000 and $45,000 for 2008 and 2007, respectively	1,181,881	1,186,818
Accounts and notes receivable — net	14,587	15,690
Prepaid expenses	958	
Total current assets	4,792,178	4,862,035
NONCURRENT ASSETS:		
Investments	52,336,603	55,619,489
Pledges receivable — net of allowance of $25,000 and $205,000 for 2008 and 2007, respectively	294,786	673,127
Property and equipment — net	2,571,704	2,300,916
Total noncurrent assets	55,203,093	58,593,532
TOTAL ASSETS	$59,995,271	$63,455,567
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Payable to Eastern Kentucky University	$ 201,459	$ 104,626
Accounts payable	5,057	74,759
Assets held for others	27,656,817	29,133,905
Total current liabilities	27,863,333	29,313,290
NONCURRENT LIABILITIES — Annuity payment and deferred giving liability	267,869	232,963
Total liabilities	28,131,202	29,546,253
NET ASSETS:		
Permanently restricted	17,683,445	17,175,449
Temporarily restricted	3,720,690	8,406,762
Unrestricted	10,459,934	8,327,103
Total net assets	31,864,069	33,909,314
TOTAL LIABILITIES AND NET ASSETS	$59,995,271	$63,455,567

See notes to financial statements.

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Tuition and fees — net	$ 54,288,235	$ 48,403,944
Federal grants and contracts	60,598,993	63,942,796
State grants and contracts	33,005,586	30,327,171
Nongovernmental grants, contracts, and gifts	4,804,942	4,439,981
Sales and services of educational activities	4,751,906	4,126,052
Auxiliary enterprises — housing	5,747,851	5,046,850
Auxiliary enterprises — other	1,447,346	1,129,202
Other operating revenues	6,702,006	7,211,395
Total operating revenues	171,346,865	164,627,391
OPERATING EXPENSES:		
Educational and general:		
Instruction	84,383,122	76,202,195
Research	5,468,104	6,805,926
Public service	50,813,055	53,498,739
Libraries	3,837,188	3,482,717
Academic support	17,286,870	18,326,599
Student services	16,233,281	12,801,530
Institutional support	26,062,132	27,055,976
Operations and maintenance of plant	18,054,916	21,071,533
Depreciation	8,331,517	7,974,861
Student financial aid	964,242	1,991,633
Auxiliary enterprises:		
Housing and other auxiliaries	13,283,111	7,955,054
Depreciation	1,710,373	1,681,738
Other operating expenses	520,154	184,062
Total operating expenses	246,948,065	239,032,563
OPERATING LOSS	(75,601,200)	(74,405,172)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	77,837,400	77,924,000
Investment income	1,251,750	6,277,905
Interest expense	(2,485,665)	(2,196,518)
Other nonoperating revenues	3,252,598	3,504,018
Other nonoperating expenses	(585,416)	(187,329)
Net nonoperating revenues	79,270,667	85,322,076
INCOME BEFORE CAPITAL APPROPRIATIONS AND TRANSFERS FROM FOUNDATION	3,669,467	10,916,904
POD TRANSFER FROM FOUNDATION		10,307,014
CAPITAL APPROPRIATIONS	14,000,000	
INCREASE IN NET ASSETS	17,669,467	21,223,918
NET ASSETS — Beginning of year	202,799,125	181,575,207
NET ASSETS — End of year	$ 220,468,592	$ 202,799,125

See notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS:				
Contributions	$ 216,090	$ 1,121,691	$ 507,996	$ 1,845,777
Investment returns — net of investment expenses of $258,401	473,174	671,820		1,144,994
Other income — net	1,206,192			1,206,192
Net realized gains on investments	779,824	1,677,855		2,457,679
Net increase in unrealized appreciation (depreciation) on investments	(748,236)	(4,729,300)		(5,477,536)
Net assets released from restrictions — satisfaction of program and time restrictions	3,428,138	(3,428,138)		-
Total revenues and gains	5,355,182	(4,686,072)	507,996	1,177,106
OPERATING EXPENSES — Payments and support for the University	3,222,351			3,222,351
CHANGES IN NET ASSETS	2,132,831	(4,686,072)	507,996	(2,045,245)
NET ASSETS — Beginning of year	8,327,103	8,406,762	17,175,449	33,909,314
NET ASSETS — End of year	$ 10,459,934	$ 3,720,690	$ 17,683,445	$ 31,864,069

See notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS:				
Contributions	$ 30,219	$ 1,419,186	$ 841,074	$ 2,290,479
Investment returns — net of investment expenses of $229,870	322,541	867,907		1,190,448
Other income — net	656,511			656,511
Net realized gains on investments	408,284	876,752		1,285,036
Net increase in unrealized appreciation on investments	1,712,198	546,003		2,258,201
Net assets released from restrictions — satisfaction of program and time restrictions	2,668,644	(2,668,644)		-
Total revenues and gains	5,798,397	1,041,204	841,074	7,680,675
OPERATING EXPENSES — Payments and support for the University	4,056,497			4,056,497
TRANSFER — POD transfer to University	10,307,014			10,307,014
CHANGES IN NET ASSETS	(8,565,114)	1,041,204	841,074	(6,682,836)
NET ASSETS — Beginning of year	16,892,217	7,365,558	16,334,375	40,592,150
NET ASSETS — End of year	$ 8,327,103	$ 8,406,762	$17,175,449	$33,909,314

See notes to financial statements.

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING ACTIVITIES:		
Tuition and fees	$ 53,376,511	$ 48,405,904
Grants, contracts, and gifts	105,501,074	91,601,780
Payments to suppliers	(74,588,567)	(65,551,735)
Payments for utilities	(7,157,321)	(7,154,207)
Payments to employees	(125,609,538)	(118,008,843)
Payments for benefits	(32,965,689)	(32,595,807)
Payments to students	(269,796)	(192,768)
Loans issued to students and employees	(2,039,494)	(1,294,855)
Collection of loans to students and employees	1,015,619	1,246,855
Federal reimbursement of canceled loans	122,304	182,458
Auxiliary enterprise charges:		
Resident halls	5,956,792	4,643,179
Other	1,447,346	1,129,202
Sales and services of educational activities	4,751,906	4,126,052
Other receipts	6,771,219	7,633,228
Net cash used in operating activities	(63,687,634)	(65,829,557)
NONCAPITAL FINANCING ACTIVITIES — State appropriations	77,837,400	77,924,000
Net cash provided by noncapital financing activities	77,837,400	77,924,000
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(24,522,403)	(10,600,051)
Principal paid on bonds payable and capital leases	(7,650,599)	(6,798,730)
Interest paid on bonds payable and capital leases	(2,604,533)	(2,208,136)
State reimbursement of capital lease payments	3,252,598	3,301,868
Proceeds from capital leases		742,241
Proceeds from sale of capital assets	62,387	152,341
Capital appropriations	14,000,000	
Payments to bond refunding agent	(6,517,348)	
Proceeds from bond issuance	12,920,000	
Net cash used in capital and related financing activities	(11,059,898)	(15,410,467)
INVESTING ACTIVITIES:		
Change in restricted cash	(3,220,175)	2,509,687
Proceeds from sales and maturities of investments	8,588,137	17,746,310
Interest on investments	2,702,188	3,048,667
Purchase of investments	(5,181,713)	(17,740,900)
Net cash provided by investing activities	2,888,437	5,563,764
INCREASE IN CASH AND CASH EQUIVALENTS	5,978,305	2,247,740
CASH AND CASH EQUIVALENTS — Beginning of year	30,579,047	28,331,307
CASH AND CASH EQUIVALENTS — End of year	$ 36,557,352	$ 30,579,047

(Continued)

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (75,601,200)	$ (74,405,172)
Depreciation expense	10,041,890	9,656,599
Changes in operating assets and liabilities:		
Accounts receivable — net	7,217,947	(8,861,666)
Loans to students — net	(901,571)	134,458
Inventories	43,169	37,953
Prepaid expenses	623,592	(400,270)
Accounts payable	(5,033,841)	7,300,184
Accrued liabilities	685,807	(1,082,122)
Refundable deposits	65,807	(628)
Assets held for others	(3,463)	17,129
Deferred revenue	(825,771)	1,773,978
NET CASH FLOWS USED IN OPERATING ACTIVITIES	$ (63,687,634)	$ (65,829,557)

See notes to financial statements. (Concluded)

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. 39 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.

