

***Eastern Kentucky
University***

*Financial Statements as of and for the
Years Ended June 30, 2005 and 2004,
and Independent Auditors' Report*

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of net assets of Eastern Kentucky University (the "University") and its discretely presented component unit as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our 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 respective 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 respective financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2005 and 2004, and the respective changes in net assets and cash flows 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 2 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental 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 7, 2005, 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 the 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 7, 2005

Eastern Kentucky University Management's Discussion and Analysis June 30, 2005 and 2004

Introduction

On the pages following are the audited financial statements for Eastern Kentucky University (University) for the fiscal years 2005 and 2004. Also included are the statements for the Eastern Kentucky University Foundation, Inc. (Foundation) as an affiliated organization and component unit of the University. This Management Discussion and Analysis is intended to provide an overview of the financial performance and financial position of the University for the fiscal years ended June 30, 2005 and 2004 and should be read in conjunction with the accompanying financial statements and notes.

Financial Highlights

As indicated on the Statement of Net Assets, the University's financial position remained strong at June 30, 2005, with an overall increase in total net assets for the fiscal year of about \$1.0 million. Assets were at a \$5.9 million lower level in total at June 30, 2005 as compared to June 30, 2004. This was the result, primarily, of an \$11.8 million reduction in noncurrent cash levels, although current operating cash levels increased by \$6.1 million. Noncurrent liabilities decreased by \$7.0 million at June 30, 2005 as compared to the previous year, reflecting a reduction in amounts owed on bonds payable and long-term lease arrangements.

Operationally the University had \$10.3 million more in total operating revenues for fiscal year 2004-05 versus 2003-04. As indicated in the information below, this was the result of both increased net tuition income and additional income recognized from grant and contract activity. Operating expenses increased for 2004-05 as compared to 2003-04 by \$7.5 million. The total operating loss, prior to consideration of nonoperating items including state appropriations, was \$66.2 million for the fiscal year ended June 30, 2005 as compared to \$69.0 million for the previous year, or a reduction in net operating loss of \$2.8 million

State appropriations are reported in the Statement of Revenues, Expenses and Changes in Net Assets after calculation of the operating results, as are revenues and expenses related to investing, financing, and other nonoperating activities. Governmental support for capital expenditures is also added after operations to come to the overall increase in net assets for the year. For the year ended June 30, 2005, the overall increase in net assets was approximately \$1.0 million as compared to an increase of \$9.8 million for the year ended June 30, 2004. Much of the 2003-04 increase in net assets was attributable to state capital appropriations.

During the previous fiscal year ended June 30, 2004, the University experienced reductions in state appropriations. Of the total \$4.2 million reduction, only \$2.1 million is reflected in the state appropriations amount in the Statement of Revenues, Expenses and Changes in Net Assets for 2003-04. The additional \$2.3 million reduction was included in the 2004-06 biennial budget package which was not approved by the state legislature until the commencement of the 2004-05 fiscal year. In anticipation that this approval would occur in 2005, approximately \$2.0 million was set aside as a part of total unrestricted net assets at June 30, 2004. In the Statement of Revenues, Expenses and Changes in Net Assets, this reduction is appropriately recognized in fiscal year 2005 due to the timing of the state action, although previously reserved as noted.

Using the Annual Report

This annual report consists of a series of financial statements that have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis – for Public Colleges and Universities*. The financial statements consist of the Statement of Net Assets as of June 30, 2005 and 2004, the Statement of Revenues, Expenses

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and Changes in Net Assets and the Statement of Cash Flows for the fiscal years ended June 30, 2005 and 2004. These statements reflect both the financial position of the University at the end of the fiscal years noted, as well as the results of operating and nonoperating activities and cash flows. Also included are the financial statements for the Foundation, which are presented in this report in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an Amendment of GASB Statement No. 14.

Reporting Entity

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

Statement of Net Assets

The Statement of Net Assets serves to provide a snapshot of the financial position of the University as of the fiscal year end dates of June 30, 2005 and 2004. It includes assets and liabilities segregated by current and noncurrent categories and includes total net assets broken down into various components. Total net assets are an indicator of the financial condition of the University and a comparison to the previous year's net assets is a gauge as to improvement in financial position from one year to the next. Total net assets are broken down into three primary categories – invested in capital assets, restricted for specific uses, and unrestricted net assets, which may be designated for certain purposes.

- **Assets** - Total assets at June 30, 2005 were \$246.7 million as compared to \$252.6 million at June 30, 2004. This decrease of \$5.9 million is almost entirely the result of a decrease in the total cash balance of \$5.7 million. Of this amount an \$11.8 million decrease in cash is related to noncurrent cash balances, or cash not used for current operations due to timing differences in collection activities related to external sources. Cash for current operations actually increased by \$6.1 million to \$29.1 million. Most other asset categories showed nominal changes from 2004 to 2005, including capital assets net of accumulated depreciation.
- **Liabilities** - Total liabilities at June 30, 2005 were \$89.2 million as compared to \$96.0 million at June 30, 2004, a decrease of \$6.8 million. Overall, current liabilities showed a small total variation, with only two categories, an increase in accounts payable of \$1.1 million and a decrease in deferred revenue of \$2.0 million, indicating noticeable change. Noncurrent liabilities decreased by approximately \$7.0 million due to a \$5.9 million decrease in bonds payable and a \$1.1 million decrease in leases payable.
- **Net Assets** – Total net assets increased by \$1.0 million from \$156.5 million at June 30, 2004 to \$157.5 million at June 30, 2005. Net assets invested in capital assets increased by \$7.7 million to \$98.7 million at June 30, 2005, resulting primarily from the completion of two major construction projects. Additionally, this net asset balance was affected by an increase in accumulated depreciation and the write down of all assets which had a cost basis of less than \$3,000. Conversely, the net asset amount expendable for capital projects decreased by \$11.9 million due to the transfer of various project costs. Additionally, unrestricted net assets increased by \$5.0 million to \$19.8 million as a result of the total increase from operational and nonoperational net income.

Eastern Kentucky University
Management's Discussion and Analysis
June 30, 2005 and 2004

The following are the major components reflected in the statement of net assets:

(in thousands)	June 30	
	2005	2004
Assets:		
Current assets	\$ 50,058	\$ 45,784
Capital assets, net	165,099	164,123
Other non-current assets	31,550	42,657
 Total assets	 \$ 246,707	 \$ 252,564
 Liabilities:		
Current liabilities	\$ 29,782	\$ 29,573
Noncurrent liabilities	59,411	66,446
 Total liabilities	 89,193	 96,019
 Net Assets:		
Invested in capital assets, net of related debt	98,653	90,942
Restricted, expendable	30,751	42,494
Restricted, nonexpendable	8,318	8,318
Unrestricted	19,792	14,791
 Total net assets	 \$ 157,514	 \$ 156,545

Unrestricted Net Assets

A portion of net assets is considered to be unrestricted. The unrestricted net asset balance amount does not have formal restrictions such as governmental or donor restrictions, but may be designated for certain uses. The balance for unrestricted net assets for June 30, 2005 and 2004 are shown below with the designations indicated:

	June 30	
	2005	2004
Inventories	\$ 439,986	\$ 493,189
Outstanding encumbrances	2,386,945	2,069,734
Departmental commitments	5,026,287	2,661,098
State trust funds	1,824,593	2,367,594
State funding reduction reserve	-	2,035,325
Health care self-insurance reserve	1,300,000	1,300,000
Auxiliary working capital	1,808,606	551,561
University capital projects	1,800,768	1,981,945
General contingencies	5,205,205	1,330,822
 Total unrestricted net assets	 \$ 19,792,390	 \$ 14,791,268

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Statement of Revenues, Expenses and Changes in Net Assets

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

Of primary consideration in reviewing the Statement of Revenues, Expenses and Changes in Net Assets are the following:

- **Operating revenues**
 - **Tuition and fees** – Income from student tuition and fee assessments, shown net of tuition discount (scholarships and financial aid which directly offset tuition and fee charges), were \$34.4 million and \$29.4 million for the fiscal years ended June 30, 2005 and 2004, respectively. The total gross tuition and fee revenue for 2004-05 was \$65.1 million with related tuition discounts of \$30.7 million. For fiscal year 2003-04 those amounts were \$55.0 million and \$25.6, respectively. The increase of \$10.1 million in gross tuition and fees reflects both an enrollment increase and an increase in tuition and fee charges. Similarly the \$5.1 million increase in tuition discounts reflects the increase in financial aid related directly to tuition and fee costs funded from federal, state, and institutional sources. It is important to note that, of the total tuition revenue increase, approximately one-half was offset or discounted as the result of the application of financial aid from the sources noted.
 - **Grants and contracts** – In any given fiscal year the University is awarded a number of external grants and contracts. The number of these grants and contracts and their respective award levels can significantly fluctuate from year to year. Income from grants and contracts is recognized only to the extent that such funds are expended. For the year ended June 30, 2005 total revenues and expenditures related to this activity was \$80.2 million or an increase of \$3.2 million over the year ended June 30, 2004 level of \$77.0 million.
 - **Auxiliaries** – Auxiliary enterprises consist of University functions provided for the benefit of students, but not directly related to the educational process such as housing and dining services. In the Statement of Revenues, Expenses and Changes in Net Assets, \$3.8 million is reported for net auxiliary housing revenues for the year ended June 30, 2005 as compared to \$2.9 million June 30, 2004, almost all of which is due to an increase in student housing fees. Like tuition and fees, housing revenues are reported net of scholarships and financial aid that directly offset these costs to students. The gross revenue for housing was \$9.2 million for the year ended June 30, 2005, with an associated discount of \$5.5 million, as compared to \$8.0 million for the year ended June 30, 2004, with an associated discount of \$5.1 million.
- **Operating expenses**
 - **Educational and general** – Educational and general expenditures are those associated with both teaching and support of the educational purpose of the University and includes expenditures related to restricted activities such as external grants. Educational and general expenditures are considered to include instructional costs, expenditures related to public service, academic support services such as libraries, student services including health services and student activities,

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administrative costs for the University, the maintenance and operation of the University's physical facilities, financial aid and scholarship expenses not directly related to tuition or housing, and debt service expenditures.

The total educational and general expenditures for the year ended June 30, 2005 were \$184.2 million compared to \$180.3 million for the year ended June 30, 2004, an increase of \$3.9 million. Although there were various increases and decreases in all categories of expenditures as indicated on the Statement of Revenues, Expenses and Changes in Net Assets, the largest changes were in three areas. There was a \$2.9 million increase in instructional costs, reflecting increased expenditures related to faculty and the instructional process, a \$3.9 million increase in institutional support, which is reflective of technology costs, increases in insurance and other administrative costs, and an almost \$2.0 million reduction in financial aid expenditures, an indication that a greater amount of financial aid awards, from all sources, is going directly to offset tuition as indicated in the following information:

(in thousands)	For the Year Ended June 30	
	2005	2004
Tuition and fee discount	\$ 30,724	\$ 25,611
Auxiliary enterprises discount	5,545	5,047
Student financial aid expense	1,529	3,457
Student financial aid expense (gross)	\$ 37,798	\$ 34,115

- **Auxiliaries** – As indicated above, auxiliary enterprises are essential student service activities that do not directly impact educational and general operations or expenditures. The total expenditures for the auxiliary areas for the year ended June 30, 2005 was \$10.6 million and for the year ended June 30, 2004 was \$6.7 million.
- **Nonoperating revenue/expenses**
 - **State appropriations** – Funding from state appropriations for operations and debt service rose slightly in terms of on-going funding for both the fiscal years ended June 30, 2005 and 2004 at \$69.8 million and \$71.4 million, respectively. It is important to note that the 2003-04 fiscal year state appropriations reflect a \$2.1 million reduction from the original state appropriation amount of \$73.5 million. Additionally, there was a nonrecurring state appropriations reduction of \$2.4 million for fiscal year 2004 which is reflected in fiscal year 2005 due to the timing considerations as discussed previously.
 - **Interest expense** – The amount of interest expense paid on debt service increased by about \$300,000 for fiscal year 2005. It was \$3.3 million for 2004-05 and \$3.0 million for 2003-04.
- **Capital**
 - **Capital appropriations** – For the fiscal year ended June 30, 2004 state appropriations for support of approved capital projects was \$5.0 million slated for the new Business & Technology Center. There were no specific capital appropriations for such projects for the fiscal year ended June 30, 2005.

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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	
	2005	2004
Operating revenues	\$ 128,799	\$ 118,522
Operating expenses	195,031	187,521
Operating loss	(66,232)	(68,999)
Nonoperating revenues - net	67,126	73,591
Income before capital appropriations, and federal capital support	894	4,592
Capital appropriations and federal capital support	75	5,188
Increase in net assets	969	9,780
Net assets at beginning of year	156,545	146,765
Net assets at end of year	\$ 157,514	\$ 156,545

Statement of Cash Flows

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

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The following is a condensed representation of the Statements of Cash Flows for the University:

(in thousands)	For the Year Ended June 30	
	2005	2004
Cash provided by (used in):		
Operating activities	\$ (54,969)	\$ (53,102)
Noncapital financing activities	69,810	72,381
Capital and related financing activities	(22,131)	(7,590)
Investing activities	13,347	(3,071)
Net change in cash and cash equivalents	6,057	8,618
Cash and cash equivalents at beginning of year	23,082	14,464
Cash and cash equivalents at end of year	<u>\$ 29,139</u>	<u>\$ 23,082</u>

Capital Asset and Debt Administration

During fiscal years 2004-05 and 2003-04 the following were projects completed by the University:

(in thousands)	For Year Ended June 30	
	2005	2004
Combs Hall	\$ 3,508	
Health Education Building Phase I	6,552	
Student Services Building		\$ 600
Law Enforcement Basic Training		202
Fire Sprinkler Systems Residence Halls		15
Southeast Regional Postsecondary Education Center at Corbin		4,240
High Voltage Electrical Distribution System		2,750
Other	787	5,644
Total	<u>\$ 10,847</u>	<u>\$ 13,451</u>

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

(in thousands)	Total Expenditures Through June 30, 2005	Estimated Cost to Complete at June 30, 2005
Business and Technology Building	\$ 6,941	\$ 7,014
Electrical Distribution Center	2,478	4,742
Various Other Deferred Maintenance Projects	1,006	4,344
Total	<u>\$ 10,425</u>	<u>\$ 16,100</u>

Eastern Kentucky University Management's Discussion and Analysis June 30, 2005 and 2004

There were no new bonds issued during the fiscal year ended June 30, 2005. In June 2004 the University issued Series V Consolidated Education Buildings Revenue agency bonds for the purpose of funding a critical campus electrical upgrade. These bonds, totaling \$12.7 million, were designated primarily for use in upgrading the underground campus electrical system, an area in need of such upgrade as evidenced by a number of power outages on campus over the past few years. As indicated in the above schedule, this project commenced in fiscal year 2005 and was still in process at June 30, 2005.

