EASTERN KENTUCKY UNIVERSITY

FINANCIAL STATEMENTS
June 30, 2010 and 2009

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Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Eastern Kentucky University
Richmond, Kentucky

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Eastern Kentucky University (the "University") as of June 30, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the University as of June 30, 2009 were audited by other auditors whose report, dated November 11, 2009, expressed an unqualified opinion on those statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Eastern Kentucky University as of June 30, 2010, and the respective changes in net assets and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 2 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
September 23, 2010

Introduction

The audited financial statements for the fiscal years 2010 and 2009 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, 2010 with selected comparative information for the years ended June 30, 2009 and 2008. The MD&A should be read in conjunction with the accompanying financial statements and notes.

Financial Highlights

At June 30, 2010 Eastern Kentucky University's financial position remained strong with total net assets of $253.0 million, an increase of $35.7 million over the June 30, 2009 level of $217.3 million. The most significant changes in the Statement of Net Assets relates to a $52.0 million increase in capital assets, primarily due to the construction of the Science Complex, the energy performance management retrofit project, and the Business and Technology Phase II, which includes the performing arts center. There were also several categories, both assets and liabilities, which decreased: accounts receivable of $3.4 million, bonds payable and capital lease obligations of $6.9 million, and investments of $17.0 million due in part to an $8.4 million distribution of Program of Distinction funds. For the year, total assets increased by $25.2 million to $358.4 million over the June 30, 2009 level of $333.2 million with total liabilities decreasing by $10.5 million to $105.4 million at June 30, 2010 as compared to $115.8 million at June 30, 2009.

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, 2010 and 2009, 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, 2010 were $358.4 million as compared to $333.2 million at June 30, 2009. Total assets at June 30, 2008 were $300.6 million.

Cash and Cash Equivalents – Total cash and cash equivalents at June 30, 2010 totaled $39.9 million, $6.8 million less than the June 30, 2009 level of $46.7 million. The reduction is almost entirely attributable to the reduction of restricted cash and cash equivalents or those funds that are used for designated purposes and not for general operations.

Investments – Total University investments at June 30, 2010 had a market value of $19.9 million as compared to $36.9 million at June 30, 2009, an overall decrease of $17.0 million.

- The Foundation holds and manages investments owned by the University. At June 30, 2010, the market value of investments held by the Foundation on behalf of the University was $16.1 million as compared to $21.3 million at June 30, 2009, a $5.3 million decrease. Where there was recognized market appreciation of $3.1 million, $8.4 million in investments historically designated for the Program of Distinction ("POD") in the College of Justice and Safety were liquidated to provide funding for the POD, primarily for construction. The original source of these invested funds was from the state and designated for use by the POD.

- 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. These funds were fully expended at June 30, 2010 given the project was essentially complete at June 30, 2010.

- At June 30, 2010, $3.8 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. This amount at June 30, 2009 was $4.4 million.

Capital Assets – The historical cost, less accumulated depreciation, of the University's capitalized assets was $269.7 million as of June 30, 2010, or a net increase, after depreciation, of $52.0 million over the $217.7 million balance at June 30, 2009. This increase includes a $57.2 million net increase in construction in progress, primarily related to the performing arts and the academic science buildings that were well underway at June 30, 2010 and which are scheduled to be completed in calendar 2011. There was also $4.6 million of additions to capital assets in-service. Net depreciation expense for the fiscal year totaled $11.7 million.

Other Asset Categories – The balances in the various other asset categories, other than accounts and loans receivable, were essentially unchanged at June 30, 2010 as compared to June 30, 2009, or $2.0 million and $1.7 million, respectively. However, the total receivables, net of allowance, decreased for the second year in a row. The balance at June 30, 2010 was $21.0 million versus $24.3 million at June 30, 2009, a decrease of $3.3 million.

Liabilities – Total liabilities at June 30, 2010 were $105.4 million as compared to $115.8 million at June 30, 2009. This decrease of $10.4 million is primarily attributable to a reduction in bonds payable and capital leases of $6.9 million as well as an overall decrease in other liabilities of $3.5 million. Total liabilities at June 30, 2008 were $80.2 million.

Deferred Revenue – Deferred revenue of $8.2 million at June 30, 2010 is comprised of two main components – revenues received in advance from external agencies for awarded contracts and grants and tuition and fees billed in June 2010 for summer classes taken in July 2010. The June 30, 2010 deferred revenue is very close to the same level as the June 30, 2009 amount of $8.3 million.

Bonds Payable and Capital Lease Obligations – In total, bonds payable and capital lease obligations decreased by $6.9 million as of June 30, 2010 as compared to June 30, 2009. At June 30, 2010, the total for bonds payable and capital lease obligations was $80.1 million versus $87.0 million at June 30, 2009. This reduction is attributable to bond and lease principal payments throughout the year.

Other Liability Categories – The balances in various other liability categories decreased by $3.4 million as of June 30, 2010 to $17.1 million as compared to the June 30, 2009 amount of $20.5 million. The majority of the balances in this category are comprised of accounts payable, interest payable and payroll/benefits payable with the decrease attributable to accounts payable, a decrease of $3.3 million, with the various other liability categories remaining fairly constant.

Net Assets – Total net assets were $253.0 million at June 30, 2010 an increase of $35.7 million over the $217.3 million balance at June 30, 2009. Total net assets at June 30, 2009 decreased $3.2 million as compared to the June 30, 2008 balance of $220.5 million.

Invested in Capital Assets – Net assets invested in capital assets increased as of June 30, 2010 by $58.9 million to $189.7 million over the June 30, 2009 level of $130.8 million. This increase was primarily the result of the increase in construction in progress of $57.2 million.

Restricted Net Assets – In total, restricted net assets decreased by $14.9 million to $26.3 million at June 30, 2010 as compared to $41.2 million at June 30, 2009. The net decrease is primarily attributable to two items: increases in uses of designated restricted cash for capital construction projects and the transfer of funds to the Program of Distinction related to the liquidation of the investment held by the Foundation.

Unrestricted Net Assets – Unrestricted net assets decreased by $8.3 million to $37.0 million at June 30, 2010 as compared to the June 30, 2009 total unrestricted net assets of $45.4 million. The net decrease is a result of the $8.4 million liquidation of the POD investment which is now available for construction and operations.