These financial statements do not include the financial operations and financial position of Arlington Association, Inc. ("Arlington"), a domestic nonstock, nonprofit corporation. Arlington was organized to promote closer relationships among the faculty, staff and alumni of the University through the operation of a club providing organized programs of social and recreational activities and, in furtherance of said purpose, to create a better understanding of the educational activities and opportunities at 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.

The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of GASB. Pursuant to GASB Statement No. 20, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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 assets 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.

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. 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. debt and equity securities, foreign debt and 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.

Subsequent to June 30, 2008, conditions in the worldwide debt and equity markets have deteriorated significantly. These conditions have had a negative effect on the fair value of the University's investments since June 30, 2008. However, we are unable to quantify the exact effect on the University at this time.

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 calculated using historical collection trends.

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 $3,000 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, 2008 and 2007, was $78,085 and $469,960 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.

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 as 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 assets date.

Deferred 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 Assets — The University's net assets are 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 — Expendable — Resources the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted Net Assets — Unexpendable — Resources the University is legally or contractually obligated to retain in perpetuity.

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.

Release of Restricted Net Assets — When an expense or outlay is incurred for which both restricted and unrestricted net assets 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 Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain 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, 2008, were $41,467,688 and $6,707,023, respectively. For the year ended June 30, 2007, the scholarship allowances on tuition and fees and on housing were $37,983,293 and $6,333,462, respectively. Payments made directly to students are presented as student financial aid expenses in the Statements of Revenues, Expenses, and Changes in Net Assets.

Cash Flow Statement — Significant noncash transactions excluded from the June 30, 2008 Statement of Cash Flows are comprised of 1) unrealized loss of $1,095,106 on the Regional University Excellence Trust Fund investment, 2) an unrealized loss of $556,776 on Programs of Distinction investments, 3) an unrealized gain of $57,945 on the remaining investments, 4) accrued capital asset purchases of $625,681, 5) capital assets acquired by obtaining capital leases of $800,439, and 6) loss on disposal of fixed assets of $544,045.

Significant noncash transactions excluded from the June 30, 2007 Statement of Cash Flows are comprised of 1) unrealized gains of $2,351,518 on the Regional University Excellence Trust Fund investment, 2) a transfer of Programs of Distinction investments of $10,307,014, 3) an unrealized gain of $745,633 on Programs of Distinction investments, and 4) accrued capital asset purchases of $819,864.

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.

Recent Accounting Pronouncements — GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* was issued in December 2006. The statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the standard, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and various recognition triggers occur. The standard is effective for the year ending June 30, 2009. The University has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

GASB Statement No. 50, *Pension Disclosures,* an amendment of GASB Statements No. 25 and 27, was issued in May 2007. The statement enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. The standard became effective for the year ending June 30, 2008. The University has determined GASB Statement No. 50 did not have a material impact on its financial statements.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* was issued in July 2007. The statement provides guidance regarding how to identify, account for, and report intangible assets. The standard is effective for the year ending June 30, 2010. The University has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* was issued in June 2004. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities (assets), notes disclosures, and, if applicable, requires supplementary information in the financial reports of employers subject to governmental accounting standards. The standard became effective for the year ending June 30, 2008. The University has determined GASB Statement No. 45 did not have a material impact on its financial statements.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues* was issued in September 2006. This statement established criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The standard became effective for the year ending June 30, 2008. The University has determined GASB Statement No. 48 did not have a material impact on its financial statements.

2. DEPOSITS, INVESTMENTS AND INVESTMENT RETURN

The state 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 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 state treasurer may determine, in the state's name.

