Eastern Kentucky University

Financial Statements as of and for the Years Ended June 30, 2009 and 2008, 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") (a component unit of the Commonwealth of Kentucky) and its discretely presented component unit as of June 30, 2009 and 2008, 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, such financial statements present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2009 and 2008, 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 thirteen is not a required part of the basic financial statements but is supplementary information required by the government accounting standards board. This supplementary information is the responsibility of the University's management. 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 November 11, 2009 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

November 11, 2009

Introduction

The audited financial statement for the fiscal years 2009 and 2008 for Eastern Kentucky University (the "University"), and the statements for the Eastern Kentucky University Foundation, Inc. (the "Foundation"), an affiliated organization and component unit of the University, are included in this report, which includes this section, Management's Discussion and Analysis ("MD&A"). The MD&A is intended to provide an overview of the University's financial position at June 30, 2009 with selected comparative information for the years ended June 30, 2008 and 2007. The MD&A should be read in conjunction with the accompanying financial statements and notes.

Financial Highlights

The overall financial position of the University remained solid as of June 30, 2009, with the major changes in the Statements of Net Assets related to increased construction projects and the associated debt financing for such. For the year, total assets increased by $32.5 million over the June 30, 2008 total to $333.2 million at June 30, 2009. Likewise, total liabilities increased by $35.7 million to $115.8 million over June 30, 2008 total liabilities of $80.2 million. Net assets decreased by $3.2 million to $217.3 million as compared to the $220.5 million June 30, 2008 level. The decrease in net assets is attributable to several factors including a $1.5 million mid-year reduction in state appropriations and an overall loss in investment income of $6.4 million due to the decrease in market values.

Using the Annual Report

This annual report consists of a series of financial statements that have been prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis – for Public Colleges and Universities*. The financial statements consist of Statements of Net Assets as of June 30, 2009 and 2008, 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 as of the end of the fiscal years noted, as well as the results of operating and nonoperating activities and cash flows. Also included are the financial statements for the Foundation, which are presented in this report in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14*.

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 snapshot of the financial position of the University at the end of the fiscal year. In this statement, assets and liabilities are segregated into their current and noncurrent components with net assets reported as capital, restricted, or unrestricted. 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, 2009 were $333.1 million as compared to $300.6 million at June 30, 2008, an overall increase of $32.5 million. Total assets at June 30, 2007 were $288.8 million.

Cash and Cash Equivalents – Total cash and cash equivalents, including current and restricted, at June 30, 2009 was slightly higher than the cash and cash equivalents total at June 30, 2008, $46.7 million versus $45.5 million, an increase of $1.2 million.

Investments – Total University investments at June 30, 2009 had a market value of $36.9 million as compared to $32.0 million at June 30, 2008, or an overall increase of $4.9 million. This increase is due to the investment of unspent proceeds from the energy savings master lease of $11.2 million, with an off-setting overall market loss of $6.4 million for all investments.

- The Foundation holds and manages investments owned by the University. At June 30, 2009, the market value of these investments held by the Foundation on behalf of the University was $21.3 million as compared to $27.7 million at June 30, 2008, a $6.4 million decrease reflective of the investment market during the 2009 fiscal year.

- At the end of fiscal year 2009, $11.2 million of the $25.4 million in proceeds related to the financing arrangement for the University's energy performance project were unspent and invested. It is anticipated these funds will be fully expended during fiscal year 2010 as the project is scheduled for completion in spring 2010.

- At June 30, 2009, $4.4 million of funds were held on behalf of the University by the University's Bond Trustee. These funds represent required debt service reserves for outstanding bond issues. The amount is unchanged from the year ended June 30, 2008.

Capital Assets - The historical cost, less accumulated depreciation, of the University's capitalized assets was $217.7 million as of June 30, 2009, or a net increase, after depreciation and disposals, of $27.1 million over the $190.6 million balance at June 30, 2008. This increase included $13.5 million net increase in construction in-progress and $26.7 million of additions to capital assets in-service. Depreciation expense for fiscal year 2009 totaled $11.2 million.

Other Asset Categories – The balances in the various other asset categories were essentially unchanged (decreased 2%) at June 30, 2009 as compared to June 30, 2008, or $31.8 million and $32.5 million, respectively. Of particular importance are accounts and loans receivable from students, the total of which was $30.1 million at June 30, 2009 versus $31.1 million at June 30, 2009, a $1.0 million decrease.

Liabilities – Total liabilities at June 30, 2009 were $115.8 million as compared to $80.1 million at June 30, 2008. This increase of $35.7 million is primarily attributable to new financing obtained during fiscal year 2009. Total liabilities at June 30, 2007 were $86.0 million.

Deferred Revenue — Deferred revenue of $8.3 million at June 30, 2009 has two components: revenues received in advance from external agencies for awarded contracts and grants of $5.4 million and $2.8 million in tuition billed in June 2009 for summer classes taken in July 2009. The June 30, 2009 amount is approximately $700,000 higher than the June 30, 2008 total deferred revenue of $7.6 million.

Bonds Payable and Capital Lease Obligations — In total, bonds payable and capital lease obligations increased by $34.1 million as of June 30, 2009 as compared to June 30, 2008. At June 30, 2009, the total for bonds payable and capital lease obligations was $87.0 million versus $52.9 million at June 30, 2008. In addition to reducing the June 30, 2008 principal balances in these categories through payments, the University entered into the following financing arrangements during the 2009 fiscal year:

- Issued $12.1 million in General Receipts Revenue Bonds, the proceeds from which are being used to renovate the Walters Residence Hall and complete the intramural fields construction project.

- Capital lease totaling $25.4 million to fund an energy performance management project, a campus-wide energy savings project with a guaranteed payback over the thirteen year term of the lease.

Other Liability Categories – The balances in the various other liability categories were consistent from June 30, 2009 as compared to June 30, 2008 at $20.6 million and $19.7 million, respectively. The majority of the balances in this category are comprised of accounts payable and payroll/benefits payable.

Net Assets — Total net assets were $217.3 million at June 30, 2009, a decrease of $3.2 million over the $220.5 million balance at June 30, 2008. Total net assets as of June 30, 2008 increased $17.7 million over the June 30, 2007 balance of $202.8 million.

Invested in Capital Assets — Net assets invested in capital assets decreased to $130.8 million, a reduction of $6.9 million over the June 30, 2008 level of $137.7 million. This decrease was the result of overall net capital additions of $27.1 million less an increase in outstanding debt related to construction of $34.1 million.

Restricted Net Assets — In total, restricted net assets increased by $5.3 million to $41.2 million at June 30, 2009, as compared to $35.9 million at June 30, 2008. This net increase is primarily attributable to two items: increase in capital construction projects of $12.3 million and the reduction in market value of University investments of $6.4 million.

Unrestricted Net Assets — Unrestricted net assets decreased by $1.5 million to $45.4 million at June 30, 2009 as compared to the June 30, 2008 total unrestricted net assets of $46.9. Departmental commitments and encumbrances increased by $1.3 million and auxiliary working capital increased by $1.2 million from June 30, 2008 to June 30, 2009. However, there was an overall reduction of $5.0 million in designated projects and contingency reserves, including a reallocation to the reserve for the self-funded health insurance program to bring it to $2.3 million.