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):

	2010	2009	2008
Inventories	$ 241	$ 317	$ 290
Outstanding encumbrances	1,283	1,428	1,575
Departmental commitments	15,778	23,157	21,767
Designated projects and contingency reserves	9,554	9,137	14,111
Health care self-insurance reserve	1,899	2,300	1,300
Auxiliary working capital	8,280	9,040	7,810
Total unrestricted net assets	$ 37,035	$ 45,379	$ 46,853

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

	2010	2009	2008
Assets			
Current assets	$ 65,859	$ 67,499	$ 67,452
Capital assets – net	269,741	217,747	190,646
Other noncurrent assets	22,770	47,915	42,529
Total assets	$ 358,370	$ 333,161	$ 300,627
Liabilities			
Current liabilities	$ 34,020	$ 36,134	$ 33,077
Noncurrent liabilities	71,344	79,708	47,081
Total liabilities	$ 105,364	$ 115,842	$ 80,158
Net Assets			
Investment in capital assets – net of related debt	$ 189,676	$ 130,779	$ 137,728
Restricted – expendable	14,088	28,954	23,681
Restricted – nonexpendable	12,207	12,207	12,207
Unrestricted	37,035	45,379	46,853
Total net assets	$ 253,006	$ 217,319	$ 220,469

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 Statement of Revenues, Expenses, and Changes in Net Assets, there was a net loss of $104.2 million from operations for the fiscal year ended June 30, 2010, prior to consideration of state appropriations and other net nonoperating revenues. This is compared to a loss of $108.0 million from operations for the fiscal year ended June 30, 2009 and $102.2 million for the fiscal year ended June 30, 2008.

Operating Revenues

Below is a summary of operating revenues for fiscal year 2010 as compared to fiscal years 2009 and 2008 (in thousands):

	Year ended June 30,		
	2010	2009	2008
Tuition and fees	$ 111,746	$ 103,682	$ 95,756
Discounts	(45,320)	(39,520)	(41,468)
Net tuition and fees	66,426	64,162	54,288
Grants and contracts	62,135	59,709	71,829
Other revenues	17,060	14,791	11,454
Total education and general fund	145,621	138,662	137,571
Auxiliaries	16,092	15,565	13,902
Discounts	(6,863)	(6,463)	(6,707)
Net auxiliaries	9,229	9,102	7,195
Total operating revenues	$ 154,850	$ 147,764	$ 144,766

Tuition and Fees – Income from student tuition and fee assessments, shown net of the tuition discount, was $66.4 million for the fiscal year ended June 30, 2010 ($111.7 million in tuition and fee revenues less $45.3 million in related financial aid) as compared to $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). The increase of $8.0 million in gross tuition and fees reflects the increase in tuition and fee charges for the 2010 fiscal year.

Grants and Contracts – For the fiscal year ended June 30, 2010, there was $62.1 million in recognized revenues from all grants and contracts as compared to $59.7 million for the year ended June 30, 2009, or an increase of $2.4 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. For the fiscal year ended June 30, 2010 this amount also included $5.9 million in federal stimulus dollars, most of which flowed through the Commonwealth as a substitute for an approximately equal amount of state appropriations.

Auxiliaries – Auxiliary enterprises consist of University functions provided for the academic and physical well-being of students. While these functions are not directly related to providing educational services, they are important for student convenience and support. Like tuition and fees, housing revenues are reported net of scholarships and financial aid that directly offset these costs to students. In the Statements of Revenues, Expenses, and Changes in Net Assets, $9.2 million is reported for net auxiliary revenues for the year ended June 30, 2010 as compared to $9.1 million for the year ended June 30, 2009. The majority of auxiliary revenues for both years are attributable to student housing. The modest increase in auxiliary revenues is indicative of there being no student housing fee increase for fiscal year 2010.

Other Operating Revenues – Other operating revenues of $17.1 million at June 30, 2010 were $2.3 million more than the $14.8 million amount at June 30, 2009. Revenues in the various categories that make up other operating revenues can vary widely from year to year when unexpected revenues come into the University. However, the total of other operating revenues is a minor contributor to the overall revenue of the University.

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 and scholarship expenses not directly related to tuition or housing, and debt service expenditures. For the fiscal year ended June 30, 2010, total educational and general expenditures totaled $240.1 million and $238.2 million for the fiscal year ended June 30, 2009, resulting in a relatively small increase in educational and general spending of $1.9 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, 2010 were $19.0 million and for the year ended June 30, 2009, were $17.6 million, or an increase of $1.4 million.

Below is a summary of operating expenditures for fiscal year 2010 as compared to fiscal years 2009 and 2008 (in thousands):

	Year ended June 30,		
	2010	2009	2008
Instruction, academic support and libraries	$ 106,018	$ 105,616	$ 105,507
Research and public service	47,304	47,722	56,281
Student services	17,124	16,935	16,233
Institutional support and operations and maintenance of plant	44,704	47,260	44,117
Student financial aid	15,273	11,398	964
Depreciation	9,360	8,968	8,332
Other operation expenses	269	301	520
Total educational and general expenses	240,052	238,200	231,954
Auxiliaries	18,962	17,579	14,994
Total operating expenses	$ 259,014	$ 255,779	$ 246,948

Instruction, Academic Support, and Libraries – The total expenditures of these three areas, which directly relate to teaching, academic, and faculty support, increased $400,000 to $106.0 million, a very small increase when compared to 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, 2010 total expenditures related to research and public service, the majority of which relates to external contracts and grants, was $47.3 million as compared to $47.7 million for the fiscal year ended June 30, 2009, a decrease of $400,000.

Student Services – Expenditures for student services for fiscal year 2010 were $17.1 million as compared to $16.9 million for fiscal year 2009, a modest increase of $200,000. 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, 2010, total expenditures for these areas were $44.7 million versus $47.3 million for the fiscal year ended June 30, 2009, a decrease of $2.6 million.

Student Financial Aid – Tuition and fees, as well as certain auxiliary revenues, are shown net of financial aid from all sources directly awarded to fund those respective areas. As a result, the financial aid expense shown on the Statement of Revenues, Expenses, and Changes in Net Assets for both fiscal years are relatively low in relationship to the total amounts expended for financial aid expenditures. For fiscal year 2010, the financial aid expenditure line indicates $15.3 million as compared to total financial aid expenditures of $67.5 million as shown in the chart below. For fiscal year 2009, this amount was $11.4 million as compared to a total of $57.4 million expended.

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

	Year ended June 30,		
	2010	2009	2008
Tuition and fee discount	$ 45,320	$ 39,520	$ 41,468
Auxiliary enterprises discount	6,863	6,463	6,707
Student financial aid expense	15,273	11,398	964
Student financial aid expense (gross)	$ 67,456	$ 57,381	$ 49,139

Nonoperating Revenue/Expenses

State Appropriations – The decrease in funding from state appropriations for operations and debt service for the fiscal year ended June 30, 2010 was $5.4 million. This decrease is a result of both a reduction for debt service on paid out bonds and a general reduction in appropriations of $5.6 million. The latter was ‘back filled’ with federal stimulus dollars flowing to the University from the Commonwealth and included in federal grants and contracts revenues. The total of state appropriations for the fiscal year ended June 30, 2010 was $70.3 million as compared to $75.7 million for the fiscal year ended June 30, 2009.