The University requires that balances on deposit with financial institutions be insured by 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 state 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:

	2008	2007
Depository accounts:		
Local bank deposits — collateral held as a pledge in the University's name	$17,689,795	$13,630,903
Cash on hand	13,203	13,456
State investment pool — uninsured and uncollateralized	27,753,592	22,613,751
Total deposits	$45,456,590	$36,258,110

Deposits at June 30 as presented on the statement of net assets include:

	2008	2007
Cash and cash equivalents	$36,557,352	$30,579,047
Restricted cash and cash equivalents	8,899,238	5,679,063
Total deposits	$45,456,590	$36,258,110

Investments at June 30 consisted of:

	2008	2007
Insured and registered, with securities held by the counter party or by its trust department or agent, but not in the University's name:		
Money market funds	$ 1,226,961	$ 4,004,584
Fixed income government securities	3,154,155	3,899,807
Subtotal — restricted for debt service	4,381,116	7,904,391
Restricted assets held by the Foundation	27,656,817	29,133,905
Total investments	$32,037,933	$37,038,296

Restricted investments for capital purposes are comprised of amounts invested for debt service reserves. 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:

	2008	2007
Percentage of pool invested in:		
Cash equivalents — trustee	7 %	5 %
Registered investment companies equity funds	74	76
Registered investment companies fixed income funds	19	19
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 State statute.

The credit quality of the University's investments as of June 30, 2008, is as follows:

Investment Type	Fair Value	Not Rated	AAA	AA, A, and BBB
Cash equivalents — trustee	$ 1,226,961	$ -	$1,226,961	$ -
U.S. agency bonds	3,154,155		3,154,155	
Investments with Foundation	27,656,817	23,689,852		3,966,965
Total investments	$32,037,933	$23,689,852	$4,381,116	$3,966,965

The credit quality of the University's investments as of June 30, 2007, is as follows:

Investment Type	Fair Value	Not Rated	AAA	AA, A, and BBB
Cash equivalents — trustee	$ 4,004,584	$ -	$4,004,584	$ -
U.S. agency bonds	3,899,807		3,899,807	
Investments with Foundation	29,133,905	25,200,828	1,533,900	2,399,177
Total investments	$37,038,296	$25,200,828	$9,438,291	$2,399,177

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 totaling $1,251,750 and $6,227,905 for the years ended June 30, 2008 and 2007, respectively, consisted primarily of interest income and unrealized gain (loss) on investments.

3. ACCOUNTS RECEIVABLE

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

	2008	2007
Student tuition and fees	$ 5,757,240	$ 4,704,876
Auxiliary enterprises	404,009	545,831
Federal, state, and private grants and contracts	20,372,886	28,174,572
Other state agencies	203,622	102,711
Other	968,551	973,339
Total	27,706,308	34,501,329
Less allowance for uncollectible accounts	(2,579,982)	(2,157,056)
Accounts receivable — net	$25,126,326	$32,344,273

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008, is as follows:

	Balance — June 30, 2007	Additions	Reductions	Transfers	Balance — June 30, 2008
Capital assets not being depreciated:					
Land	$ 5,723,404	$ -	$ -	$ -	$ 5,723,404
Livestock for educational purposes	197,600	12,700			210,300
Construction in-progress	4,570,681	19,490,421		(992,480)	23,068,622
Total capital assets not being depreciatec	10,491,685	19,503,121	-	(992,480)	29,002,326
Other capital assets:					
Land improvements	19,360,052			1,120,208	20,480,260
Buildings	238,822,832	395,534	(718,780)	927,296	239,426,882
Equipment	28,315,392	3,584,225	(2,426,572)		29,473,045
Library books	35,876,104	1,245,918	(235,236)		36,886,786
Capitalized bond costs	1,510,919	358,727		(1,055,024)	814,622
Total other capital assets	323,885,299	5,584,404	(3,380,588)	992,480	327,081,595
Less accumulated depreciation for:					
Land improvements	(10,933,375)	(722,511)		(211,006)	(11,866,892)
Buildings	(98,766,483)	(5,641,000)	507,749		(103,899,734)
Equipment	(18,677,375)	(2,331,122)	2,031,052		(18,977,445)
Library books	(29,525,197)	(1,253,049)	235,236		(30,543,010)
Amortization — capitalized bond costs	(267,151)	(94,208)		211,006	(150,353)
Total accumulated depreciation	(158,169,581)	(10,041,890)	2,774,037	-	(165,437,434)
Capital assets — net	$ 176,207,403	$15,045,635	$ (606,551)	$ -	$ 190,646,487