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 (in thousands):

	2009	2008	2007
Inventories	$ 317	$ 290	$ 333
Outstanding encumbrances	1,428	1,575	2,070
Departmental commitments	23,157	21,767	19,453
Designated projects and contingency reserves	9,137	14,111	13,090
Health care self-insurance reserve	2,300	1,300	1,300
Auxiliary working capital	9,040	7,810	5,906
Total unrestricted net assets	$ 45,379	$ 46,853	$ 42,152

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

	June 30,		
	2009	2008	2007
Assets:			
Current assets	$ 67,499	$ 67,452	$ 69,493
Capital assets — net	217,747	190,646	176,207
Other noncurrent assets	47,915	42,529	43,129
Total assets	$ 333,161	$ 300,627	$ 288,829
Liabilities:			
Current liabilities	$ 36,134	$ 33,077	$ 38,323
Noncurrent liabilities	79,708	47,081	47,707
Total liabilities	$ 115,842	$ 80,158	$ 86,030
Net Assets:			
Invested in capital assets — net of related debt	130,779	137,728	122,841
Restricted — expendable	28,954	23,681	25,599
Restricted — nonexpendable	12,207	12,207	12,207
Unrestricted	45,379	46,853	42,152
Total net assets	$ 217,319	$ 220,469	$ 202,799

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 $108.0 million from operations for the fiscal year ended June 30, 2009, prior to consideration of state appropriations and other net nonoperating revenues. This is compared to a loss of $102.2 million from operations for the fiscal year ended June 30, 2008 and $74.4 million for the fiscal year ended June 30, 2007 (see Note 14 of accompanying statements regarding reclassification of certain federal and state revenues from operating to nonoperating revenue).

Operating Revenues

Below is a summary of operating revenues for fiscal year 2009 as compared to fiscal years 2008 and 2007 (in thousands):

	For the Year Ended June 30,		
	2009	**2008**	**2007**
Tuition and fees	$ 103,682	$ 95,756	$ 86,387
Discounts	(39,520)	(41,468)	(37,983)
Net tuition and fees	64,162	54,288	48,404
Grants and contracts	63,211	71,829	98,710
Other revenues	11,289	11,454	11,337
Total education and general revenue	138,662	137,571	158,451
Auxiliaries	15,565	13,902	12,509
Discounts	(6,463)	(6,707)	(6,333)
Net auxiliaries	9,102	7,195	6,176
Total operating revenues	$ 147,764	$ 144,766	$ 164,627

Tuition and Fees — Income from student tuition and fee assessments, shown net of the tuition discount, was $64.2 million for the fiscal year ended June 30, 2009 ($103.7 million in tuition and fee revenues less $39.5 million in related financial aid) as compared to $54.3 million for the fiscal year ended June 30, 2008 ($95.8 million in tuition and fee revenues less $41.5 million in related financial aid). The increase of $7.9 million in gross tuition and fees reflects the increase in tuition and fee charges for the 2009 fiscal year.

Grants and Contracts — For the fiscal year ended June 30, 2009, there was $63.2 million in recognized revenues from all grants and contracts as compared to $71.8 million for the fiscal year ended June 30, 2008, or a decrease of approximately $8.6 million. Revenues recognized from external grants and contracts can vary significantly from one fiscal year to the next given variations in new awards, awards ending their grant cycle, and amounts recognized for activities occurring in a given year.

Auxiliaries — Auxiliary enterprises consist of University functions provided for the academic and physical wellbeing of students. While these functions are not directly related to providing educational services, they are important for student convenience and support. Like tuition and fees, housing revenues are reported net of scholarships and financial aid that directly offset these costs to students. In the Statements of Revenues, Expenses, and Changes in Net Assets, $9.1 million is reported for net auxiliary revenues for the year ended June 30, 2009, of which $7.6 million relates to student housing ($14.1 million less related financial aid of $6.5 million), as compared to $7.2 million for the year ended June 30, 2008, of which $5.7 million related to student housing ($12.4 million less related financial aid of $6.7 million). The overall net increase in auxiliary revenue is due to an increase in student housing fees, the revenue from which increased $1.9 million for fiscal year 2009 as compared to fiscal year 2008.

Other Operating Revenues — Other operating revenues of $11.3 million on June 30, 2009 were approximately $200,000 less than the June 30, 2008 amount of $11.5 million.

Operating Expenses

Educational and General — Educational and general expenses are those expenditures associated with both academic instruction and support of the educational mission of the University. These include expenditures related to both operational 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. For the fiscal year ended June 30, 2009, total educational and general expenditures totaled $239.3 million, an amount approximating the total educational and general expenditures for the fiscal year ended June 30, 2008 of $232.0, an expenditure increase of $7.3 million.

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, 2009, were $16.5 million and for the year ended June 30, 2008, were $15.0 million, or an increase of $1.5 million.

Below is a summary of operating expenditures for fiscal year 2009 as compared to fiscal years 2008 and 2007 (in thousands):

	For the Year Ended June 30,		
	2009	**2008**	**2007**
Instruction, academic support and libraries	$ 105,837	$ 105,507	$ 98,011
Research and public service	49,989	56,281	60,305
Student services	16,907	16,233	12,801
Institutional support and operations and maintenance of plant	45,816	44,117	48,128
Student financial aid	11,440	964	1,992
Depreciation	8,968	8,332	7,975
Other operation expenses	301	520	184
Total educational and general expenses	239,258	231,954	229,396
Auxiliaries	16,521	14,994	9,637
Total operating expenses	$ 255,779	$ 246,948	$ 239,033

Instruction, Academic Support, and Libraries — The total expenditures for these three areas, which directly relate to teaching and academic and faculty support, had only a very slight increase of $300,000 from the fiscal year ended June 30, 2008 level of $105.5 million to the expenditure level of $105.8 million for the fiscal year ended June 30, 2009.

Research and Public Service — Expenditures in these categories are primarily related to external contracts and grants activity. These activities can vary significantly from year to year due to both timing of awards and project completions. For the fiscal year ended June 30, 2009 total expenditures related to research and public service, the majority of which relates to external contracts and grants, was $50.0 million as compared to $56.3 million for the fiscal year ended June 30, 2008, a decrease of $6.3 million.

Student Services — Expenditures for student services for fiscal year 2009 were $16.9 million as compared to $16.2 million for fiscal year 2008, an increase of $700,000 or slightly more than 4%. The student service function includes expenditures for many activities contributing to student development outside the instructional setting.

Institutional Support and Operations and Maintenance of Plant — These functions provide physical and administrative support for the University and include 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, 2009, total expenditures for these areas was $45.8 million versus $44.1 million for the fiscal year ended June 30, 2008, an increase of approximately $1.7 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 both fiscal years are relatively low in relationship to the total amounts expended for financial aid expenditures. For fiscal year 2009, the financial aid expenditure line indicates $11.4 million as compared to total financial aid expenditures of $57.4 million as shown in the chart below. For fiscal year 2008, this amount was $1.0 million as compared to a total of $49.1 million expended.