Investment Income – For fiscal year 2010, with the slow market recovery, the University experienced an increase of $8.8 million in investment income primarily resulting from a $3.1 million gain, as opposed to the prior year loss of $6.4 million, in the market value of 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. The POD funds directly related to the College of Justice and Safety’s program were liquidated at fiscal year end, as discussed previously, but market fluctuations were recognized up until the point of liquidation. Investment income for the fiscal years ended June 30, 2010 and 2009 were $4.1 million and ($4.7) million, respectively. Other investment income relates to short-term investment and sweep accounts.

Capital Support – For the current year there was $27.0 million in state support appropriated for construction of the Science Complex and Business and Technology Phase II buildings. For the fiscal year ended June 30, 2009, the capital support was $6.8 million.

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

	Year ended June 30,		
	2010	2009	2008
Operating revenues	$ 154,850	$ 147,764	$ 144,766
Operating expenses	259,014	255,779	246,948
Operating loss	(104,164)	(108,015)	(102,182)
Nonoperating revenues – net	112,859	98,107	105,852
Income (loss) before capital appropriations	8,695	(9,908)	3,670
Capital appropriations	26,992	6,758	14,000
Increase (decrease) in net assets	35,687	(3,150)	17,670
Net assets – beginning of year	217,319	220,469	202,799
Net assets – end of year	$ 253,006	$ 217,319	$ 220,469

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):

	Year ended June 30,		
	2010	2009	2008
Cash provided by (used in)			
Operating activities	$ (92,311)	$ (94,929)	$ (90,268)
Noncapital financing activities	108,273	104,736	104,418
Capital and related financing activities	(43,791)	1,095	(11,060)
Investing activities	29,476	(11,114)	2,888
Net change in cash and cash equivalents	1,647	(212)	5,978
Cash and cash equivalents – beginning of year	36,345	36,557	30,579
Cash and cash equivalents – end of year	$ 37,992	$ 36,345	$ 36,557

Capital Asset and Debt Administration

During fiscal years 2010 and 2009, the following were projects completed by the University (in thousands):

	Year ended June 30, 2010	Year ended June 30, 2009
Fitness Trail Development	$ 20	$ -
Maywoods Shelter	56	-
Foster HVAC Asbestos Abatement	317	-
ROTC Rappelling Tower	74	-
Hanger Field Artificial Turf	571	-
Turkey Hughes Field Turf Replacement	225	-
Manchester Postsecondary Education Center	273	10,053
Sidney Clay Hall renovation	8	7,901
Smoking shelters	-	331
Parking lots	-	118
Tom Samuel Track resurface	-	406
Observation facility	-	15
Various Meadowbrook Farm projects	-	232
Softball backstop	-	37
Tracker hammer cage	-	30
Various roof replacements	-	778
Total	$ 1,544	$ 19,901

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

	Total Expenditures Through June 30, 2010	Estimated Cost to Complete at June 30, 2010
Science complex	$ 29,406	$ 31,563
Center for Renewable and Alternative Fuel Technology building	280	319
Business and Technology phase II	20,071	11,029
Intramural field and building	2,813	157
Library studio	2,046	2,245
Foster Building HVAC	2,518	1,404
Energy management project	26,773	262
Corbin utility building	51	2
Ramsey ash silo	21	379
Stratton addition	438	5,500
Walters Hall renovation	9,361	1,589
Various other deferred maintenance projects	28	846
Total	$ 93,806	$ 55,295

Long-term debt on June 30, 2010 was $80.1 million compared to $87.0 million on June 30, 2009. The $6.9 million net reduction consisted of debt payments of $7.3 million and $400,000 additions to capital lease obligations. During the year ended June 30, 2009, additional debt was issued in the amount of $40.4 million and reductions were $6.4 million. The additional debt was to finance a $12.1 million renovation to Walters Residence Hall and a $25.4 million energy performance management retrofit.

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 Funding – Due to the state of the national economy, most state governments have been under extreme financial pressures in terms of providing adequate funding for social programs and education. Certainly state funding for higher education has decreased dramatically nationally over the past few years with an anticipation of continued funding reductions as states struggle to balance their budgets over the next several years. Reductions in base state appropriations to this point have created significant challenges for the University, especially given rising fixed costs and increasing needs for student support.

Because of the challenges faced by the Commonwealth in coming to terms with a biennial budget for the 2009-10 and 2010-11 fiscal years, a determination was made to change the source of a portion of the funding for postsecondary education. While the funding from the state for operations remained relatively stable for 2009-10, the nature of the funding shifted from total funding from base appropriations to reducing those appropriations and 'back filling' such with a portion of the Commonwealth's 2009-10 federal stimulus dollars, which are scheduled to be available for two fiscal years, 2009-10 and 2010-11. For the University this meant a reduction of $5.6 million in state appropriations for 2009-10 which were offset by the non-permanent stimulus funds. For 2010-11 this amount will be $4 million. The continued concerns with the economy and the cost of state social programs and K-12 education, as well as the replacement of base appropriations funding with temporary stimulus funds, continue to foster uncertainty as to the amount of state appropriations that will be available to higher education in the foreseeable future.

Recruitment, Retention, and Graduation Rates – Emphasis on recruitment, retention and graduation rates will continue to be a primary focus of the University. Support for student success and how this might be achieved as a central part of the institutional mission is an on-going discussion as it relates to strategic goals. In addition, there is evidence future state funding may be allocated based on productivity measures for these areas. These are also important elements of the University's regional stewardship focus and goals.

The challenges to be successful in these areas are significant. Not only is the University dealing with decreased state funding with the expectation of increased enrollment, there are also the challenges of competition for students and affordability factors including consideration of both tuition costs and institutional financial aid availability. In addition, over the past few years, the Council on Postsecondary Education has placed tuition increase maximums on resident undergraduate tuition at lower levels than institutions have determined are in their best interest and in light of market factors. The University is currently in the process of creating an updated strategic plan which will emphasize student success and regional stewardship. In addition, work is underway to complete a formal enrollment management plan for implementation in the near future.