Capital assets activity for the year ended June 30, 2007, is as follows:

	Balance — June 30, 2006	Additions	Reductions	Transfers	Balance — June 30, 2007
Capital assets not being depreciated:					
Land	$ 4,893,404	$ 830,000	$ -	$ -	$ 5,723,404
Livestock for educational purposes	165,300	32,300			197,600
Construction in-progress	3,541,197	5,780,285		(4,750,801)	4,570,681
Total capital assets not being depreciated	8,599,901	6,642,585	-	(4,750,801)	10,491,685
Other capital assets:					
Land improvements	18,598,618			761,434	19,360,052
Buildings	235,896,263		(7,775)	2,934,344	238,822,832
Equipment	28,004,160	3,283,694	(2,972,462)		28,315,392
Library books	34,504,938	1,493,636	(122,470)		35,876,104
Capitalized bond costs	455,896			1,055,023	1,510,919
Total other capital assets	317,459,875	4,777,330	(3,102,707)	4,750,801	323,885,299
Less accumulated depreciation for:					
Land improvements	(10,221,459)	(711,916)			(10,933,375)
Buildings	(93,240,125)	(5,526,358)			(98,766,483)
Equipment	(19,463,889)	(2,006,394)	2,792,908		(18,677,375)
Library books	(28,419,002)	(1,228,665)	122,470		(29,525,197)
Amortization — capitalized bond costs	(83,885)	(183,266)			(267,151)
Total accumulated depreciation	(151,428,360)	(9,656,599)	2,915,378	-	(158,169,581)
Capital assets — net	$ 174,631,416	$ 1,763,316	$ (187,329)	$ -	$ 176,207,403

5. DEFERRED REVENUE

Deferred revenue as of June 30 is as follows:

	2008	2007
Unearned summer school revenue and activity fees	$2,962,393	$3,244,678
Unearned grants and contracts revenue	4,337,256	5,047,390
Other	254,109	87,461
Total	$7,553,758	$8,379,529

6. BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS

Long-term liabilities as of June 30, 2008, and long-term activity for the year ended June 30, 2008, are summarized as follows:

	Balance — June 30, 2007	Additions	Reductions	Balance — June 30, 2008	Amounts Due Within One Year
Revenue bonds payable	$31,505,000	$ 12,920,000	$12,450,000	$31,975,000	$3,970,000
Capital lease obligations	21,861,244	803,439	1,720,947	20,943,736	1,867,968
Total bonds payable and capital lease obligations	$53,366,244	$ 13,723,439	$14,170,947	$52,918,736	$5,837,968

Long-term liabilities as of June 30, 2007, and long-term activity for the year ended June 30, 2007, are summarized as follows:

	Balance — June 30, 2006	Additions	Reductions	Balance — June 30, 2007	Amounts Due Within One Year
Revenue bonds payable	$37,150,000	$ -	$ 5,645,000	$31,505,000	$4,110,000
Capital lease obligations	22,272,733	742,241	1,153,730	21,861,244	1,549,667
Total bonds payable and capital lease obligations	$59,422,733	$ 742,241	$ 6,798,730	$53,366,244	$5,659,667

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, mature in varying amounts through May 1, 2024, with interest payable at rates ranging from 3.9% to 4.8%. Student registration fees are pledged for debt service on these bonds. During fiscal years 2008 and 2007, $3,210,000 and $4,595,000 of principal and $979,290 and $1,174,509 of interest were paid on the bonds, respectively. In addition to the annual payments of principal and interest, there are 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, 2008 and 2007, the required debt service reserve of $4,225,235 was on deposit with a trustee. Total principal outstanding at June 30, 2008 and 2007, was $19,325,000 and $22,535,000, respectively.

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, at a net interest cost 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. During fiscal year 2008, $270,000 of principal and $402,622 of interest were paid on the bonds. Total outstanding principal at June 30, 2008 was $12,650,000.