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

	For the Year Ended June 30,		
	2009	2008	2007
Tuition and fee discount	$ 39,520	$ 41,468	$ 37,983
Auxiliary enterprises discount	6,463	6,707	6,333
Student financial aid expense	11,440	964	1,992
Student financial aid expense (gross)	$ 57,423	$ 49,139	$ 46,308

Nonoperating Revenue/Expenses

State Appropriations — The decrease in funding from state appropriations for operations and debt service for the fiscal year ended June 30, 2009 was $2.1 million. This decrease is the result of a mid-year, 2% state budget reduction equivalent to $1.5 million in base budget funding and other adjustments such as those related to debt service. State appropriations for fiscal year 2009 were initially budgeted at $77.2 million. After the mid-year reduction actual appropriations were $75.7 million.

Investment Income — For fiscal year 2009, the University experienced an overall loss in investment income primarily resulting from a $6.4 million loss in market value for investments held in the endowment by the Foundation on behalf of the University for the Regional University Excellence Trust Fund ("RUETF") and Program of Distinction ("POD"). The additions to investment income resulted from income on short term investment and sweep accounts.

Capital Support — For the current year there was $6.8 million in state support appropriated for construction of the Science Complex and Business and Technology Phase II buildings. State support appropriated for construction of the Manchester Center and the initial design and planning phase of the Science Complex during the fiscal year ended June 30, 2008 was $14 million.

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,		
	2009	**2008**	**2007**
Operating revenues	$ 147,764	$ 144,766	$ 164,627
Operating expenses	255,779	246,948	239,032
Operating loss	(108,015)	(102,182)	(74,405)
Nonoperating revenues — net	98,107	105,852	85,322
(Loss) Income before capital appropriations	(9,908)	3,670	10,917
Capital appropriations	6,758	14,000	10,307
(Decrease) Increase in net assets	(3,150)	17,670	21,224
Net assets — Beginning of year	220,469	202,799	181,575
Net assets — End of year	$ 217,319	$ 220,469	$ 202,799

Statements of Cash Flows

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

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

	For the Year Ended June 30, 2009	2008	2007
Cash provided by (used in):			
Operating activities	$ (94,929)	$ (90,268)	$ (65,830)
Noncapital financing activities	104,736	104,418	77,924
Capital and related financing activities	1,095	(11,060)	(15,410)
Investing activities	(11,114)	2,888	5,564
Net change in cash and cash equivalents	(212)	5,978	2,248
Cash and cash equivalents — Beginning of year	36,557	30,579	28,331
Cash and cash equivalents — End of year	$ 36,345	$ 36,557	$ 30,579

Capital Asset and Debt Administration

During fiscal years 2009 and 2008, the following were projects completed by the University (in thousands):

	For Year Ended June 30, 2009	2008
Manchester Postsecondary Education Center	$ 10,053	$
Sidney Clay Hall renovation	7,901	
Smoking shelters	331	
Parking lots	118	
Tom Samuel Track resurface	406	
Observation facility	15	
Various Meadowbrook Farm projects	232	
Softball backstop	37	
Track hammer cage	30	
Various roof replacements	778	863
Meadowbrook Farm building		4
High voltage electrical distribution system		65
Combs Hall renovation		60
Total	$ 19,901	$ 992

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

	Total Expenditures Through June 30, 2009	Estimated Cost to Complete at June 30, 2009
Science complex	$ 10,513	$ 41,956
Business & Technology phase II	6,732	24,368
Intramural field	1,816	338
Intramural addition	75	425
Library studio	148	4,143
Foster Building HVAC	1,688	520
Energy management project	14,493	10,871
Walters Hall renovation	694	9,304
Various other deferred maintenance projects	454	608
Total	$ 36,613	$ 92,533

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:

State Appropriations – State funding for higher education has decreased dramatically on a national scale over the past few years and is anticipated to do so into the foreseeable future. The challenge this brings to the University is doing more with less in a time of increasing enrollments, increasing fixed costs, and increasing needs for student support in all areas. During the 2009 fiscal year, the University experienced a 2% mid-year state appropriations reduction. For the 2010 and 2111 fiscal years, the indication is that total state funding will not be reduced for the University. However, approximately $5 million in funding for each of those years will be "backfilled" by federal stimulus dollars. This presents the challenge of planning for the possibility of a state funding reduction beginning in 2012, as well as discipline in utilizing the $5 million over each of the next two years for on-going costs that may have to be funded from other sources in the future. In addition, given the current state of the economy and the economic indicators at the state level, there is the possibility there may be further reductions in fiscal year 2010.

Recruitment, Retention, and Graduation Rates— An area of major emphasis over the last few years and one that will grow in importance is not only the recruitment of students, but support for student success allowing for the retention and graduation of our students. This is not only of importance as the University seeks to successfully achieve its mission, but is also a significant factor as the Commonwealth of Kentucky strives to meet its goals relative to a more educated citizenry. While there are a number of challenges in this area, changes in the approach to enrollment management and student retention and graduation has already shown improvement. The University plans to further strengthen its approach to these areas, including spending scholarship and other dollars strategically to assist in reaching goals in this area.

Capital Funding – Capital funding will continue to be very important to the University. The requested state funded project of most significance is the second phase of the building project. Because of the economic pressures at the state level, current discussions point towards potential problems with the state's bonding capacity, an indication there may not be willingness for extensive capital project funding for the upcoming biennium.

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 36,345,420	$ 36,557,352
Investments	4,705,000	3,970,000
Accrued interest receivable	366,836	393,928
Accounts receivable — less allowance of $2,573,347 for 2009 and $2,579,982 for 2008	24,332,626	25,126,326
Loans to students — less allowance of $86,034 for 2009 and $36,046 for 2008	450,829	365,002
Inventories	316,837	289,816
Prepaid expenses	981,718	749,133
Total current assets	67,499,266	67,451,557
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	10,373,477	8,899,238
Investments	32,222,115	28,067,933
Loans to students — less allowance of $820,049 for 2009 and $741,135 for 2008	5,319,246	5,561,576
Capital assets — net of accumulated depreciation of $172,101,493 for 2009 and $165,437,434 for 2008	217,747,348	190,646,487
Total noncurrent assets	265,662,186	233,175,234
TOTAL ASSETS	$ 333,161,452	$ 300,626,791

(Continued)

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008

	2009	2008
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 9,302,813	$ 9,036,197
Accrued interest	1,333,740	391,605
Accrued salaries and benefits	3,269,717	4,016,474
Accrued compensated absences	4,842,657	4,348,434
Payroll withholding payable	1,040,568	1,012,202
Refundable deposits	445,514	564,648
Assets held for others	348,807	316,145
Deferred revenue	8,290,537	7,553,758
Bonds payable	4,705,000	3,970,000
Capital lease obligations	2,555,274	1,867,968
Total current liabilities	36,134,627	33,077,431
NONCURRENT LIABILITIES:		
Bonds payable	35,395,000	28,005,000
Capital lease obligations	44,312,788	19,075,768
Total noncurrent liabilities	79,707,788	47,080,768
Total liabilities	115,842,415	80,158,199
NET ASSETS:		
Invested in capital assets — net of related debt	130,779,286	137,727,751
Restricted:		
Expendable for capital projects	20,508,054	8,160,587
Expendable for debt service	4,000,532	4,049,625
Expendable for loans to students	6,804,973	6,914,947
Expendable for academic support	(2,942,023)	556,776
Expendable for scholarships	298,593	2,163,334
Expendable for institutional support	283,589	1,835,880
Unexpendable for permanent endowment	12,206,805	12,206,805
Unrestricted	45,379,228	46,852,887
Total net assets	$217,319,037	$220,468,592