Capital Funding – Capital funding continues to be very important to the University. The current state funded projects underway on campus, in particular the science building, are sorely needed and there is much anticipation and excitement in looking forward to the opening of the several projects currently under construction. However, because of the economic pressures at the state level, not only is funding for such projects limited, but rating agencies are reconsidering state intercept rates for projects funded entirely by institutions (agency bonds). This, along with the tighter credit markets, will continue to create challenges for the University as it seeks new state-funded buildings as well as looks to finance projects with the debt service coming from institutional sources.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 37,992,279	$ 36,345,420
Investments	4,375,000	4,705,000
Accrued interest receivable	429,562	366,836
Accounts receivable – less allowance of $2,793,034 for 2010 and $2,573,347 for 2009	20,968,605	24,332,626
Loans to students – less allowance of $89,895 for 2010 and $86,034 for 2009	523,166	450,829
Inventories	240,962	316,837
Prepaid expenses	1,328,953	981,718
Total current assets	65,858,527	67,499,266
Noncurrent assets		
Restricted cash and cash equivalents	1,957,106	10,373,477
Investments	15,500,003	32,222,115
Loans to students – less allowance of $816,188 for 2010 and $820,049 for 2009	5,313,367	5,319,246
Capital assets – net of accumulated deprecation of $181,759,366 for 2010 and $172,032,917 for 2009	269,740,999	217,747,348
Total noncurrent assets	292,511,475	265,662,186
Total Assets	$ 358,370,002	$ 333,161,452

(Continued)

	2010	2009
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 5,989,217	$ 9,302,813
Accrued interest	669,810	1,333,740
Accrued salaries and benefits	3,325,515	3,269,717
Accrued compensated absences	5,241,104	4,842,657
Payroll withholding payable	1,102,221	1,040,568
Refundable deposits	470,599	445,514
Assets held for others	342,694	348,807
Deferred revenue	8,158,104	8,290,537
Bonds payable	4,375,000	4,705,000
Capital lease obligations	4,345,837	2,555,274
Total current liabilities	34,020,101	36,134,627
Noncurrent liabilities		
Bonds payable	31,020,000	35,395,000
Capital lease obligations	40,323,811	44,312,788
Total noncurrent liabilities	71,343,811	79,707,788
Total liabilities	105,363,912	115,842,415
Net assets		
Invested in capital assets – net of related debt	189,676,351	130,779,286
Restricted		
Expendable for capital projects	1,580,990	20,508,054
Expendable for debt service	3,461,720	4,000,532
Expendable for loans to students	6,723,006	6,804,973
Expendable for academic support	-	(2,942,023)
Expendable for scholarships	1,292,049	298,593
Expendable for institutional support	1,029,994	283,589
Unexpendable for permanent endowment	12,206,805	12,206,805
Unrestricted	37,035,175	45,379,228
Total net assets	253,006,090	217,319,037
Total Liabilities and Net Assets	$ 358,370,002	$ 333,161,452

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,867,122	$ 5,452,826
Pledges receivable – net of allowance of $65,000 for 2010 and $50,000 for 2009	777,634	1,022,713
Accounts and notes receivable – net	21,612	11,256
Due from related parties	68,751	179,120
Prepaid expenses	4,717	3,854
Total current assets	3,739,836	6,669,769
Noncurrent assets		
Due from related parties	400,000	-
Investments	39,573,577	41,377,500
Pledges receivable – net of allowance of $10,000 for 2010 and $25,000 for 2009	99,887	172,360
Property and equipment – net	5,132,397	4,478,045
Total noncurrent assets	45,205,861	46,027,905
Total Assets	$ 48,945,697	$ 52,697,674
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 14,998	$ 16,546
Accrued interest	-	8,049
Due to related parties	163,521	1,700,000
Fair value adjustment in interest rate swap	111,021	-
Bonds payable, current maturities	150,000	145,000
Total current liabilities	439,540	1,869,595
Noncurrent liabilities		
Assets held for others	16,051,652	21,297,763
Bonds payable	1,475,000	1,625,000
Annuity payments and deferred giving liability	427,802	275,149
Total liabilities	18,393,994	25,067,507
Net assets		
Unrestricted	7,272,977	5,571,554
Temporarily restricted	3,286,898	2,531,305
Permanently restricted	19,991,828	19,527,308
Total net assets	30,551,703	27,630,167
Total Liabilities and Net Assets	$ 48,945,697	$ 52,697,674

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended June 30, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Tuition and fees – net	$ 66,426,390	$ 64,161,807
Federal grants and contracts	43,419,847	40,151,608
State grants and contracts	16,030,979	16,256,690
Nongovernmental grants, contracts, and gifts	2,684,417	3,300,385
Sales and services of educational activities	4,298,613	3,951,878
Auxiliary enterprises – housing	7,637,775	7,602,020
Auxiliary enterprises – other	1,590,561	1,500,165
Other operating revenues	12,761,456	10,839,583
Total operating revenues	154,850,038	147,764,136
OPERATING EXPENSES		
Educational and general		
Instruction	84,596,130	84,891,822
Research	2,675,581	2,010,374
Public service	44,627,561	45,712,071
Libraries	3,547,400	3,435,163
Academic support	17,875,346	17,288,600
Student services	17,124,253	16,934,757
Institutional support	27,048,851	26,539,078
Operations and maintenance of plant	17,655,217	20,720,541
Depreciation	9,359,607	8,968,270
Student financial aid	15,273,021	11,398,188
Auxiliary enterprises		
Housing and other auxiliaries	16,583,916	15,252,873
Depreciation	2,378,120	2,326,113
Other operating expenses	268,864	301,547
Total operating expenses	259,013,867	255,779,397
Operating loss	(104,163,829)	(108,015,261)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	70,256,700	75,740,400
Federal and state grants and contracts	38,016,509	28,995,507
Investment income	4,069,996	(4,777,317)
Interest expense	(2,434,277)	(3,110,593)
Other nonoperating revenues	3,333,417	3,285,953
Other nonoperating expenses	(383,830)	(2,026,386)
Net nonoperating revenues	112,858,515	98,107,564
Income (loss) before capital appropriations	8,694,686	(9,907,697)
Capital appropriations	26,992,367	6,758,142
Increase (decrease) in net assets	35,687,053	(3,149,555)
Net assets – beginning of year	217,319,037	220,468,592
Net assets – end of year	$ 253,006,090	$ 217,319,037

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS				
Contributions	$ 346,464	$ 998,080	$ 464,520	$ 1,809,064
Investment returns – net of investment expenses of $187,747	145,914	570,766	-	716,680
Other income – net	658,769	-	-	658,769
Net realized and unrealized gains on investments	1,435,894	485,651	-	1,921,545
Net assets released from restrictions – satisfaction of program and time restrictions	1,298,904	(1,298,904)	-	-
Total revenues and gains	3,885,945	755,593	464,520	5,106,058
EXPENSES				
Payments and support for the University	3,184,522	-	-	3,184,522
Changes in net assets before contribution of property from the University	701,423	755,593	464,520	1,921,536
Property contribution from the University	1,000,000	-	-	1,000,000
Changes in net assets	1,701,423	755,593	464,520	2,921,536
Net assets – beginning of year	5,571,554	2,531,305	19,527,308	27,630,167
Net assets – end of year	$ 7,272,977	$ 3,286,898	$19,991,828	$30,551,703

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
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 and unrealized gains (losses) on investments	(5,513,009)	185,043	-	(5,327,966)
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)
EXPENSES				
Payments and support for the University	3,217,121	-	-	3,217,121
Change 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 accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2010 and 2009