Housing System Revenue Bonds — On August 2, 2007, $6,517,348 of the proceeds from the Eastern Kentucky University General Receipts and Refunding Bonds, Series 2007A were used to advance refund the outstanding Eastern Kentucky University Housing System Revenue Bonds, with interest rates ranging from 4.6% to 5.4%. The proceeds, along with an additional payment of $2,452,652 from the University, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Housing System Revenue Bonds. As a result, the Housing System Revenue Bonds are considered defeased and the liability for those bonds has been removed from the statement of net assets. The refunding will reduce the University's total debt service payments over the next 24 years by approximately $650,000, representing an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately $90,000.

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 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 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. The transaction resulted in a net liability increase of $335,000. However, due to favorable interest rates, the University will benefit from reduced interest payments and realize an economic gain (difference between the present value of the capital lease payments of the old and new debt) of $640,273.

During fiscal years 2008 and 2007, $1,720,947 and $1,153,730 of principal and $1,092,114 and $1,084,822 of interest were paid on the capital leases, respectively. The principal maturities and interest repayment requirements on bonds and capital leases are as follows:

Years Ending June 30	Principal	Interest	Total
2009	$ 5,837,968	$ 2,410,950	$ 8,248,918
2010	5,728,824	2,151,619	7,880,443
2011	5,266,944	1,897,576	7,164,520
2012–2016	14,480,000	7,229,480	21,709,480
2017–2021	16,285,000	3,513,934	19,798,934
2022–2027	5,320,000	673,169	5,993,169
Total	$52,918,736	$17,876,728	$70,795,464

Assets under capital leases totaled $29,963,336, net of accumulated depreciation of $3,533,711, at June 30, 2008.

7. DESIGNATIONS OF UNRESTRICTED NET ASSETS

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

	2008	2007
Inventories	$ 289,816	$ 332,985
Outstanding encumbrances	1,574,608	2,069,600
Departmental commitments	21,767,339	19,453,302
Designated projects and contingency reserves	14,110,646	13,089,397
Health care self-insurance reserve	1,300,000	1,300,000
Auxiliary working capital	7,810,478	5,906,270
Total	$46,852,887	$42,151,554

8. ASSETS HELD FOR 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 fair market value of the Eastern Kentucky University RUETF endowment as of June 30, 2008 and 2007 was $31,527,831 and $33,245,568, respectively. The portion of the endowment representing the value of the funding received from the Kentucky General Assembly plus unexpended earnings thereon was $16,206,018 and $17,301,124 as of June 30, 2008 and 2007, 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, 2008 and 2007 was $11,450,799 and $11,832,781, respectively, and is included in restricted assets held by the Foundation (see Note 2).

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.

Related party transactions and funds held by the Foundation on behalf of the University are as follows during 2008 and 2007:

	2008	2007
Funds disbursed by the University on behalf of the Foundation:		
For employee salaries and benefits	$ 759,026	$ 941,423
For scholarships	600,181	606,012
Funds held by the Foundation on behalf of or for the benefit of the University as of June 30	27,656,817	29,133,905
Funds due to the University by the Foundation	201,459	104,626

On August 11, 1981, the Foundation's Board authorized the leasing to Arlington Association, Inc. ("Arlington"), a golf course and facilities built and owned by the Foundation on Foundation land, for the use and benefit of Arlington for a term of one year with automatic renewal for each successive year. 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 the operation of the golf course.

The University has a management contract with Arlington whereby the University manages the buildings and grounds and financial affairs of Arlington and provides University personnel for those purposes. In return, the University receives $1,200 annually from Arlington. Arlington provides access to University students for various educational classes and golf team activities. In return, Arlington receives $44,000 annually.

Related-party transactions with the Arlington are as follows during 2008 and 2007:

	2008	2007
Funds disbursed by the University on behalf of Arlington:		
For employee salaries and benefits	$1,178,791	$955,224
For renovation	1,300,319	21,518
Funds due to the University by Arlington	317,208	64,323

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 final 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 contribute 6.16% of their annual salary and the University contributes 15.16%.

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 KTRS. The providers of the optional retirement plans are Aetna (ING), TIAA/CRFF, and Valic. 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 Kentucky Teachers'

Retirement System (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. Prior to April 7, 2008, the University contribution was 6.66% and the unfunded liability contribution was 9.43%.