See notes to financial statements. (Concluded)

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,452,826	$ 3,594,752
Pledges receivable — net of allowance of $50,000 for 2009 and 2008	1,022,713	1,181,881
Accounts and notes receivable — net	11,256	14,587
Due from related parties	179,120	
Prepaid expenses	3,854	958
Total current assets	6,669,769	4,792,178
NONCURRENT ASSETS:		
Investments	41,377,500	52,336,603
Pledges receivable — net of allowance of $25,000 for 2009 and 2008	172,360	294,786
Property and equipment — net	4,478,045	2,571,704
Total noncurrent assets	46,027,905	55,203,093
TOTAL	$ 52,697,674	$ 59,995,271
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 16,546	$ 5,057
Accrued interest	8,049	
Due to related parties	1,700,000	201,459
Bonds payable	145,000	
Assets held for others	21,297,763	27,656,817
Total current liabilities	23,167,358	27,863,333
NONCURRENT LIABILITIES:		
Bonds payable	1,625,000	
Annuity payments and deferred giving liability	275,149	267,869
Total liabilities	25,067,507	28,131,202
NET ASSETS:		
Permanently restricted	19,527,308	17,683,445
Temporarily restricted	2,531,305	3,720,690
Unrestricted	5,571,554	10,459,934
Total net assets	27,630,167	31,864,069
TOTAL	$ 52,697,674	$ 59,995,271

See notes to financial statements.

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING REVENUES:		
Tuition and fees — net	$ 64,161,807	$ 54,288,235
Federal grants and contracts	40,151,608	45,967,322
State grants and contracts	18,502,546	21,056,299
Nongovernmental grants, contracts, and gifts	4,557,213	4,804,942
Sales and services of educational activities	3,951,878	4,751,906
Auxiliary enterprises — housing	7,602,020	5,747,851
Auxiliary enterprises — other	1,500,165	1,447,346
Other operating revenues	7,336,899	6,702,006
Total operating revenues	147,764,136	144,765,907
OPERATING EXPENSES:		
Educational and general:		
Instruction	85,085,816	84,383,122
Research	2,080,573	5,468,104
Public service	47,908,405	50,813,055
Libraries	3,435,528	3,837,188
Academic support	17,315,218	17,286,870
Student services	16,906,919	16,233,281
Institutional support	25,089,159	26,062,132
Operations and maintenance of plant	20,727,381	18,054,916
Depreciation	8,968,270	8,331,517
Student financial aid	11,439,764	964,242
Auxiliary enterprises:		
Housing and other auxiliaries	14,194,704	13,283,111
Depreciation	2,326,113	1,710,373
Other operating expenses	301,547	520,154
Total operating expenses	255,779,397	246,948,065
OPERATING LOSS	(108,015,261)	(102,182,158)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	75,740,400	77,837,400
Federal and state grants and contracts	28,995,507	26,580,958
Investment income	(4,777,317)	1,251,750
Interest expense	(3,110,593)	(2,485,665)
Other nonoperating revenues	3,285,953	3,252,598
Other nonoperating expenses	(2,026,386)	(585,416)
Net nonoperating revenues	98,107,564	105,851,625
(LOSS) INCOME BEFORE CAPITAL APPROPRIATIONS	(9,907,697)	3,669,467
CAPITAL APPROPRIATIONS	6,758,142	14,000,000
(DECREASE) INCREASE IN NET ASSETS	(3,149,555)	17,669,467
NET ASSETS — Beginning of year	220,468,592	202,799,125
NET ASSETS — End of year	$ 217,319,037	$ 220,468,592

See notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS:				
Contributions	$ 319,596	$ 920,494	$ 1,843,863	$ 3,083,953
Investment returns — net of investment expenses of $181,319	226,128	509,280		735,408
Other income — net	491,824			491,824
Net realized gains on investments	89,662	166,536		256,198
Net change in unrealized appreciation (depreciation) on investments	(5,602,671)	18,507		(5,584,164)
Net assets released from restrictions — satisfaction of program and time restrictions	2,804,202	(2,804,202)		
Total revenues and gains	(1,671,259)	(1,189,385)	1,843,863	(1,016,781)
OPERATING EXPENSES —				
Payments and support for the University	3,217,121			3,217,121
CHANGES IN NET ASSETS	(4,888,380)	(1,189,385)	1,843,863	(4,233,902)
NET ASSETS — Beginning of year	10,459,934	3,720,690	17,683,445	31,864,069
NET ASSETS — End of year	$ 5,571,554	$ 2,531,305	$ 19,527,308	$ 27,630,167

See notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES
FOR THE 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 change in unrealized 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

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING ACTIVITIES:		
Tuition and fees	$ 56,475,928	$ 53,376,511
Grants, contracts, and gifts	67,041,853	78,920,116
Payments to suppliers	(62,335,223)	(74,588,567)
Payments for utilities	(8,507,567)	(7,157,321)
Payments to employees	(128,343,854)	(125,609,538)
Payments for benefits	(34,575,322)	(32,965,689)
Payments to students	(1,702,752)	(269,796)
Loans issued to students and employees	(861,114)	(2,039,494)
Collection of loans to students and employees	868,017	1,015,619
Federal reimbursement of canceled loans	149,600	122,304
Auxiliary enterprise charges:		
Resident halls	6,169,693	5,956,792
Other	1,500,165	1,447,346
Sales and services of educational activities	3,951,878	4,751,906
Other receipts	5,239,690	6,771,219
Net cash used in operating activities	(94,929,008)	(90,268,592)
NONCAPITAL FINANCING ACTIVITIES		
State appropriations	75,740,400	77,837,400
Other nonoperating revenues-grants and contracts	28,995,507	26,580,958
Net cash provided by noncapital financing activities	104,735,907	104,418,358
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(37,925,718)	(24,522,403)
Principal paid on bonds payable and capital leases	(6,375,977)	(7,650,599)
Interest paid on bonds payable and capital leases	(2,168,458)	(2,604,533)
State reimbursement of capital lease payments	3,285,953	3,252,598
Proceeds from capital leases	25,364,000	
Proceeds from sale of capital assets	61,874	62,387
Capital appropriations	6,758,142	14,000,000
Payments to bond refunding agent		(6,517,348)
Proceeds from bond issuance	12,095,000	12,920,000
Net cash provided by (used in) capital and related financing activities	1,094,816	(11,059,898)
INVESTING ACTIVITIES:		
Change in restricted cash	(1,474,239)	(3,220,175)
Proceeds from sales and maturities of investments	26,924,017	8,588,137
Interest on investments	1,658,299	2,702,188
Purchase of investments	(38,221,724)	(5,181,713)
Net cash (used in) provided by investing activities	(11,113,647)	2,888,437
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(211,932)	5,978,305
CASH AND CASH EQUIVALENTS — Beginning of year	36,557,352	30,579,047
CASH AND CASH EQUIVALENTS — End of year	$ 36,345,420	$ 36,557,352

(Continued)

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (108,015,261)	$ (102,182,158)
Depreciation expense	11,294,383	10,041,890
Changes in operating assets and liabilities:		
Accounts receivable — net	793,700	7,217,947
Loans to students — net	156,503	(901,571)
Inventories	(27,021)	43,169
Prepaid expenses	(232,587)	623,592
Accounts payable	675,136	(5,033,841)
Accrued liabilities	(224,168)	685,807
Refundable deposits	(119,134)	65,807
Assets held for others	32,662	(3,463)
Deferred revenue	736,779	(825,771)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	$ (94,929,008)	$ (90,268,592)

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 which approximates market value. Amounts due for debt service in the upcoming year represent short-term investments; all other investments are classified as long-term.