	2010	2009
OPERATING ACTIVITIES		
Tuition and fees	$ 66,181,719	$ 64,035,957
Grants, contracts, and gifts	64,439,434	67,041,853
Payments to suppliers	(63,105,129)	(62,335,223)
Payments for utilities	(6,674,007)	(8,507,567)
Payments to employees	(128,367,694)	(128,343,854)
Payments for benefits	(37,540,741)	(34,575,322)
Payments to students	(14,663,851)	(10,499,030)
Loans issued to students and employees	(926,902)	(861,114)
Collections of loans to students and employees	592,562	868,017
Federal reimbursement of canceled loans	267,882	149,600
Auxiliary enterprise charges		
Residence halls	6,963,108	7,405,942
Other	1,590,561	1,500,165
Sales and services of educational activities	4,298,613	3,951,878
Other receipts	14,633,274	5,239,690
Net cash used in operating activities	(92,311,171)	(94,929,008)
NONCAPITAL FINANCING ACTIVITIES		
State appropriations	70,256,700	75,740,400
Other nonoperating revenues – grants and contracts	38,016,509	28,995,507
Net cash provided by noncapital financing activities	108,273,209	104,735,907
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(63,754,563)	(37,925,718)
Principal paid on bonds payable and capital leases	(7,314,909)	(6,375,977)
Interest paid on bonds payable and capital leases	(3,098,206)	(2,168,458)
State reimbursement of capital lease payments	3,333,417	3,285,953
Proceeds from capital leases	-	25,364,000
Proceeds from sale of capital assets	50,850	61,874
Capital appropriations	26,992,367	6,758,142
Proceeds from bond issuance	-	12,095,000
Net cash (used in) provided by capital and related financing activities	(43,791,044)	1,094,816
INVESTING ACTIVITIES		
Change in restricted cash	8,416,371	(1,474,239)
Proceeds from sales and maturities of investments	29,736,086	26,924,017
Interest on investments	909,229	1,658,299
Purchase of investments	(9,585,821)	(38,221,724)
Net cash provided by (used in) investing activities	29,475,865	(11,113,647)
Increase (decrease) in cash and cash equivalents	1,646,859	(211,932)
Cash and cash equivalents – beginning of year	36,345,420	36,557,352
Cash and cash equivalents – end of year	$ 37,992,279	$ 36,345,420

(Continued)

	2010	2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (104,163,829)	$ (108,015,261)
Depreciation expense	11,737,727	11,294,383
Changes in operating assets and liabilities		
Accounts receivable – net	3,364,021	793,700
Loans to students – net	(66,458)	156,503
Inventories	75,875	(27,021)
Prepaid expenses	(347,235)	(232,587)
Accounts payable	(3,313,709)	675,136
Accrued liabilities	515,898	(224,168)
Refundable deposits	25,085	(119,134)
Assets held for others	(6,113)	32,662
Deferred revenue	(132,433)	736,779
Net cash flows used in operating activities	$ (92,311,171)	$ (94,929,008)

See accompanying notes to financial statements.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Eastern Kentucky University (the "University") is a regional, coeducational, public institution of higher education offering general and liberal arts programs, pre-professional and professional training in education and various other fields at both the undergraduate and graduate levels. Located in Richmond, Kentucky, the University has a distinguished record of over nine decades of educational service to the Commonwealth of Kentucky (the "Commonwealth").

Reporting Entity – The University is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth. The University's financial statements, as defined by Statement No. 14 and amended by Statement No. 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.

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.

(Continued)

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

Investments and Investment Income – Investments in equity and debt securities are carried at fair value, determined using quoted market prices. Investments in nonnegotiable certificates of deposit, money market accounts, and repurchase agreements are carried at cost which approximates market value. Amounts due for debt service in the upcoming year represent short-term investments; all other investments are classified as long-term.

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

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

Accounts Receivable – Accounts receivable consist primarily of tuition and fee charges to students, charges for auxiliary enterprise services provided to students, faculty and staff and receivables from federal, state and private agencies for grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. Estimated uncollectible amounts are determined by considering a number of factors, including the length of time accounts receivable are past due, previous loss history and the condition of the general economy and the industry as a whole.

Loans to Students – The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts.

Inventories – Inventories are stated at the lower of cost or market determined on the first-in, first-out method.

Capital Assets – Capital assets are recorded at cost at the date of acquisition. Gifts are recorded at fair value at the date of donation. Livestock for educational purposes is recorded at estimated fair value. The University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expenses are incurred.

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

Costs incurred during the construction of capital assets are recorded as construction in progress and are not depreciated until placed into service. The University capitalizes interest as a component of capital assets constructed for its own use. Total interest incurred and capitalized for the years ended June 30, 2010 and 2009, was $1,430,312 and $307,525 respectively.

Compensated Absences – University employees begin to accumulate annual vacation allocations from the beginning date of employment; however, accrued vacation is not granted until three months of employment have been completed. The maximum accumulation of vacation leave is limited to the number of days that can be accumulated in two years, based on the length of service. Employees are paid their accumulated vacation upon termination, subject to certain limitations.

(Continued)

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

University policy permits most employees to accumulate vacation that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized when vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay in effect and related benefit costs at the Statement of Net 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, 2010, were $45,319,991 and $6,863,394, respectively. For the year ended June 30, 2009, the scholarship allowances on tuition and fees and on housing were $39,520,399 and $6,462,546, respectively. Payments made directly to students are presented as student financial aid expenses in the Statements of Revenues, Expenses, and Changes in Net Assets.

(Continued)

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

Cash Flow Statement – Significant noncash transactions excluded from the June 30, 2009 Statement of Cash Flows are comprised of 1) unrealized gain of $1,739,860 on the Regional University Excellence Trust Fund investment, 2) unrealized gain of $1,377,429 on Programs of Distinction investments, 3) net unrealized loss of $19,136 on other investments, 4) accrued capital asset purchases of $131,606, 5) capital assets acquired by obtaining capital leases of $411,495, and 6) loss on disposal of fixed assets of $263,055.

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) unrealized loss of $2,942,023 on Programs of Distinction investments, 3) 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.

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. 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. This GASB Statement did not have a material impact on the University's financial statements and disclosures.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* became effective in fiscal 2010. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), forward contracts, and futures contracts. This GASB statement did not have a material impact on the University's financial statements and disclosures.