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.

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. The current University contribution rate to KERS is 8.5%.

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, 2008, 2007, and 2006 was $13,990,704, $13,075,547, and $11,199,334, respectively. Employees contributed approximately $6,402,000, $6,032,000, and $5,475,000 in fiscal years 2008, 2007, and 2006, respectively. The University's total payroll costs were approximately $125,785,000, $118,002,000, and $108,841,000, respectively for the years ended June 30, 2008, 2007, and 2006. The payroll for employees covered by the retirement plan was approximately $110,621,000, $105,344,000, and $96,504,000, for the years ended June 30, 2008, 2007, and 2006, respectively.

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 84% 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, 2008 and 2007, totaled $11,179,446 and $10,894,155, respectively. Administrative fees incurred for the years ended June 30, 2008 and 2007, were $1,058,647 and $706,841, respectively.

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

	2008	2007
Liability — beginning of year	$ 970,877	$ 600,171
Accruals for current year claims and changes in estimate	12,429,834	11,971,702
Claims paid	(11,179,446)	(10,894,155)
Other costs	(1,058,647)	(706,841)
Liability — end of year	$ 1,162,618	$ 970,877

12. COMMITMENTS AND CONTINGENCIES

Construction Commitments — The estimated cost to complete construction projects under contract at June 30, 2008, is approximately $102.0 million. The projects are to be financed principally by appropriations from the Commonwealth and proceeds from bonds.

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 financial position of the University.

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 position. Upon notification of final approval by the granting department or agency, the grants are considered closed.

13. OPERATING EXPENSES BY NATURAL CLASSIFICATION

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

	2008	2007
Salaries and wages	$ 125,784,570	$ 118,001,826
Employee benefits	33,584,531	33,634,736
Supplies and other services	62,647,455	61,380,029
Travel	5,929,401	5,513,704
Depreciation	10,041,890	9,656,599
Student scholarships and financial aid	269,796	192,768
Utilities	7,157,321	7,154,207
Other operating expenses	1,533,101	3,498,694
Total	$ 246,948,065	$ 239,032,563

14. RECLASSIFICATIONS

Certain reclassifications to fiscal 2007 comparative amounts have been made to conform to the 2008 classifications. Recreation center revenues of $880,321 were transferred from Tuition and Fees revenue to Auxiliary Enterprises, Other revenue. Recreation center expenses of $768,062 were transferred from Student Services expense to Housing and Other Auxiliary expense.

15. SUBSEQUENT EVENTS

On September 25, 2008, the University executed a Master Lease Agreement with SunTrust Equipment Finance & Leasing Corporation in the amount of $25,364,000 at an annual interest rate of 4.68%. The proceeds will be used to finance a campus-wide energy management project. The energy management master lease will be paid with guaranteed energy savings.

16. 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 on the accrual basis of accounting. 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.

Cash and Cash Equivalents — The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents.

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, 2008 and 2007. 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 $8,156,000 and $8,266,000 as of June 30, 2008 and 2007, respectively.

Subsequent to June 30, 2008, conditions in the worldwide debt and equity markets have deteriorated significantly. These conditions have had a negative effect on the fair value of the Foundation’s investments since June 30, 2008. However, we are unable to quantify the exact effect on the Foundation at this time.

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.

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 a donor stipulation that limits 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 long-lived assets 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 gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts 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.

Functional Allocation of Expenses — The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the functional categories based on their relationship to various direct costs in those functions.

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 $11,531,472 at June 30, 2008. 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.

New Accounting Pronouncements — In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, effective for financial statements issued for fiscal years beginning after November 15, 2007. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. The Foundation has not yet determined whether the adoption of SFAS No. 157 will have a material effect on its financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value and is effective for the fiscal year ended June 30, 2009. The Foundation has not yet determined whether the adoption of SFAS No. 159 will have a material effect on its financial position, results of operations and cash flows.

In August 2008, FASB Staff Position (FSP) 117-a was issued to provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This FSP, which is effective for fiscal years ending after December 15, 2008, outlines additional disclosures and changes in net asset classification for certain donor-restricted funds. The Foundation has not yet determined whether the adoption of FSP 117-a will have a material effect on its financial position, results of operations and cash flows.