Economic Factors Impacting Future Periods

There are a number of economic and other factors that could have an affect on the near and longer-term financial results of the University:

- **Enrollment** – The University continues to enjoy an increase in enrollment, although, as expected, the pace has begun to slow. The University recognizes the need for focused planning regarding enrollment growth to meet the goals of Kentucky's higher education public agenda, with an institutional commitment to staying true to its mission. Additionally, the University recognizes that student retention continues to play a critical role related to increasing graduation rates which will ultimately serve to strengthen the University's service region and its overall contribution to the Commonwealth. There is clear recognition by the University that its service region is unique and that specific problems must be addressed in order to educate the citizens within this region. These include the historical enrollment at the University of a large number of first generation college students as well as issues related to cultural and other place barriers which often make it difficult for students in the University's service region to attend college.
- **State funding** – Over the past few years decreases in state appropriations for the University have been very problematic. These decreases have come at varying points in time, the most recent of which was announced at mid-year during fiscal year 2004. These reductions not only result in less revenue under normal circumstances, but serve to be especially difficult during periods of rising enrollments. The University has had less state funding to support its educational activities with the added expectation of providing a quality education to more students. For 2004-05 state appropriations decreased from \$71.4 million for fiscal year 2004 (before the mid-year reduction) to \$69.8 million for 2005. It is encouraging that state appropriations for fiscal year 2006 increased by \$5.9 million, including specific funding for building maintenance, with no indication as of the date of this report that any reductions are anticipated. There are no firm indications of funding levels beyond 2006. Increased state funding is critical in enabling the University to meet its goals related to growth and educational quality and much attention will continue in monitoring related actions at the state level.
- **Fundraising** – The efforts of the Foundation in its first ever capital campaign are very important to the University as there is increased pressure to look more toward private support for strategic needs. These include programmatic support, faculty support, and an expansion of funding for scholarships and financial aid.
- **Tuition** – The University has increased tuition rates more significantly over the past few years than has been the case previously. This is due to the reductions in state funding as noted above, as well as funding for areas of critical need, and to allow the University to maintain its level of educational quality while growing its enrollment. Certainly any tuition increase is considered seriously by the President and the Board of Regents prior to approval and implementation and is recognized as a balance between needed program support in terms of offering students the education they expect and deserve and the overall affordability of attending the University.

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- **Financial Aid** – Due to its low cost of attendance relative to other institutions, the University has traditionally relied on federal and state grant and loan programs to assist students through financial aid means. With these external sources, such as Pell grants, remaining fairly stagnant in terms of amount available per student, a financial aid gap is now being experienced that adversely impacts affordability. The University has taken significant steps in addressing the issue of institutional support of financial aid for its students, committing a total of \$3.0 million in new dollars for need-based financial aid over the past two fiscal years. There will continue to be a significant focus in this area.

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF NET ASSETS JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 29,138,803	\$ 23,082,197
Investments	5,916,000	5,661,000
Accrued interest receivable	159,579	190,932
Accounts receivable, less allowance of \$1,545,320 for 2005 and \$6,454,158 for 2004	13,788,243	14,891,871
Loans to students, less allowance of \$40,590 for 2005 and \$47,299 for 2004	541,736	713,159
Inventories	439,986	493,189
Prepaid interest and other expenses	<u>73,858</u>	<u>751,636</u>
 Total current assets	 <u>50,058,205</u>	 <u>45,783,984</u>
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	13,959,825	25,735,460
Investments	12,708,809	12,195,642
Loans to students, less allowance of \$314,388 for 2005 and \$313,439 for 2004	4,881,570	4,725,938
Capital assets, net of accumulated depreciation of \$144,229,474 for 2005 and \$148,831,564 for 2004	<u>165,098,609</u>	<u>164,122,745</u>
 Total noncurrent assets	 <u>196,648,813</u>	 <u>206,779,785</u>
 TOTAL	 <u>246,707,018</u>	 <u>252,563,769</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF NET ASSETS JUNE 30, 2005 AND 2004

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES:		
Accounts payable	\$ 4,848,481	\$ 3,759,255
Other accrued liabilities	1,798,311	1,881,742
Accrued interest	633,883	642,863
Accrued salaries and benefits	3,384,506	2,799,937
Accrued compensated absences	2,999,887	2,736,087
Payroll withholding payable	946,324	945,545
Refundable deposits	535,410	524,105
Assets held for others	292,732	267,348
Deferred revenue	7,307,367	9,281,046
Bonds payable	5,910,000	5,655,000
Leases payable	<u>1,125,203</u>	<u>1,080,072</u>
Total current liabilities	<u>29,782,104</u>	<u>29,573,000</u>
NONCURRENT LIABILITIES:		
Bonds payable—noncurrent portion	37,150,000	43,060,000
Lease payable—noncurrent portion	<u>22,260,613</u>	<u>23,385,816</u>
Total noncurrent liabilities	<u>59,410,613</u>	<u>66,445,816</u>
Total liabilities	<u>89,192,717</u>	<u>96,018,816</u>
NET ASSETS:		
Invested in capital assets—net of related debt	98,652,794	90,941,857
Restricted:		
Expendable for capital projects	14,536,810	26,438,526
Expendable for debt service	7,512,755	8,161,803
Expendable for loans to students	7,168,157	7,036,500
Expendable for scholarships	1,095,235	740,482
Expendable for institutional support	437,810	116,168
Unexpendable for permanent endowment	8,318,350	8,318,349
Unrestricted	<u>19,792,390</u>	<u>14,791,268</u>
Total net assets	<u>\$157,514,301</u>	<u>\$156,544,953</u>

See notes to financial statements.