NOTE 2 – DEPOSITS, INVESTMENTS AND INVESTMENT RETURN

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

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

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

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

Deposits as of June 30 consisted of:

	2010	2009
Depository accounts		
Local bank deposits – collateral held as a pledge in the University's name	$ 6,654,722	$ 16,057,450
Cash on hand	7,736	12,305
State investment pool – uninsured and uncollateralized	33,286,927	30,649,142
Total deposits	$ 39,949,385	$ 46,718,897

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

	2010	2009
Cash and cash equivalents	$ 37,992,279	$ 36,345,420
Restricted cash and cash equivalents	1,957,106	10,373,477
Total deposits	$ 39,949,385	$ 46,718,897

Investments at June 30 consisted of:

	2010	2009
Money market funds	$ 6,388	$ 15,629,352
Fixed income government securities	3,816,963	-
Subtotal – restricted for debt service	3,823,351	15,629,352
Restricted assets held by the Foundation	16,051,652	21,297,763
Total investments	$ 19,875,003	$ 36,927,115

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.

(Continued)

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

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:

	2010	2009
Percentage of pool invested in:		
Cash equivalents – trustee	2%	3%
Registered investment companies equity funds	75	75
Registered investment companies fixed income funds	23	22
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 statutes.

The credit quality of the University's investments as of June 30, 2010, is as follows:

Investment Type	Fair Value	Not Rated	AAA/Aaa	AA, A, and BBB
Cash equivalents – trustee	$ 3,823,351	$ 3,816,960	$ 6,391	$ -
Investments with Foundation	16,051,652	12,853,964	612,916	2,584,772
Total investments	$ 19,875,003	$ 16,670,924	$ 619,307	$ 2,584,772

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

(Continued)

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

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 $4,069,996 and $(4,777,317) for the years ended June 30, 2010 and 2009, respectively, consisted primarily of interest income and unrealized gain (loss) on investments.

NOTE 3 – ACCOUNTS RECEIVABLE

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

	2010	2009
Student tuition and fees	$ 6,536,776	$ 5,741,967
Auxiliary enterprises	1,172,920	481,703
Federal, state and private grants and contracts	14,788,855	17,415,377
Other state agencies	28,198	203,622
Other	1,234,890	3,063,304
Total	23,761,639	26,905,973
Less allowance for uncollectible accounts	(2,793,034)	(2,573,347)
Accounts receivable – net	$ 20,968,605	$ 24,332,626

(Continued)

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010, is as follows:

	Balance - June 30, 2009	Additions	Reductions	Transfers	Balance – June 30, 2010
Capital assets not being depreciated					
Land	$ 5,723,404	$ -	$ (141,900)	$ -	$ 5,581,504
Livestock for educational purposes	196,800	-	(5,500)	-	191,300
Construction in progress	36,612,689	58,738,232	-	(1,544,227)	93,806,694
Total capital assets not being depreciated	42,532,893	58,738,232	(147,400)	(1,544,227)	99,579,498
Other capital assets					
Land improvements	21,000,762	-	-	902,956	21,903,718
Buildings	259,029,745	1,512,900	(246,510)	641,271	260,937,406
Equipment	28,064,208	2,504,584	(1,372,345)	-	29,196,447
Library books	38,111,611	1,365,974	(528,779)	-	38,948,806
Capitalized bond costs	1,109,622	44,368	(219,500)	-	934,490
Total other capital assets	347,315,948	5,427,826	(2,367,134)	1,544,227	351,920,867
Less accumulated depreciated for					
Land improvements	(12,660,160)	(879,234)	-	-	(13,539,394)
Buildings	(109,972,299)	(6,349,417)	142,770	-	(116,178,946)
Equipment	(17,576,379)	(3,170,138)	1,309,582	-	(19,436,935)
Library books	(31,695,290)	(1,279,739)	528,779	-	(32,446,250)
Amortization – capitalized bond costs	(197,365)	(59,199)	98,723	-	(157,841)
Total accumulated depreciation	(172,101,493)	(11,737,727)	2,079,854	-	(181,759,366)
Capital assets – net	$ 217,747,348	$ 52,428,331	$ (434,680)	$ -	$ 269,740,999

(Continued)

NOTE 4 – CAPITAL ASSETS (Continued)

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 depreciated 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

NOTE 5 – DEFERRED REVENUE

Deferred revenue as of June 30 is as follows:

	2010	2009
Unearned summer school revenue and activity fees	$ 3,158,355	$ 2,827,903
Unearned grants and contracts revenue	4,887,903	5,210,234
Other	111,846	252,400
Total	$ 8,158,104	$ 8,290,537

(Continued)

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS

Long-term liabilities as of June 30, 2010, and long-term activity for the year ended June 30, 2010, are summarized as follows:

	Balance - June 30, 2009	Additions	Reductions	Balance – June 30, 2010	Amounts Due Within One Year
Revenue bonds payable	$ 40,100,000	$ -	$ (4,705,000)	$ 35,395,000	$ 4,375,000
Capital lease obligations	46,868,062	411,495	(2,609,909)	44,669,648	4,345,837
Total bonds payable and capital lease obligations	$ 86,968,062	$ 411,495	$ (7,314,909)	$ 80,064,648	$ 8,720,837

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

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 2010 and 2009, $3,510,000 and $3,355,000 of principal and $715,235 and $850,190 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, 2010 and 2009, the required debt service reserve of $3,695,804 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, 2010 and 2009, was $12,460,000 and $15,970,000, 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 2010 and 2009, $640,000 and $615,000 of principal and $503,425 and $528,025 of interest were paid on the bonds, respectively. Total outstanding principal at June 30, 2010 and 2009, was $11,395,000 and $12,035,000, respectively.

(Continued)

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

On April 1, 2009, the University sold $12,095,000 of Eastern Kentucky University General Receipt Bonds, Series 2009A, at a net interest cost of 3.98%. The proceeds of this bond issue provided funding for the renovation of the Walters Residence Hall and the construction of intramural fields. The bonds mature in varying amounts through May 1, 2028. During fiscal year 2010, $555,000 of principal and $432,519 of interest was paid on the bonds.

Capital Lease Obligations – The University has capitalized certain buildings and equipment under various capital lease agreements. In June 2000, the University entered into a financing/lease agreement with the Commonwealth of Kentucky State Property and Buildings Commission to finance the Law Enforcement Basic Training Complex ("Project #66") in the amount of $20,350,000. During the 2002 fiscal year, the University entered into a second financing/lease agreement to finance the Law Enforcement Physical Skills Training Facility ("Project #75") in the amount of $7,075,000. In October 2003, the University entered into a $12,990,000 lease agreement with the Commonwealth of Kentucky State Property and Buildings Commission ("Project #80"), the proceeds of which were used primarily to retire $12,655,000 in lease payments due on the Project #66 lease agreement.

During the fiscal year 2009, the University entered into a master lease agreement with SunTrust Equipment Finance & Leasing Corporation in the amount of $25,364,000 to finance a campus-wide energy management project.