B. Investments and Investment Returns

Investments held at June 30, 2008 and 2007, by the Foundation were as follows:

	2008	**2007**
Cash and cash equivalents	$ 3,790,704	$ 2,818,214
Common stock	392,007	370,697
Fixed income funds	7,726,715	7,796,959
Equity funds	40,427,177	44,633,619
Total investments	$52,336,603	$55,619,489

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, 2008 and 2007. 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.

The Foundation’s temporarily and permanently restricted net assets include various endowment funds established by donors. At June 30, 2008 and 2007, none of these funds had a fair value that was less than the level required by donor stipulation or law.

C. Pledges Receivable

Pledges receivable at June 30, 2008 and 2007, consisted of the following unconditional promises to give:

	2008				2007
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Current pledges receivable:					
Due within one year	$ 51,843	$132,325	$1,047,713	$1,231,881	$1,231,818
Allowance			(50,000)	(50,000)	(45,000)
Total current pledges receivable	51,843	132,325	997,713	1,181,881	1,186,818
Long-term pledges receivable:					
Due after one year to five years	71,951	99,850	127,825	299,626	871,418
Due after five years	18,525	40,975	38,393	97,893	138,850
Allowance			(25,000)	(25,000)	(205,000)
Discount to NPV	(11,179)	(18,062)	(48,492)	(77,733)	(132,141)
Total long-term pledges receivable	79,297	122,763	92,726	294,786	673,127
Net pledges receivable	$131,140	$255,088	$1,090,439	$1,476,667	$1,859,945

D. Property and Equipment

Property and equipment at June 30, 2008 and 2007, consisted of:

	2008	2007
Land	$2,116,373	$2,158,373
Land improvements	8,107	8,107
Buildings and improvements	383,474	149,500
Machinery and equipment	149,625	53,587
	2,657,579	2,369,567
Less accumulated depreciation	85,875	68,651
Property and equipment — net	$2,571,704	$2,300,916

E. Net Assets

Temporarily Restricted Net Assets — Temporarily restricted net assets available for scholarships and other program support were $3,720,690 and $8,406,762 at June 30, 2008 and 2007, respectively.

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, 2008 and 2007:

	2008	2007
Purpose restrictions accomplished/time restrictions expired:		
Scholarship program expenses	$ 600,181	$ 398,308
Other educational program areas and support	2,827,957	2,270,336
	$ 3,428,138	$ 2,668,644

F. 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. 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 Association, Inc. bears all expenses for operation and maintenance of the golf course facility and, in return, receives all fees related to its operation.

Eastern Kentucky University — The University provides various administrative services to the Foundation. As a result of these related-party transactions, the Foundation has recorded a payable to the University of $201,459 and $104,626 as of June 30, 2008 and 2007, respectively. The University disbursed $759,026 and $941,423 on behalf of the Foundation for employee salaries and benefits during the years ended June 30, 2008 and 2007, respectively. The University disbursed $600,181 and $606,012 on behalf of the Foundation for scholarships during the years ended June 30, 2008 and 2007, respectively.

G. 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:

	2008	2007
Eastern Kentucky University — investments held for:		
Regional University Endowment Trust Fund	$ 16,206,018	$ 17,301,124
Programs of Distinction	11,450,799	11,832,781
Total	$ 27,656,817	$ 29,133,905

H. 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, 2008 and 2007 of $267,869 and $232,963, respectively, which represents the present value of the future annuity obligations which was determined by using a discount rate ranging from 5.5% to 8.4%.

I. Subsequent Events

In September 2008, the Foundation issued Series 2008 bonds in the amount of $1.77 million through Fifth Third Bank to help finance the Arlington Association, Inc. ("Arlington") renovation project. Arlington Association will service the debt as part of their lease agreement with the Foundation. The cost of the lease will increase from $1 per year to approximately $250,000 per year for eight years.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Eastern Kentucky University (the "University"), as of and for the year ended June 30, 2008, and have issued our report thereon dated October 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the University in a separate letter dated October 22, 2008.

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

Deloitte & Touche LLP

October 22, 2008