(Concluded)

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash	\$ 3,438,258	\$ 8,865,375
Pledges receivable, net of allowance of \$45,000 for 2005 and 2004	1,339,469	849,010
Bequests in probate receivable	500,000	500,000
Accounts and notes receivable—net	<u>26,491</u>	<u>27,250</u>
Total current assets	<u>5,304,218</u>	<u>10,241,635</u>
NONCURRENT ASSETS:		
Investments	38,303,444	30,446,904
Funds held in trust	353,514	353,514
Pledges receivable, net of allowance of \$205,000 for 2005 and 2004	1,946,729	1,188,630
Property and equipment—net	<u>1,529,308</u>	<u>1,694,216</u>
Total noncurrent assets	<u>42,132,995</u>	<u>33,683,264</u>
TOTAL	<u>\$47,437,213</u>	<u>\$43,924,899</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Payable to Eastern Kentucky University	\$ 141,667	\$ 297,916
Accounts payable	76,960	58,778
Assets held for others	<u>9,851,395</u>	<u>9,175,000</u>
Total current liabilities	<u>10,070,022</u>	<u>9,531,694</u>
LONG-TERM LIABILITIES—		
Annuity payment and deferred giving liability	<u>53,555</u>	<u>38,109</u>
Total liabilities	<u>10,123,577</u>	<u>9,569,803</u>
NET ASSETS:		
Permanently restricted	14,688,296	12,205,780
Temporarily restricted	7,499,306	7,645,331
Unrestricted	<u>15,126,034</u>	<u>14,503,985</u>
Total net assets	<u>37,313,636</u>	<u>34,355,096</u>
TOTAL	<u>\$47,437,213</u>	<u>\$43,924,899</u>

See notes to financial statements.

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES:		
Tuition and fees—net	\$ 34,430,675	\$ 29,432,651
Federal grants and contracts	53,544,655	51,446,333
State grants and contracts	23,570,491	22,737,229
Nongovernmental grants and contracts	3,068,697	2,784,005
Sales and services of educational activities	3,864,439	3,560,305
Auxiliary enterprises—housing	3,776,846	2,943,700
Auxiliary enterprises—other	485,172	529,171
Other operating revenues	<u>6,057,651</u>	<u>5,089,059</u>
Total operating revenues	<u>128,798,626</u>	<u>118,522,453</u>
OPERATING EXPENSES:		
Educational and general:		
Instruction	64,744,219	61,847,861
Research	1,487,716	705,511
Public service	42,065,874	41,618,186
Libraries	2,952,811	2,902,121
Academic support	13,982,004	13,795,959
Student services	12,064,238	11,145,367
Institutional support	23,083,587	19,177,215
Operations and maintenance of plant	13,411,825	15,869,786
Depreciation	8,910,315	9,820,547
Student financial aid	1,529,068	3,456,747
Auxiliary enterprises:		
Housing and other auxiliaries	9,303,723	6,016,218
Depreciation	1,316,703	726,345
Other operating expenses	<u>178,514</u>	<u>439,248</u>
Total operating expenses	<u>195,030,597</u>	<u>187,521,111</u>
OPERATING LOSS	<u>(66,231,971)</u>	<u>(68,998,658)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	69,809,500	71,448,100
RUETF endowment matching grants		932,545
Investment income	2,307,992	817,780
Interest expense	(3,258,478)	(3,043,583)
Other nonoperating revenues	2,567,191	3,761,692
Other nonoperating expenses	<u>(4,300,308)</u>	<u>(325,100)</u>
Net nonoperating revenues	<u>67,125,897</u>	<u>73,591,434</u>
INCOME BEFORE CAPITAL APPROPRIATIONS AND FEDERAL CAPITAL SUPPORT	893,926	4,592,776
Capital appropriations		5,000,000
Federal capital support	<u>75,422</u>	<u>187,810</u>
INCREASE IN NET ASSETS	969,348	9,780,586
NET ASSETS—Beginning of year	<u>156,544,953</u>	<u>146,764,367</u>
NET ASSETS—End of year	<u>\$ 157,514,301</u>	<u>\$ 156,544,953</u>

See notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS:				
Contributions	\$ 95,569	\$ 1,212,784	\$ 2,482,516	\$ 3,790,869
Investment returns, net of investment expenses of \$184,008	242,949	406,210		649,159
Other income—net	227,467			227,467
Net increase in unrealized appreciation on investments	549,206	879,508		1,428,714
Net assets released from restrictions—satisfaction of program and time restrictions	<u>2,644,527</u>	<u>(2,644,527)</u>		
Total revenues and gains	<u>3,759,718</u>	<u>(146,025)</u>	<u>2,482,516</u>	<u>6,096,209</u>
EXPENSES:				
Payments and support for Eastern Kentucky University:				
Academic and other support	2,783,987			2,783,987
Scholarships	<u>353,682</u>			<u>353,682</u>
Total expenses	<u>3,137,669</u>	<u>-</u>	<u>-</u>	<u>3,137,669</u>
CHANGES IN NET ASSETS	622,049	(146,025)	2,482,516	2,958,540
NET ASSETS—Beginning of year	<u>14,503,985</u>	<u>7,645,331</u>	<u>12,205,780</u>	<u>34,355,096</u>
NET ASSETS—End of year	<u>\$ 15,126,034</u>	<u>\$ 7,499,306</u>	<u>\$ 14,688,296</u>	<u>\$ 37,313,636</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS:				
Contributions	\$ 294,356	\$ 913,784	\$ 1,217,996	\$ 2,426,136
Investment returns, net of investment expenses of \$164,082	358,440	349,901		708,341
Other income—net	396,625			396,625
Net increase in unrealized appreciation on investments	535,412	1,322,079		1,857,491
Net assets released from restrictions—satisfaction of program and time restrictions	<u>2,283,476</u>	<u>(2,283,476)</u>	<u> </u>	<u> </u>
Total revenues and gains	<u>3,868,309</u>	<u>302,288</u>	<u>1,217,996</u>	<u>5,388,593</u>
EXPENSES:				
Payments and support for Eastern Kentucky University: Academic and other support Scholarships	2,174,089 <u>503,540</u>	<u> </u>	<u> </u>	2,174,089 <u>503,540</u>
Total expenses	<u>2,677,629</u>	<u> </u>	<u> </u>	<u>2,677,629</u>
CHANGES IN NET ASSETS	1,190,680	302,288	1,217,996	2,710,964
NET ASSETS—Beginning of year	<u>13,313,305</u>	<u>7,343,043</u>	<u>10,987,784</u>	<u>31,644,132</u>
NET ASSETS—End of year	<u>\$ 14,503,985</u>	<u>\$ 7,645,331</u>	<u>\$ 12,205,780</u>	<u>\$ 34,355,096</u>

See notes to financial statements.