During fiscal years 2010 and 2009, $2,609,909 and $2,405,977 of principal and $2,877,391 and $1,098,592 of interest were paid on the capital leases, respectively. The principal maturities and interest repayment requirements on bonds and capital leases are as follows:

	Principal	Interest	Total
Years ending June 30,			
2011	$ 8,720,837	$ 3,575,555	$ 12,296,392
2012	5,518,993	3,196,580	8,715,573
2013	5,360,174	2,970,124	8,330,298
2014	5,531,545	2,734,984	8,266,529
2015	5,722,480	2,486,761	8,209,241
2016-2020	32,529,251	8,286,918	40,816,169
2021-2025	13,681,368	1,984,393	15,665,761
2026-2028	3,000,000	241,725	3,241,725
	$ 80,064,648	$ 25,477,040	$ 105,541,688

Assets under capital leases totaled $25,984,613, net of accumulated depreciation of $7,316,231 at June 30, 2010.

(Continued)

NOTE 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:

	2010	2009
Inventories	$ 240,962	$ 316,837
Outstanding encumbrances	1,282,598	1,427,527
Departmental commitments	15,777,787	23,157,420
Designated projects and contingency reserves	9,554,454	9,137,238
Health care self-insurance reserve	1,899,125	2,300,000
Auxiliary working capital	8,280,249	9,040,206
Total	$ 37,035,175	$ 45,379,228

NOTE 8 – ASSETS HELD BY OTHERS

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

The fair market value of the Eastern Kentucky University RUETF endowment as of June 30, 2010 and 2009 was $16,051,652 and $25,056,184, 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 $12,788,987 as of June 30, 2010 and 2009, 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, 2010 and 2009 was $1,522,805 and $8,508,776, respectively, and is included in restricted assets held by the Foundation (see Note 2). During the year ended June 30, 2010, $8,363,400, representing market value of the College of Justice and Safety portion of the POD, was liquidated. Proceeds will fund an addition to the Stratton Building.

NOTE 9 – RELATED-PARTY TRANSACTIONS

The University and the Foundation are related parties. The University authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to the University. In addition, the Foundation incurs expenses for salaries of certain University staff; however, the salaries are paid by the University.

(Continued)

NOTE 9 – RELATED-PARTY TRANSACTIONS (Continued)

Related party transactions and funds held by the Foundation on behalf of the University are as follows as of and for the year ended June 30:

	2010	2009
Funds disbursed by the University on behalf of the Foundation:		
For employee salaries and benefits	$ 652,809	$ 789,606
For scholarships	526,975	806,167
Funds held by the Foundation on behalf of or for the benefit of the University as of June 30	16,051,652	21,297,763
Funds due to the University by the Foundation	108,791	99,678

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 as of and for the year ended June 30:

	2010	2009
Funds disbursed by the University on behalf of Arlington:		
For employee salaries and benefits	$ 1,296,676	$ 1,256,828
For renovation	-	1,740,335
Funds due to the University by Arlington	47,129	2,170,105

The University terminated the management contract with Arlington on June 30, 2010.

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.

(Continued)

NOTE 10 – PENSION PLANS

All full-time University faculty members and certain other staff occupying a position requiring certification or graduation from a four-year college or university as a condition of employment are covered by the Kentucky Teacher's Retirement System ("KTRS"), a defined benefit plan. KTRS, a cost sharing, multiple-employer, public employment retirement system, provides retirement benefits based on an employee's 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/CREF, VALIC, and Fidelity. During the 2008 Kentucky legislative session, the General Assembly passed, and the Governor signed, Senate Bill 65, a bill that changed the rate of payment the universities make toward the unfunded liability of the Kentucky Teachers' Retirement System 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 Employees 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 their salary. Employers contribute at the rate determined by the KERS Board of Trustees to be necessary for the actuarial soundness of the systems as required by KRS 61.565. The employer rate is reviewed annually following valuation of the plan. Effective July 1, 2009 the University contribution rate to KERS is 11.61%. Employees hired prior to September 1, 2008 contribute 5% of their annual salary and employees hired after September 1, 2008, contribute 6%.

The KERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Kentucky Employees Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601, or by calling (502) 564-4646. Currently, there are no University employees occupying positions that would be considered hazardous under KERS regulations.

(Continued)

NOTE 10 – PENSION PLANS (Continued)

The total pension cost for all retirement plans for the years ended June 30, 2010, 2009, and 2008 was $14,797,000, $14,260,000 and $13,991,000, respectively. Employees contributed approximately $6,590,000, $6,557,000 and $6,402,000, in fiscal years 2010, 2009, and 2008, respectively. The University's total payroll costs were approximately $128,439,000, $128,423,000 and $125,785,000, respectively for the years ended June 30, 2010, 2009, and 2008. The payroll for employees covered by the retirement plan was approximately $112,168,000, $108,722,000 and $109,121,000, for the years ended June 30, 2010, 2009, and 2008, respectively.

NOTE 11 – RISK MANAGEMENT

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

The University maintains a self-insurance program for employee's health insurance. Under this plan, the University pays premiums based on estimated claims. The University pays approximately 82% 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, 2010 and 2009, totaled $14,241,622 and $11,335,820, respectively. Administrative fees incurred for the years ended June 30, 2010 and 2009, were $981,187 and $1,089,669, respectively.

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

	2010	2009
Liability – beginning of year	$ 1,119,753	$ 1,162,618
Accruals for current year claims and changes in estimate	15,336,752	12,382,624
Claims paid	(14,241,622)	(11,335,820)
Other costs	(981,187)	(1,089,669)
Liability – end of year	$ 1,233,696	$ 1,119,753

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Construction Commitments — The estimated cost to complete construction projects under contract at June 30, 2010, is approximately $55.3 million. The projects are to be financed principally by appropriations from the Commonwealth, proceeds from bonds, internal funds and gifts.

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.

(Continued)

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

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.

NOTE 13 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

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

	2010	2009
Salaries and wages	$ 128,438,741	$ 128,423,385
Employee benefits	37,985,592	34,271,623
Supplies and other services	52,848,904	55,450,712
Travel	5,291,203	5,572,418
Depreciation	11,737,727	11,294,383
Student scholarships and financial aid	14,663,851	10,499,028
Utilities	6,674,007	8,507,567
Other operating expenses	1,373,842	1,760,281
Total	$ 259,013,867	$ 255,779,397

NOTE 14 – RECLASSIFICATIONS

Certain reclassifications to fiscal 2009 comparative amounts have been made to conform to the 2010 classifications. These reclassifications had no effect on net assets or the change in net assets.

NOTE 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.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

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

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, 2010 and 2009. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. The Foundation's total alternative investments were approximately $6,413,000 and $6,050,000 as of June 30, 2010 and 2009, 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. The Foundation's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expenses are incurred.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

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

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

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

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

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

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

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

Generally accepted accounting standards prescribe recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits or liabilities will be recognized only if the tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit or liability that is greater than 50% likely being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit or liability will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2010 and 2009 and does not expect this to change in the next 12 months.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

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

The Foundation would recognize interest and penalties related to uncertain tax positions in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties as of June 30, 2010 and 2009. The Foundation is no longer subject to examination by taxing authorities for the years before June 30, 2007.