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

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

Accounts Receivable — Accounts receivable consist primarily of tuition and fee charges to students, charges for auxiliary enterprise services provided to students, faculty and staff and receivables from federal, state and private agencies for grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. Estimated uncollectible amounts are 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 $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expenses are incurred.

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

Costs incurred during the construction of capital assets are recorded as construction in progress and are not depreciated until placed into service. The University capitalizes interest as a component of capital assets constructed for its own use. Total interest incurred and capitalized for the years ended June 30, 2009 and 2008, was $307,525 and $78,085 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 when vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay in effect and related benefit costs at the Statement of Net 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, 2009, were $39,520,399 and $6,462,546, respectively. For the year ended June 30, 2008, the scholarship allowances on tuition and fees and on housing were $41,467,688 and $6,707,023, 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, 2009 Statement of Cash Flows are comprised of 1) unrealized loss of $3,417,031 on the Regional University Excellence Trust Fund investment, 2) an unrealized loss of $2,942,023 on Programs of Distinction investments, 3) an unrealized loss of $49,470 on the remaining investments, 4) accrued capital asset purchases of $217,163, 5) capital assets acquired by obtaining capital leases of $2,966,303, and 6) loss on disposal of fixed assets of $2,026,385.

Significant noncash transactions excluded from the June 30, 2008 Statement of Cash Flows are comprised of 1) unrealized loss of $1,095,109 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.

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 determined GASB Statement No. 49 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.

2. DEPOSITS, INVESTMENTS AND INVESTMENT RETURN

The Commonwealth treasurer requires that all state funds be insured by Federal Deposit Insurance Corporation ("FDIC"), collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. government obligations. The University's deposits with the 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:

	2009	2008
Depository accounts:		
Local bank deposits — collateral held as a pledge in the University's name	$ 16,057,450	$ 17,689,795
Cash on hand	12,305	13,203
State investment pool — uninsured and uncollateralized	30,649,142	27,753,592
Total deposits	$ 46,718,897	$ 45,456,590

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

	2009	2008
Cash and cash equivalents	$ 36,345,420	$ 36,557,352
Restricted cash and cash equivalents	10,373,477	8,899,238
Total deposits	$ 46,718,897	$ 45,456,590

Investments at June 30 consisted of:

	2009	2008
Money market funds	$ 15,629,352	$ 1,226,961
Fixed income government securities		3,154,155
Subtotal — restricted for debt service	15,629,352	4,381,116
Restricted assets held by the Foundation	21,297,763	27,656,817
Total investments	$ 36,927,115	$ 32,037,933

Restricted investments for capital purposes are comprised of amounts invested for debt service reserves. Included in money market funds is approximately $11,200,000 of proceeds from the master lease agreement, which is restricted for purchase of assets for a campus-wide energy management project (see Note 6). 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:

	2009	2008
Percentage of pool invested in:		
Cash equivalents — trustee	3 %	7 %
Registered investment companies equity funds	75	74
Registered investment companies fixed income funds	22	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 Commonwealth statute.

The credit quality of the University's investments as of June 30, 2009, is as follows:

Investment Type	Fair Value	Not Rated	AAA/Aaa	AA, A, and BBB
Cash equivalents — trustee	$ 15,629,352	$ -	$ 15,629,352	$ -
Investments with Foundation	21,297,763	17,494,681		3,803,082
Total investments	$ 36,927,115	$ 17,494,681	$ 15,629,352	$ 3,803,082

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	0	3,966,965
Total investments	$ 32,037,933	$ 23,689,852	$ 4,381,116	$ 3,966,965

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 (Loss) Income — Investment (loss) income totaling $(4,777,317) and $1,251,750 for the years ended June 30, 2009 and 2008, 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:

	2009	2008
Student tuition and fees	$ 5,741,967	$ 5,757,240
Auxiliary enterprises	481,703	404,009
Federal, state, and private grants and contracts	17,415,377	20,372,886
Other state agencies	203,622	203,622
Other	3,063,304	968,551
Total	26,905,973	27,706,308
Less allowance for uncollectible accounts	(2,573,347)	(2,579,982)
Accounts receivable — net	$ 24,332,626	$ 25,126,326

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009, is as follows:

	Balance — June 30, 2008	Additions	Reductions	Transfers	Balance — June 30, 2009
Capital assets not being depreciated:					
Land	$ 5,723,404	$ -	$ -	$ -	$ 5,723,404
Livestock for educational purposes	210,300		(13,500)		196,800
Construction in-progress	23,068,622	33,444,698	-	(19,900,631)	36,612,689
Total capital assets not being depreciated	29,002,326	33,444,698	(13,500)	(19,900,631)	42,532,893
Other capital assets:					
Land improvements	20,480,260	8,400	(11,516)	523,618	21,000,762
Buildings	239,426,882	298,365	(72,515)	19,377,013	259,029,745
Equipment	29,473,045	4,825,955	(6,234,792)		28,064,208
Library books	36,886,786	1,325,350	(100,525)		38,111,611
Capitalized bond costs	814,622	295,000	-	-	1,109,622
Total other capital assets	327,081,595	6,753,070	(6,419,348)	19,900,631	347,315,948
Less accumulated depreciation for:					
Land improvements	(11,866,892)	(804,784)	11,516		(12,660,160)
Buildings	(103,899,734)	(6,109,847)	37,282		(109,972,299)
Equipment	(18,977,445)	(3,088,455)	4,489,521		(17,576,379)
Library books	(30,543,010)	(1,152,280)			(31,695,290)
Amortization — capitalized bond costs	(150,353)	(47,012)	-	-	(197,365)
Total accumulated depreciation	(165,437,434)	(11,202,378)	4,538,319	-	(172,101,493)
Capital assets — net	$ 190,646,487	$ 28,995,390	$ (1,894,529)	$ -	$ 217,747,348

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 depreciated	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

5. DEFERRED REVENUE

Deferred revenue as of June 30 is as follows:

	2009	2008
Unearned summer school revenue and activity fees	$ 2,827,903	$ 2,962,393
Unearned grants and contracts revenue	5,210,234	4,337,256
Other	252,400	254,109
Total	$ 8,290,537	$ 7,553,758

6. BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS

Long-term liabilities as of June 30, 2009, and long-term activity for the year ended June 30, 2009, are summarized as follows:

	Balance — June 30, 2008	Additions	Reductions	Balance — June 30, 2009	Amounts Due Within One Year
Revenue bonds payable	$ 31,975,000	$ 12,095,000	$ (3,970,000)	$ 40,100,000	$ 4,705,000
Capital lease obligations	20,943,736	28,330,303	(2,405,977)	46,868,062	2,555,274
Total bonds payable and capital lease obligations	$ 52,918,736	$ 40,425,303	$ (6,375,977)	$ 86,968,062	$ 7,260,274

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

Consolidated Education Buildings Revenue Bonds — Consolidated Education Buildings Revenue Bonds were sold to construct or renovate certain academic and services buildings on campus or to refinance prior issues. The bonds, originally issued in the amount of $38,340,000 from January 1998 through June 2004, mature in varying amounts through May 1, 2024, with interest payable at rates ranging from 3.0% to 5.0%. Student registration fees are pledged for debt service on these bonds. During fiscal years 2009 and 2008, $3,355,000 and $3,210,000 of principal and $850,190 and $979,290 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, 2009 and 2008, the required debt service reserve of $4,225,235 was on deposit with a trustee and is included in short-term investments on the Statements of Net Assets. Total principal outstanding at June 30, 2009 and 2008, was $15,970,000 and $19,325,000, 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, with interest payable at rates ranging from 4.0% to 5.0%. The proceeds of this bond issue provided funding for the renovation of the Sidney Clay Residence Hall and the refunding of the Eastern Kentucky University Housing System Revenue Bonds. The bonds mature in varying amounts through May 1, 2027. All of the revenues of the University, except federal and state grants and contracts, RUETF endowment matching grants, POD endowment, capital appropriations, and federal capital support are pledged for debt service on these bonds. During fiscal years 2009 and 2008, $615,000 and

$270,000 of principal and $528,025 and $402,622 of interest were paid on the bonds. Total outstanding principal at June 30, 2009 was $12,035,000.

On April 1, 2009, the University sold $12,095,000 of Eastern Kentucky University General Receipts, Series 2009A, at a net interest cost of 3.98%. The proceeds of this bond issue provided funding for the renovation of the Walters Residence Hall and the construction of intramural fields. The bonds mature in varying amounts through May 1, 2028. The first principal payment is due May 1, 2010.

Capital Lease Obligations — The University has capitalized certain buildings and equipment under various capital lease agreements. In June 2000, the University entered into a financing/lease agreement with the Commonwealth of Kentucky State Property and Buildings Commission to finance the Law Enforcement Basic Training Complex ("Project #66") in the amount of $20,350,000. During the 2002 fiscal year, the University entered into a second financing/lease agreement to finance the Law Enforcement Physical Skills Training Facility ("Project #75") in the amount of $7,075,000. In October 2003, the University entered into a $12,990,000 lease agreement with the Commonwealth of Kentucky State Property and Buildings Commission ("Project #80"), the proceeds of which were used primarily to retire $12,655,000 in lease payments due on the Project #66 lease agreement. 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 the fiscal year 2009, the University entered into a master lease agreement with SunTrust Equipment Finance & Leasing Corporation in the amount of $25,364,000 to finance a campus-wide energy management project. As of June 30, 2009, $14,297,997 of the proceeds had been spent on the project and the remaining balance was held in investments with the escrow agent.

During fiscal years 2009 and 2008, $2,405,977 and $1,720,947 of principal and $1,098,592 and $1,092,114 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
2010	$ 7,260,274	$ 4,523,560	$ 11,783,834
2011	8,611,862	3,553,158	12,165,020
2012	5,401,888	3,182,313	8,584,201
2013-2017	28,710,252	12,374,096	41,084,348
2018-2022	29,088,785	5,293,648	34,382,433
2023-2028	7,895,000	1,029,252	8,924,252
Total	$ 86,968,061	$ 29,956,027	$ 116,924,088

Assets under capital leases totaled $27,652,176, net of accumulated depreciation of $5,224,549, at June 30, 2009.

7. DESIGNATIONS OF UNRESTRICTED NET ASSETS

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

	2009	2008
Inventories	$ 316,837	$ 289,816
Outstanding encumbrances	1,427,527	1,574,608
Departmental commitments	23,157,420	21,767,339
Designated projects and contingency reserves	9,137,238	14,110,646
Health care self-insurance reserve	2,300,000	1,300,000
Auxiliary working capital	9,040,206	7,810,478
Total	$ 45,379,228	$ 46,852,887

8. ASSETS HELD BY OTHERS

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

The fair market value of the Eastern Kentucky University RUETF endowment as of June 30, 2009 and 2008 was $25,056,184 and $31,527,831, respectively. The portion of the endowment representing the value of the funding received from the Kentucky General Assembly, plus unexpended earnings thereon, was $12,788,987 and $16,206,018 as of June 30, 2009 and 2008, 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, 2009 and 2008 was $8,508,776 and $11,450,799, 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 2009 and 2008:

	2009	2008
Funds disbursed by the University on behalf of the Foundation:		
For employee salaries and benefits	$ 789,606	$ 759,026
For scholarships	806,167	600,181
Funds held by the Foundation on behalf of or for the benefit of the University as of June 30	21,297,763	27,656,817
Funds due to the University by the Foundation	99,678	201,459

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 Arlington are as follows during 2009 and 2008:

	2009	2008
Funds disbursed by the University on behalf of Arlington:		
For employee salaries and benefits	$ 1,256,828	$ 1,178,791
For renovation	1,740,335	1,300,319
Funds due to the University by Arlington	2,170,105	317,208

An employee of the University who serves in a managerial position also serves on the Commonwealth of Kentucky's House Appropriations and Revenue Committee (the "Committee"). The Committee is responsible for allocating funds among the various state universities, including Eastern Kentucky University.

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%. Employees participating in KTRS hired after June 1, 2008 contribute 7.16% and the University contributes 14.84%.

Effective August 1, 1996, there are three optional 403(b) defined contribution retirement plans available for new employees who would otherwise be covered by the 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, 2009, 2008, and 2007 was $14,259,924, $13,990,704, and $13,075,547, respectively. Employees contributed approximately $6,557,000, $6,402,000, and $6,032,000 in fiscal years 2009, 2008, and 2007, respectively. The University's total payroll costs were approximately $128,423,000, $125,785,000, and $118,002,000, respectively for the years ended June 30, 2009, 2008, and 2007. The payroll for employees covered by the retirement plan was approximately $108,721,628, $109,120,880, and $102,272,711, for the years ended June 30, 2009, 2008, and 2007, 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 76% 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, 2009 and 2008, totaled $11,335,820 and $11,179,446, respectively. Administrative fees incurred for the years ended June 30, 2009 and 2008, were $1,089,753 and $1,058,647, respectively.

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

	2009	2008
Liability — beginning of year	$ 1,162,618	$ 970,877
Accruals for current year claims and changes in estimate	12,382,624	12,429,834
Claims paid	(11,335,820)	(11,179,446)
Other costs	(1,089,669)	(1,058,647)
Liability — end of year	$ 1,119,753	$ 1,162,618

12. COMMITMENTS AND CONTINGENCIES

Construction Commitments — The estimated cost to complete construction projects under contract at June 30, 2009, is approximately $92.5 million. The projects are to be financed principally by appropriations from the Commonwealth, proceeds from bonds, and capital leases.