(Concluded)

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING ACTIVITIES:		
Tuition and fees	\$ 35,474,000	\$ 29,878,651
Grants and contracts	78,110,380	79,530,805
Payments to suppliers	(47,737,474)	(45,990,422)
Payment for utilities	(5,871,861)	(4,910,404)
Payments to employees	(102,441,848)	(98,497,970)
Payments for benefits	(26,324,552)	(24,014,969)
Payments to students	(549,104)	(3,373,943)
Loans issued to students and employees	(1,187,457)	(569,782)
Collection of loans to students and employees	1,048,144	1,066,521
Federal reimbursement of cancelled loans	155,104	169,343
Auxiliary enterprise charges:		
Resident halls	3,819,223	3,054,901
Other	485,172	529,169
Sales and services of educational	3,864,439	3,560,297
Other receipts	<u>6,186,658</u>	<u>6,466,003</u>
Net cash used in operating activities	<u>(54,969,176)</u>	<u>(53,101,800)</u>
NON-CAPITAL FINANCING ACTIVITIES:		
State appropriations	69,809,500	71,448,100
RUETF endowment matching grants	<u> </u>	<u>932,545</u>
Net cash provided by noncapital financing activities	<u>69,809,500</u>	<u>72,380,645</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital appropriations	75,422	5,187,810
Proceeds from bond issue		12,660,000
Proceeds from lease financing with state		12,990,000
Purchase of capital assets	(15,562,302)	(19,346,661)
Principal paid on debt and capital leases	(6,711,258)	(19,035,000)
Interest paid on debt and capital leases	(2,534,882)	(3,824,396)
State reimbursement of capital lease payments	2,543,377	3,761,692
Proceeds from sale of capital assets	<u>59,112</u>	<u>16,978</u>
Net cash used in capital and related financing activities	<u>(22,130,531)</u>	<u>(7,589,577)</u>
INVESTING ACTIVITIES:		
Change in restricted cash	11,775,635	(2,279,772)
Proceeds from sales and maturities of investments	8,762,753	19,613,400
Interest on investments	1,581,101	1,216,038
Purchase of investments	<u>(8,772,676)</u>	<u>(21,620,691)</u>
Net cash provided by (used in) investing activities	<u>13,346,813</u>	<u>(3,071,025)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	6,056,606	8,618,243
CASH AND CASH EQUIVALENTS—Beginning of year	<u>23,082,197</u>	<u>14,463,954</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 29,138,803</u>	<u>\$ 23,082,197</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$(66,231,971)	\$(68,998,658)
Depreciation expense	10,227,018	10,546,892
Loss on disposal of fixed assets		776,370
Loan cancellations	155,104	169,343
Changes in operating assets and liabilities:		
Accounts receivable—net	1,103,628	(1,116,290)
Loans to students	(139,313)	496,738
Inventories	53,203	(38,245)
Prepaid expenses	(54,798)	22,363
Accounts payable	1,089,226	(985,036)
Accrued liabilities	765,717	1,174,409
Refundable deposits	11,305	25,835
Assets held for others	25,384	12,931
Deferred revenue	<u>(1,973,679)</u>	<u>4,811,548</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (54,969,176)</u>	<u>\$ (53,101,800)</u>

See notes to financial statements.

(Concluded)

EASTERN KENTUCKY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

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 and 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 the Eastern Kentucky University Foundation, Inc. (the “Foundation”), which is a corporation formed for educational, charitable and public purposes in accordance with the provision 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 (the “Board”) of the University in the promotion of the educational, civic and charitable purpose of the University and Board in any lawful manner deemed appropriate by the Board. This purpose includes the encouragement of scholarship and research and the promotion of the prestige, expansion and development of the University, including the development of its physical plant, its faculty and the assistance of its students and alumni. 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, non-profit corporation, 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 preparation of the financial statements. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as state appropriations), investment income and interest expense 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 pronouncement 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 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 consists of cash restricted for the purchase of capital assets.

In the accompanying statement of cash flows for the years ending June 30, 2005 and 2004, we reclassified changes in restricted cash to be consistent with our 2005 presentation, to present such change as an investing activity, which resulted in a \$2,279,772 decrease in investing activities.

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.

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.

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 (first-in, first-out basis) or market.

Capital Assets—Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Livestock for educational purposes is recorded at estimated fair value. The University's capitalization policy includes all items with a unit cost of \$3,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expenses were 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 5-15 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, 2005 and 2004 was \$229,630 and \$365,088 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. As of June 30, 2005, the University has recorded an accrued vacation liability of \$2,999,887, as compared to \$2,736,087 as of June 30, 2004.

University policies permit most employees to accumulate vacation that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay in effect and related benefit costs at the statement of net assets date.

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

Net Assets—The University's net assets are classified as follows:

Invested in capital assets, net of related debt—The University's investment in capital assets, net 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 statement 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 student's 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, 2005, were \$30,724,141 and \$5,545,351, respectively. For the year ended June 30, 2004, the scholarship allowances on tuition, fees, and housing were \$25,611,138 and \$5,047,219, respectively. Payments made directly to

students are presented as student financial aid expenses in the statement of revenues, expenses and changes in net assets.

Cash Flow Statement—Non-cash transactions excluded from the June 30, 2005, statement of cash flows, is comprised of a loss on disposal of assets of \$4.3 million. In fiscal year 2005, the University changed its capitalization policy from \$1,000 to \$3,000, which resulted in the loss on disposal.

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. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* was issued in June 2004. This statement establishes standards for the measurement, recognition and display of other postemployment benefit expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, require supplementary information in the financial reports of employers subject to governmental accounting standards. The standard is effective for the year ending June 30, 2008. 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

Deposits—As of June 30, 2005 and 2004, the carrying amount of the University’s deposits with the state treasurer and other financial institutions was \$43,098,628 and \$48,817,657, respectively.

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

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

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

Deposits as of June 30, 2005 and 2004, consisted of:

	2005	2004
Depository accounts:		
Local bank deposits—collateral held as a pledge in the University's name	\$ 14,790,787	\$ 12,993,498
Cash on hand	66,630	19,160
State investment pool—uninsured and uncollateralized	<u>28,241,211</u>	<u>35,804,999</u>
Total deposits	<u>\$ 43,098,628</u>	<u>\$ 48,817,657</u>

Deposits at June 30, 2005 and 2004, as presented on the statement of net assets include:

	2005	2004
Cash and cash equivalents	\$ 29,138,803	\$ 23,082,197
Restricted cash and cash equivalents	<u>13,959,825</u>	<u>25,735,460</u>
Total deposits	<u>\$ 43,098,628</u>	<u>\$ 48,817,657</u>

Investments—At June 30, 2005 and 2004, investments consisted of:

	2005	2004
Insured and registered, with securities held by the counter party or by its trust department or agent, but not in the University's name:		
Money market funds	\$ 2,019,982	\$ 2,034,308
Fixed income government securities	<u>6,647,989</u>	<u>6,566,139</u>
Subtotal—restricted for capital purposes	<u>8,667,971</u>	<u>8,600,447</u>
Certificates of Deposit	<u>26,000</u>	<u>26,000</u>
Uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the University's name:		
S & P Index Fund	57,641	39,610
Lehman Bond index fund	<u>21,802</u>	<u>15,585</u>
Subtotal—uninsured and unregistered	<u>79,443</u>	<u>55,195</u>
Restricted assets held by the Eastern Kentucky University Foundation	<u>9,851,395</u>	<u>9,175,000</u>
Total investments	<u>\$ 18,624,809</u>	<u>\$ 17,856,642</u>

Restricted investments for capital purposes are comprised of amounts invested for sinking fund and debt service reserves. Investments in U.S. government securities and the collateral for repurchase agreements are registered in the name of Eastern Kentucky University or held in the University's name by its agents and trustees. The University may legally invest in direct obligations of and other obligations guaranteed as to principal by 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 endowment (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, 2005 and 2004, are invested as follows:

	2005	2004
Percentage of pool invested in:		
Registered investment companies equity funds	63 %	66 %
Registered investment companies fixed income funds	<u>37</u>	<u>34</u>
 Total	 <u>100 %</u>	 <u>100 %</u>

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. Investments are required to be in compliance with State statute. The University does not have a formal policy that would limit its investment choices.

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

Investment Income—Investment income consisted primarily of interest income and unrealized gain on investments and totaled \$2,307,992 and \$817,780 for the years ended June 30, 2005 and 2004, respectively.

3. ACCOUNTS RECEIVABLE

Accounts receivable are recorded net of estimated uncollectible amounts and consist of the following at June 30, 2005 and 2004:

	2005	2004
Student tuition and fees	\$ 3,882,628	\$ 9,874,079
Auxiliary enterprises	324,001	332,283
Federal, state, and private grants and contracts	9,872,776	9,821,595
Other state agencies	158,762	139,744
Other	<u>1,095,396</u>	<u>1,178,328</u>
 Total	 15,333,563	 21,346,028
 Less allowance for uncollectible accounts	 <u>(1,545,320)</u>	 <u>(6,454,158)</u>
 Accounts receivable—net	 <u>\$ 13,788,243</u>	 <u>\$ 14,891,871</u>

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005, is as follows:

	Balance June 30, 2004	Additions	Reductions	Transfers	Balance June 30, 2005
Capital assets not being depreciated:					
Land	\$ 4,995,004	\$ 6,500	\$ (8,100)	\$ -	\$ 4,993,404
Livestock for educational purposes	113,200		(2,100)		111,100
Construction in-progress	<u>9,412,005</u>	<u>11,859,514</u>	<u>0</u>	<u>(10,846,865)</u>	<u>10,424,654</u>
Total capital assets not being depreciated	<u>14,520,209</u>	<u>11,866,014</u>	<u>(10,200)</u>	<u>(10,846,865)</u>	<u>15,529,158</u>
Other capital assets:					
Land improvements	9,967,312			2,750,181	12,717,493
Buildings	208,881,511	156,931	(19,075)	10,846,865	219,866,232
Equipment	43,761,612	2,448,694	(18,886,686)		27,323,620
Infrastructure	2,750,181			(2,750,181)	0
Library books	32,617,588	1,090,663	(272,567)		33,435,684
Capitalized bond costs	<u>455,896</u>	<u> </u>	<u> </u>	<u> </u>	<u>455,896</u>
Total other capital assets	<u>298,434,100</u>	<u>3,696,288</u>	<u>(19,178,328)</u>	<u>10,846,865</u>	<u>293,798,925</u>
Less accumulated depreciation for:					
Land improvements	(9,534,606)	(434,405)			(9,969,011)
Buildings	(82,979,392)	(4,958,251)	10,481		(87,927,162)
Equipment	(29,589,595)	(3,707,820)	14,546,060		(18,751,355)
Infrastructure	(107,747)	107,747			
Library books	(26,620,224)	(1,175,417)	272,567		(27,523,074)
Amortization - capitalized bond costs	<u> </u>	<u>(58,872)</u>	<u> </u>	<u> </u>	<u>(58,872)</u>
Total accumulated depreciation	<u>(148,831,564)</u>	<u>(10,227,018)</u>	<u>14,829,108</u>	<u>-</u>	<u>(144,229,474)</u>
Capital assets—net	<u>\$ 164,122,745</u>	<u>\$ 5,335,284</u>	<u>\$ (4,359,420)</u>	<u>\$ -</u>	<u>\$ 165,098,609</u>

Capital assets activity for the year ended June 30, 2004, is as follows:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 4,995,004	\$ -	\$ -	\$ 4,995,004
Livestock for educational purposes	369,345		(256,145)	113,200
Construction in-progress	9,605,592	13,257,709	(13,451,296)	9,412,005
Capitalized bond costs	<u>377,432</u>	<u>281,250</u>	<u>(202,786)</u>	<u>455,896</u>
Total capital assets not being depreciated	<u>15,347,373</u>	<u>13,538,959</u>	<u>(13,910,227)</u>	<u>14,976,105</u>
Other capital assets:				
Land improvements	9,967,098	214		9,967,312
Buildings	204,945,395	5,059,087	(1,122,971)	208,881,511
Equipment	44,771,701	4,837,148	(5,847,237)	43,761,612
Infrastructure		2,750,181		2,750,181
Library books	<u>31,721,236</u>	<u>1,071,442</u>	<u>(175,090)</u>	<u>32,617,588</u>
Total other capital assets	<u>291,405,430</u>	<u>13,718,072</u>	<u>(7,145,298)</u>	<u>297,978,204</u>
Less accumulated depreciation for:				
Land improvements	(8,422,416)	(1,112,190)		(9,534,606)
Buildings	(79,813,786)	(3,890,764)	725,158	(82,979,392)
Equipment	(30,907,213)	(4,267,916)	5,585,534	(29,589,595)
Infrastructure		(107,747)		(107,747)
Library books	<u>(25,627,040)</u>	<u>(1,168,275)</u>	<u>175,091</u>	<u>(26,620,224)</u>
Total accumulated depreciation	<u>(144,770,455)</u>	<u>(10,546,892)</u>	<u>6,485,783</u>	<u>(148,831,564)</u>
Capital assets—net	<u>\$ 161,982,348</u>	<u>\$ 16,710,139</u>	<u>\$ (14,569,742)</u>	<u>\$ 164,122,745</u>

5. DEFERRED REVENUE

Deferred revenue as of June 30, 2005 and 2004, is as follows:

	2005	2004
Unearned summer school revenue and activity fees	\$ 1,940,391	\$ 1,966,835
Unearned grants and contracts revenue	4,983,511	7,005,792
Other	<u>383,465</u>	<u>308,419</u>
Total	<u>\$ 7,307,367</u>	<u>\$ 9,281,046</u>

6. BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS

Long-term liability activity for the years ended June 30, 2005, is as follows:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Revenue bonds payable	\$48,715,000	\$ -	\$5,655,000	\$43,060,000	\$5,910,000
Capital lease obligations	<u>24,465,888</u>	<u> </u>	<u>1,080,072</u>	<u>23,385,816</u>	<u>1,125,203</u>
Total bonds payable and capital lease obligations	<u>\$73,180,888</u>	<u>\$ -</u>	<u>\$6,735,072</u>	<u>\$66,445,816</u>	<u>\$7,035,203</u>

Long-term liability activity for the years ended June 30, 2004, is as follows:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Revenue bonds payable	\$41,485,000	\$12,660,000	\$ 5,430,000	\$48,715,000	\$5,655,000
Capital lease obligations	<u>24,980,000</u>	<u>13,090,888</u>	<u>13,605,000</u>	<u>24,465,888</u>	<u>1,080,072</u>
Total bonds payable and capital lease obligations	<u>\$66,465,000</u>	<u>\$25,750,888</u>	<u>\$19,035,000</u>	<u>\$73,180,888</u>	<u>\$6,735,072</u>

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 mature in varying amounts through May 1, 2024, with interest payable at rates ranging from 3.9% to 5.5%. Student registration fees are pledged for debt service on these bonds. During the fiscal years 2005 and 2004, \$4,700,000 and \$4,430,000 of principal and \$1,542,226 and \$1,220,983 of interest were paid on the bonds, respectively. On June 30, 2005 and 2004, the required debt service reserve of \$6,296,884 was on deposit with the trustee. Total principal outstanding at June 30, 2005 and 2004, was \$32,040,000 and \$36,740,000, respectively.