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:

	2009	2008
Salaries and wages	$ 128,423,385	$ 125,784,570
Employee benefits	34,271,623	33,584,531
Supplies and other services	55,450,712	62,647,455
Travel	5,572,418	5,929,401
Depreciation	11,294,383	10,041,890
Student scholarships and financial aid	10,499,028	269,796
Utilities	8,507,567	7,157,321
Other operating expenses	1,760,281	1,533,101
Total	$ 255,779,397	$ 246,948,065

14. RECLASSIFICATIONS

Certain reclassifications to fiscal 2008 comparative amounts have been made to conform to the 2009 classifications. Revenues from federal grants and contracts in the amount of $14,631,671 and state grants and contracts in the amount of $11,949,287 were reclassified from operating revenues to nonoperating revenues.

15. EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents, which are stated at cost which approximates fair value.

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, 2009 and 2008. 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 $6,050,000 and $8,156,000 as of June 30, 2009 and 2008, respectively.

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 donor stipulations that limit their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are included in unrestricted net assets.

Gifts of land, buildings, equipment and other 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 $9,313,457 and $11,531,472 at June 30, 2009 and 2008, respectively. The Foundation's endowment investment policy allows managers to invest a portion of funds in non-U.S. securities in accordance with the guidelines established in the investment policy.

Subsequent Events — Subsequent events have been evaluated through November 11, 2009, which is the date that financial statements were issued.

Fair Value Measurements — SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), was adopted by the Foundation for financial assets and liabilities as of July 1, 2008. SFAS 157 defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurements. The adoption of this statement did not have a material impact on the Foundation's financial position, results of operations, or cash flows as of and for the year ended June 30, 2009. SFAS 157 also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest to lowest priority, are described below:

Level 1 — Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Foundation's own assumptions.

In February 2008, the FASB issued FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"). FSP 157-2 deferred the effective date of the provisions of SFAS 157 for all non-financial assets and liabilities to fiscal years beginning after November 15, 2008 and will be adopted by the Foundation for fiscal year ending June 30, 2010. The Foundation is currently evaluating the impact, if any, of the adoption of SFAS 157 for non-financial assets and liabilities on the Foundation's financial position, results of operations, and cash flows.

The Foundation also adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("SFAS 159"), as of July 1, 2008. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. In addition, it also establishes recognition, presentation, and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company has not made any fair value elections with respect to any of its eligible assets or liabilities as of June 30, 2009.

New Accounting Pronouncements — In August 2008, FASB Staff Position ("FSP") FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, 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 included the disclosures in Note D.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – An Amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 amends and expands the disclosure requirements of SFAS 133 with the intent to provide users of financial statements with an enhanced understanding of: 1) how and why an entity uses derivative instruments; 2) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and 3) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The Foundation will comply with the disclosure requirements provided under SFAS 161 for fiscal year 2010.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, ("SFAS 165") which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. SFAS is effective for fiscal years ending after June 15, 2009. The Foundation has determined that SFAS 165 did not have a material impact on its financial statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). The interpretation prescribes a recognition threshold and measurement attribute for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. FIN 48 will require financial statements to reflect expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts. In December 2008, the FASB issued FSP 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, permitting certain nonpublic entities to elect deferral of the implementation of FIN 48 to fiscal years beginning after December 15, 2008. The Foundation is currently evaluating the effect that the adoption of FIN 48 will have on the financial statements; however, the Foundation does not anticipate the effect, if any, will be material. The Foundation currently accounts for tax contingencies, if any, under FASB Statement No. 5.

B. INVESTMENTS AND INVESTMENT RETURNS

Investments held at June 30, 2009 and 2008, by the Foundation were as follows:

	2009	**2008**
Money market funds	$ 1,815,276	$ 3,790,704
Common stock	322,532	392,007
Fixed income funds	7,529,230	7,726,715
Equity funds	25,660,402	32,271,490
Alternatives	6,050,060	8,155,687
Total investments	$41,377,500	$52,336,603

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, 2009 and 2008. 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, 2009 and 2008, none of these funds had a fair value that was less than the level required by donor stipulation or law.

C. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments as of June 30, 2009 is as follows:

	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 1,815,276	$	$ 1,815,276	$
Common stock	322,532	322,532		
Fixed income funds	7,529,230	7,529,230		
Equity funds	25,660,402	25,660,402		
Alternatives	6,050,060			6,050,060
Total investments	$41,377,500	$33,512,164	$ 1,815,276	$ 6,050,060

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

Securities held in money market funds are valued at amortized cost, which approximates fair value. The inputs are not quoted in active markets and the investments are therefore considered Level 2.

Alternative investments held by the Foundation consist of hedge funds and limited partnerships. The fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the investment manager, which consist of unobservable inputs that are supported by little or no market activity. As such, alternative investments are classified as Level 3.

The following is the Level 3 investment activity for the year ending June 30, 2009:

	Significant Unobservable Inputs (Level 3)
Balance - July 1, 2008	$ 8,155,687
Total gains or losses (realized/unrealized)	
Included in earnings (or changes in net assets)	(1,282,788)
Purchases, issuances and settlements	(822,839)
Balance - June 30, 2009	$ 6,050,060

D. ENDOWMENT

The Foundation's endowment consists of approximately 350 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (board-designated endowment funds). As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Foundation's Board of Directors has interpreted the Uniform Management of Institutional Funds Act ("UMIFA"), adopted in Kentucky in 1976 and located at KRS 273.510 to 273.590 as requiring preservation of the "historic dollar value" of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as unrestricted or temporarily restricted net assets, depending on donor stipulations.

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value" level the Foundation is required to preserve as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are to be reported in unrestricted net assets were $4,941,575 and $78,143 as of June 30, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of permanently restricted contributions.

Endowment net asset composition by type of fund as of June 30, 2009 and 2008 is as follows:

2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (4,941,575)	$ 2,360,155	$ 31,734,113	$ 29,152,693
Board-designated endowment funds	12,224,807	-	-	12,224,807
Total	$ 7,283,232	$ 2,360,155	$ 31,734,113	$ 41,377,500
Less endowment held for others	(8,508,775)	(582,183)	(12,206,805)	(21,297,763)
Net endowment owned by Foundation	$ (1,225,543)	$ 1,777,972	$ 19,527,308	$ 20,079,737

2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (78,143)	$ 6,072,798	$ 29,890,250	$ 35,884,905
Board-designated endowment funds	16,451,698	-	-	16,451,698
Total	$ 16,373,555	$ 6,072,798	$ 29,890,250	$ 52,336,603
Less endowment held for others	(11,450,799)	(3,999,213)	(12,206,805)	(27,656,817)
Net endowment owned by Foundation	$ 4,922,756	$ 2,073,585	$ 17,683,445	$ 24,679,786

Changes in endowment net assets for the years ended June 30, 2009 and 2008 are as follows:

2009	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	$ 16,373,555	$ 6,072,798	$ 29,890,250	$ 52,336,603
Investment return:				
Investment income, net of fees	226,128	509,280	-	735,408
Net realized appreciation	89,662	166,536	-	256,198
Net unrealized depreciation	(9,406,113)	(2,537,105)	-	(11,943,218)
Total investment return	(9,090,323)	(1,861,289)	-	(10,951,612)
Contributions/Transfers	-	-	1,843,863	1,843,863
Appropriation of endowment assets for expenditures	-	(1,851,354)	-	(1,851,354)
Endowment net assets, end of year	$ 7,283,232	$ 2,360,155	$ 31,734,113	$ 41,377,500
Less endowment held for others	$ (8,508,775)	$ (582,183)	$ (12,206,805)	(21,297,763)
Net endowment owned by Foundation	$ (1,225,543)	$ 1,777,972	$ 19,527,308	$ 20,079,737