On June 1, 2004, the University issued \$12,660,000 of Consolidated Education Buildings Revenue Bonds, Series V, which is included in the \$32,040,000 above. The bonds bear interest, payable semiannually, at a net interest cost of 4.8% and are due in varying amounts through 2024. Principal maturities will begin May 1, 2005, and continue until May 1, 2024. Proceeds from the issuance of these bonds are being used to modernize the complete electrical distribution system and for deferred maintenance needs. The bonds are secured by the net revenues available for debt service of the University, including tuition and fee revenues. The Series V Bonds are additionally secured by an insurance policy issued by a commercial insurer and the Debt Service Reserve Fund established with respect to the Bonds.

Housing System Revenue Bonds—Housing System Revenue Bonds were sold to construct or renovate certain housing facilities on campus or to refinance prior issues. The bonds mature at varying amounts through February 1, 2022, with interest payable at rates ranging from 3.0% to 6.3%. Rental income is pledged for debt service on these bonds. During the fiscal years 2005 and 2004, \$955,000 and \$1,000,000 of principal and \$557,051 and \$583,678 of interest were paid on the bonds. On June 30, 2005, the required debt reserve of \$1,519,303 was on deposit with the trustee. Total principal outstanding at June 30, 2005 was \$11,020,000.

Capital Lease Obligations—The University has capitalized certain buildings and equipment under various capital lease agreements. In June 2000, the University entered into a financing/lease agreement with the State Property and Buildings Commission to finance the Law Enforcement Basic Training Complex (“Project #66”) in the amount of \$20,350,000. During the 2001-02 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 State Property and Buildings Commission, 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 years 2005 and 2004, \$1,080,072 and \$13,605,000 of principal and \$1,176,499 and \$1,238,921 of interest were paid on the capital leases. The principal maturities and interest repayment requirements on bonds and capital leases for the next five years and thereafter are as follows:

Years Ending June 30	Principal	Interest	Total
2006	\$ 7,035,203	\$ 3,035,943	\$ 10,071,146
2007	6,789,443	2,725,819	9,515,262
2008	5,296,170	2,429,400	7,725,570
2009–13	20,405,000	8,934,159	29,339,159
2014–18	14,930,000	5,252,795	20,182,795
2019–24	<u>11,990,000</u>	<u>1,561,428</u>	<u>13,551,428</u>
Total	<u>\$ 66,445,816</u>	<u>\$ 23,939,544</u>	<u>\$ 90,385,360</u>

Assets under capital leases totaled \$26,789,414, net of accumulated depreciation of \$1,319,489, at June 30, 2005.

7. DESIGNATIONS OF UNRESTRICTED NET ASSETS

Unrestricted net assets are designated for specific purposes by action of the Board of Regents or University management or may otherwise be limited by contractual agreements. Commitments for the use of unrestricted net assets at June 30, 2005 and June 30, 2004, are as follows:

	2005	2004
Inventories	\$ 439,986	\$ 493,189
Outstanding encumbrances	2,386,945	2,069,734
Departmental commitments	5,026,287	2,661,098
State trust funds	1,824,593	2,367,594
State funding reduction reserve		2,035,325
Health care self-insurance reserve	1,300,000	1,300,000
Auxiliary working capital	1,808,606	551,561
Incomplete University funded capital projects	1,800,768	1,981,945
Uncommitted funds	<u>5,205,205</u>	<u>1,330,822</u>
Total unrestricted net assets	<u>\$ 19,792,390</u>	<u>\$ 14,791,268</u>

8. REGIONAL UNIVERSITY EXCELLENCE TRUST FUND

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, professorships.

The fair market value of Eastern Kentucky University RUETF endowment as of June 30, 2005 and June 30, 2004 were \$21,056,472 and \$16,219,422, respectively. The portion of the endowment representing the value of the funding received from the Kentucky General Assembly plus unexpended earnings thereon was \$9,851,395 and \$9,175,000 for the years ending June 30, 2005 and 2004, and is included in investments held by the Foundation.

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 funds salaries for certain staff in the University.

Related party transactions and funds held by the Eastern Kentucky University Foundation, Inc. on behalf of the University are as follows during 2005 and 2004:

	2005	2004
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 733,900	\$ 650,880
Funds held by the Foundation on behalf of or for the benefit of the University as of June 30	9,851,395	9,175,000
Funds due to the University by the Foundation	141,667	297,916

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, to 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.

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 13.84%.

Effective August 1, 1996, there are three optional 403 (b) defined contribution retirement plans available for new employees who would otherwise be covered by the KTRS. The providers of the optional retirement plans are Aetna (ING), TIAA/CRFF and Valic. The employee contribution to their selected plan is 6.16% of their annual salary. As determined by the KTRS Board of Trustees, the University contributes 7.23% and also provides an additional 6.61% to KTRS as an unfunded liability in fiscal year 2004-05. The total of the University contribution does not exceed 13.84% but the allocation between contribution to the plan and the unfunded liability is subject to change each year.

The KTRS issues a publicly available financial report that includes financial statements and required supplementary information. That 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 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 5.89%.

The KERS issues a publicly available financial report that includes financial statements and required supplementary information. That 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 as hazardous under KERS regulations.

The total pension cost for all retirement plans for the years ended June 30, 2005 and 2004 was \$10,390,678 and \$10,084,138, respectively.

11. RISK MANAGEMENT

The University is exposed to various risks of loss from torts, theft of, damage to, destruction of assets, business interruption, worker's 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 71% 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, 2005 and June 30, 2004 totaled

\$8,763,226 and \$7,336,791, respectively, excluding administrative and stop-loss fees. Administrative fees incurred for the years ended June 30, 2005 and June 30, 2004 were \$810,092 and \$820,254, respectively.

Changes in the liability for self insurance at June 30, 2005 and June 30, 2004, are as follows:

	2005	2004
Liability—beginning of year	\$ 563,998	\$ 325,112
Accruals for current year claims and changes in estimate	9,511,183	8,395,931
Claims paid	(8,763,226)	(7,336,791)
Other costs	<u>(810,092)</u>	<u>(820,254)</u>
Liability—end of year	<u>\$ 501,863</u>	<u>\$ 563,998</u>

For the year ended June 30, 2004, the University participated in workers' compensation insurance coverage that the Commonwealth operates a public entity risk pool operating as a common risk management and insurance program for its members. For year ended June 30, 2004, the University paid an annual premium to the pool for its workers' compensation insurance coverage. The pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts.