2008	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	$ 17,490,764	$ 8,746,471	$ 29,382,254	$ 55,619,489
Investment return:				
Investment income, net of fees	328,291	671,820	-	1,000,111
Net realized appreciation	779,824	1,677,855	-	2,457,679
Net unrealized depreciation	(2,225,324)	(4,729,300)	-	(6,954,624)
Total investment return	(1,117,209)	(2,379,625)	-	(3,496,834)
Contributions/Transfers	-	-	507,996	507,996
Appropriation of endowment assets for expenditures	-	(294,048)	-	(294,048)
Endowment net assets, end of year	$ 16,373,555	$ 6,072,798	$ 29,890,250	$ 52,336,603
Less endowment held for others	$ (11,450,799)	$ (3,999,213)	$ (12,206,805)	(27,656,817)
Net endowment owned by Foundation	$ 4,922,756	$ 2,073,585	$ 17,683,445	$ 24,679,786

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2009 and 2008 consisted of:

	2009	2008
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulations or UMIFA	$ 16,363,705	$ 19,678,887
Temporarily restricted net assets - term endowment funds	$ 0	$ 0

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

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The Foundation has outsourced its Investment Office to a Pennsylvania-based firm serving as Chief Investment Officer, to manage the Foundation's endowment assets under the guidance of the Foundation's Investment Policy and in consultation with the Investment Committee of the Board of Directors. The endowment assets of the Foundation are invested in a broad range of equities and debt securities, thereby limiting the market risk exposure in any single investment manager or individual investment.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Foundation has a policy of appropriating for distribution each year up to 5% of a three year rolling average of the fund's value. Likewise, it is the policy of the Foundation that, annually, up to 1.5% of a three year rolling average of the fund's value be designated for unrestricted use by the Foundation in furtherance of its singular mission to provide support for the advancement of the University. The policies are monitored by the Executive Committee of the Foundation's Board of Directors and may be amended in accordance with market conditions. Earnings above the annually designated portions are reinvested in the corpus to insure long-term growth and stability.

E. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2009 and 2008, consisted of the following unconditional promises to give:

	2009				2008
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Current pledges receivable:					
Due within one year	$ 52,419	$143,755	$ 876,539	$1,072,713	$1,231,881
Allowance			(50,000)	(50,000)	(50,000)
Total current pledges receivable	52,419	143,755	826,539	1,022,713	1,181,881
Long-term pledges receivable:					
Due after one year to five years	42,322	52,900	66,180	161,402	299,626
Due after five years	7,187	30,650	23,168	61,005	97,893
Allowance			(25,000)	(25,000)	(25,000)
Discount to NPV	(457)	(1,053)	(23,537)	(25,047)	(77,733)
Total long-term pledges receivable	49,052	82,497	40,811	172,360	294,786
Net pledges receivable	$101,471	$226,252	$ 867,350	$1,195,073	$1,476,667

F. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2009 and 2008, consisted of:

	2009	2008
Land	$2,116,373	$2,116,373
Land improvements	8,107	8,107
Buildings and improvements	2,258,557	383,474
Machinery and equipment	152,884	149,625
Capitalized bonds costs	61,422	
	4,597,343	2,657,579
Less accumulated depreciation	119,298	85,875
Property and equipment — net	$4,478,045	$2,571,704

G. NET ASSETS

Temporarily Restricted Net Assets — Temporarily restricted net assets available for scholarships and other program support were $2,531,305 and $3,720,690 at June 30, 2009 and 2008, 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, 2009 and 2008:

	2009	2008
Purpose restrictions accomplished/time restrictions expired:		
Scholarship program expenses	$ 806,167	$ 600,181
Other educational program areas and support	1,998,035	2,827,957
	$2,804,202	$3,428,138

H. RELATED-PARTY TRANSACTIONS

Arlington Golf Course and Facilities — The Foundation has leased for a nominal amount the Arlington Golf Course and facilities (a golf course built and owned by the Foundation on Foundation land) to the Arlington Association, Inc. ("Arlington") for its use for a term of one year with automatic renewal for each successive year. The lease can be terminated by either party with notice. As consideration for this lease, various departments of the University are permitted to use the golf course and related facilities for instructional purposes. Arlington Association, Inc. bears all expenses for operation and maintenance of the golf course facility and, in return, receives all fees related to its operation.

During fiscal year 2009, the Foundation issued Variable Rate Demand Economic Development Revenue Bonds, Series 2008, in the amount of $1,770,000 (see Note I). The bond proceeds will be used to reimburse Arlington for the construction of a building. The building is owned by the Foundation and included in the Foundation's property and equipment balance at June 30, 2009. Arlington paid for the construction of the building and as a result, at June 30, 2009, the Foundation has recorded a $1,700,000 payable to Arlington.

Eastern Kentucky University — The University provides various administrative services to the Foundation. As a result of these related-party services and other transactions, the Foundation has recorded a receivable from the University of $179,120 and a payable to the University of $201,459 as of June 30, 2009 and 2008, respectively. The University disbursed $789,606 and $759,026 on behalf of the Foundation for employee salaries and benefits during the years ended June 30, 2009 and 2008, respectively. The University disbursed $806,167 and $600,181 on behalf of the Foundation for scholarships during the years ended June 30, 2009 and 2008, respectively.

Outstanding pledges receivable due from related parties of the Foundation were $764,837 and $878,474 as of June 30, 2009 and 2008, respectively.

I. BONDS PAYBLE

In September 2008, the Foundation issued Variable Rate Demand Economic Development Revenue Bonds, Series 2008, in the amount of $1,770,000 through Fifth Third Bank to help finance the Arlington renovation project (see Note H). It is intended for Arlington to repay the cost of the renovation to the Foundation. The bonds mature in 2017 and have a variable interest rate that is based on the USD – SIFMA Municipal Swap Index. To protect the Foundation against a potential interest rate increase, the Foundation entered into an interest rate swap agreement, thereby locking into a fixed interest rate of 3.4% for the duration of the loan term. Scheduled principal repayment requirements are as follows:

Years Ending June 30	Principal
2010	$ 145,000
2011	150,000
2012	155,000
2013	165,000
2014	170,000
Thereafter	985,000
Total	$ 1,770,000

J. ASSETS HELD FOR OTHERS

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

	2009	2008
Eastern Kentucky University — investments held for:		
Regional University Endowment Trust Fund	$ 12,788,987	$ 16,206,018
Programs of Distinction	8,508,776	11,450,799
Total	$ 21,297,763	$ 27,656,817

K. ANNUITIES AND TRUSTS PAYABLE

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The Foundation has recorded a liability at June 30, 2009 and 2008, $275,149 and $267,869, 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%.

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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, 2009, and have issued our report thereon dated November 11, 2009. 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 November 11, 2009.

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

November 11, 2009