12. COMMITMENTS AND CONTINGENCIES

Construction Commitments—The estimated cost to complete construction projects under contract at June 30, 2005 is approximately \$16,100,000. The projects are to be financed principally by appropriations from the Commonwealth and proceeds from bonds.

Claims and Litigation—The University is a party 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 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. Upon notification of final approval by the granting department or agency, the grants are considered closed.

13. OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the years ended June 30, 2005 and 2004, the University's operating expenses by natural classification were as follows:

	2005	2004
Salaries and wages	\$ 102,581,510	\$ 98,670,737
Employee benefits	27,034,040	24,766,990
Supplies and other services	42,011,587	38,295,518
Travel	3,776,319	3,455,554
Depreciation	10,227,018	10,546,892
Student scholarships and financial aid	549,104	3,373,943
Utilities	5,871,861	4,910,404
Other operating expenses	<u>2,979,158</u>	<u>3,501,073</u>
Total	<u>\$ 195,030,597</u>	<u>\$ 187,521,111</u>

14. PRIOR PERIOD ADJUSTMENTS

During 2004, the University discovered an overstatement in construction in process at June 30, 2003, in the amount of \$5,641,812. Also during 2004, the University determined that RUETF matching grants should have been recorded in the University's financial statements. These grants had been recorded in the financial statements of the Eastern Kentucky University Foundation, Inc. in years prior to fiscal 2004. Net assets as of June 30, 2003, have been restated as follows:

Net assets—beginning of year—as previously reported	\$ 144,513,861
Adjustments to net assets for prior years:	
Overstatement of construction in progress	(5,641,812)
Record RUETF matching endowment grants	<u>7,892,318</u>
Net assets—beginning of year—as restated	<u>\$ 146,764,367</u>

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 (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.

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.

Investments—Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investment returns include dividend, interest and other investment income and realized and unrealized gains and losses on investments carried at fair value. Investment returns that are initially restricted by donor stipulation and for which the restriction will be satisfied in the same year are included in unrestricted net assets. Other investment returns are 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.

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.

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

Contributions—Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are included in unrestricted net assets.

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

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

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

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

B. Investment and Investment Return

The investments of the Arlington Association, Inc. (the "Association") were commingled with those of the Foundation at June 30, 2004, but were not a part of the Foundation's investments at June 30, 2005. Additionally, 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, 2005 and 2004.

Investments held at June 30, 2005 and June 30, 2004, by the Foundation, not including the Association, were as follows:

	2005	2004
Money market funds	\$ -	\$ 13,979
Common Stock	31,377	
Fixed income funds	14,208,903	10,418,410
Equity funds	<u>24,063,164</u>	<u>20,014,515</u>
Total	<u>\$ 38,303,444</u>	<u>\$ 30,446,904</u>

Interest and dividend income and unrealized and realized gains and losses on investments are allocated between the Foundation, the University, and the Association based on the percentage of each fund's beginning balance to the total investment for the period.

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors. At June 30, 2005 and 2004, none of these funds had a fair value that was less than the level required by donor stipulation or law.

C. Pledges Receivable

Pledges receivable at June 30, 2005 and June 30, 2004, consisted of the following unconditional promises to give:

	<u>June 30, 2005</u>			Total	<u>June 30,</u>
	Unrestricted	Temporarily Restricted	Permanently Restricted		2004
					Total
Current contributions—					
Receivable:					
Due within one year	\$ 99,076	\$ 15,660	\$ 1,269,733	\$ 1,384,469	\$ 894,010
Allowance			(45,000)	(45,000)	(45,000)
Total current	<u>99,076</u>	<u>15,660</u>	<u>1,224,733</u>	<u>1,339,469</u>	<u>849,010</u>
Long-term contributions—					
Receivable:					
Due after one year to five years	178,757	9,500	1,929,787	2,118,044	1,494,074
Due after five years	57,850		110,916	168,766	77,100
Allowance			(205,000)	(205,000)	(205,000)
Discount to Net Present Value	<u>(21,506)</u>	<u>(413)</u>	<u>(113,162)</u>	<u>(135,081)</u>	<u>(177,544)</u>
Total long-term	<u>215,101</u>	<u>9,087</u>	<u>1,722,541</u>	<u>1,946,729</u>	<u>1,188,630</u>
Net contributions receivable	<u>\$314,177</u>	<u>\$ 24,747</u>	<u>\$2,947,274</u>	<u>\$3,286,198</u>	<u>\$2,037,640</u>

D. Property and Equipment

Property and equipment at June 30, 2005 and June 30, 2004, consisted of:

	2005	2004
Land	\$ 1,427,573	\$ 1,419,473
Land improvements	8,107	8,107
Buildings and improvements	149,500	149,500
Machinery and equipment	<u> </u>	<u>304,419</u>
	1,585,180	1,881,499
Less accumulated depreciation	<u>55,872</u>	<u>187,283</u>
Total	<u>\$ 1,529,308</u>	<u>\$ 1,694,216</u>

E. Net Assets

Temporarily restricted net assets at June 30, 2005 and June 30, 2004, were available for the following purposes or periods:

	2005	2004
Scholarships and other program support	\$ 7,499,306	\$ 7,141,944
From released restrictions	<u> </u>	<u>503,387</u>
Total	<u>\$ 7,499,306</u>	<u>\$ 7,645,331</u>

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.

	2005	2004
Purpose restrictions accomplished/time restrictions expired:		
Scholarship program expenses	\$ 353,682	\$ 503,540
Other educational program areas and support	<u>2,290,845</u>	<u>1,779,936</u>
Total	<u>\$ 2,644,527</u>	<u>\$ 2,283,476</u>

F. Related-Party Transactions

Arlington Golf Course and Facilities—The Foundation has leased for a nominal amount the Arlington Golf Course and facilities (a golf course built and owned by the Foundation on Foundation land) to the Arlington Association 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 bears all expenses for operation and maintenance of the golf course facility and, in return, receives all fees related to its operation.

Eastern Kentucky University—The University provides various administrative services to the Foundation. As a result of these related-party transactions, the Foundation has recorded a payable to the University of \$141,667 as of June 30, 2005 and \$297,916 as of June 30, 2004.

G. Assets Held for Others

Assets held for others represent resources in the possession of, but not under the control of, or owned by, the Foundation. Assets held for others were as follows at June 30, 2005 and June 30, 2004:

	2005	2004
Eastern Kentucky University—		
Investments held for:		
Regional University		
Endowment Trust Fund	\$9,851,395	\$9,175,000

H. Annuities and Trusts Payable

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The Foundation has recorded a liability at June 30, 2005 of \$53,555 which represents the present value of the future annuity obligations which was determined by using discount rates ranging from 5.5% to 8.1%. That liability at June 30, 2004 was \$38,109 and was determined by using discount rates ranging from 7.3% to 8.1%.

I. Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of current vulnerabilities due to certain concentrations. Approximately 17% of all contributions were received from two donors in 2005 as compared to 28% from one donor in 2004.

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