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 $10,813,822 and $9,313,457 at June 30, 2010 and 2009, respectively. The Foundation's endowment investment policy allows managers to invest a portion of funds in non-U.S. securities in accordance with the guidelines established in the investment policy.

Subsequent Events – Management has performed an analysis of the activities and transactions subsequent to June 30, 2010 to determine the need for any adjustments to and/or discussions within the audited financial statements for the year ended June 30, 2010. Management has performed their analysis through September 23, 2010 which is the date that financial statements were issued.

Recently Issued Accounting Pronouncements – In June 2009, the FASB codified existing accounting standards. The FASB Accounting Standards Codification ("ASC") is the source of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB and supersedes all existing non-SEC accounting and reporting standards. All ASC content carries the same level of authority and anything outside of the ASC is non-authoritative. The new ASC guidance was adopted by the Foundation for the year ended June 30, 2010, which changed the way accounting standards are referred to in the financial statement disclosures. The adoption of this standard had no effect on the Foundation's financial statements.

B. INVESTMENTS AND INVESTMENT RETURNS

Investments held at June 30, 2010 and 2009, by the Foundation were as follows:

	2010	2009
Money market funds	$ 1,061,603	$ 1,815,276
Common stock	78,224	322,532
Fixed income funds	8,747,789	7,529,230
Equity funds	23,272,814	25,660,402
Alternatives	6,413,147	6,050,060
Total investments	$ 39,573,577	$ 41,377,500

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, 2010 and 2009. Interest and dividend income and unrealized and realized gains and losses on investments were allocated between the Foundation and the University based on the percentage of investments owned.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

C. FAIR VALUE OF FINANCIAL INSTRUMENTS

In 2006, the Financial Accounting Standards Board ("FASB") issued new guidance on fair value measurements of financial instruments. This guidance defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

This guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are described below:

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

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

Level 3 – Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair value of financial instruments as of June 30, 2010 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	$ 1,061,603	$ 1,061,603	$ -	$ -
Common stock, primarily of financial institutions	78,224	78,224	-	-
Fixed income funds	8,747,789	8,747,789	-	-
Equity funds	23,272,814	23,272,814	-	-
Alternatives:				
Hedge funds	5,735,311	-	5,735,311	-
Limited partnerships	677,836	-	-	677,836
Total investments	$ 39,573,577	$ 33,160,430	$ 5,735,311	$ 677,836
Interest rate swap	$ 111,021	$ -	$ 111,021	$ -

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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, primarily of financial institutions	322,532	322,532	-	-
Fixed income funds	7,529,230	7,529,230	-	-
Equity funds	25,660,402	25,660,402	-	-
Alternatives:				
Hedge funds	5,461,747	-	-	5,461,747
Limited partnerships	588,313	-	-	588,313
Total investments	$ 41,377,500	$ 35,327,440	$ -	$ 6,050,060

The fair values of money market funds, 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.

For other investments for which there is no active market, generally referred to as “alternative investments”, such as alternative hedge funds and private equities, the fair values are initially based on valuations determined by the investment managers using NAVs as of their most recent statements, adjusted for cash receipts, cash disbursements, and other anticipated income or loss through June 30th. The NAVs of the investment funds are determined on the accrual basis of accounting in conformity with U.S. GAAP; in certain instances, secondary investments require reporting other than U.S. GAAP such as International Financial Reporting Standards or Tax Basis accounting, in which case the investment managers adjust values to more accurately comply with U.S. GAAP. The managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. For holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values, and holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, appraisals and/or the income approach. Pursuant to U.S. GAAP, management has considered redemption restrictions to assess classification of fair value inputs. For alternative investments with redemption periods of 90 days or less, the assets are considered a Level 2 fair value measurement. Investments that are redeemable in greater than 90 days are considered Level 3 fair value measurements due to the inability to redeem the asset at NAV in the near term.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Foundation management has done an independent review of valuations reported by investment managers and determined that NAV is a reasonable and prudent estimate of fair value. Alternative investments are not readily marketable and their estimated value is subject to uncertainty. Therefore, there may be a material difference between their estimated value and the value that would have been used had a readily determinable fair value for such investments existed.

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

Description of Alternative Investments Strategy and Liquidity:

As of June 30, 2010, the Foundation's alternative investments consist of hedge funds and limited partnerships. Additional disclosure relative to the underlying strategies for these types of investments is as follows:

- **Hedge funds** – As of June 30, 2010, the Foundation invests in various hedge funds which employ the following investment strategies. The categories represent the variety of investment strategies used rather than a description of each hedge fund.

    1) Multi-strategy – The objective of these funds is to strategically allocate capital to various hedge fund strategies based on their perceived risk and return profiles.

    2) Fixed income arbitrage – The strategy of these funds is to take long positions in fixed income securities and hedge those positions by selling short the underlying common stock.

    3) Convertible arbitrage – The strategy of these funds is to take long positions in convertible securities and hedge those positions by selling short the underlying common stock.

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

    5) Equity hedged – The strategy of these funds is to take long positions in equities that are perceived to be undervalued and go short on equities that are perceived to be overvalued.

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

    7) Macro – The strategy of these funds is to invest by making leveraged bets on anticipated price movements of stock markets, interest rates, foreign exchange and physical commodities.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

8) Long/Short – This strategy consists of a core holding of long equities hedged at all times with short sales of stocks and/or stock index options.

9) Volatility arbitrage – This strategy undertakes the buying and selling of volatility, primarily using options across various markets, to take advantage of dislocations in volatility created by directional investors.

- **Limited partnerships –** As of June 30, 2010, the Foundation invests in various limited partnerships which employ the following investment strategies. The categories represent the variety of strategies used rather than a description of each limited partnership.

1) Buyout funds – These funds invest in more established companies that are in need of some repair or growth to boost returns. Generally, interests are purchased through some combination of preferred shares and debt. There are various investment opportunities in buyout, such as "buy and build", "spinoffs", "ownership transitions", and "recapitalizations." In addition to needing an equity infusion, some companies need to change their capital structure to facilitate growth.

2) Venture Capital Funds – These funds invest in young companies with varying degrees of infrastructure, revenues, and profits. Investments are typically made in cash through the purchase of preferred shares in the Company. If the investment is in a concept alone, it is called "see stage". Depending on the degree to which the product line is complete, management positions are full staffed, revenues are being generated, and/or profits are being made, the investments are referred to as "early stage" (very new companies, largely undeveloped), "mid stage" (more infrastructure, but no profits), and "late stage" (Sufficiently developed to possibly issue public stock or attract interest from a strategic buyer soon).

3) Real Estate Funds – These funds provide capital to meet a number of different needs including new construction, renovation, or a change in property ownership or management. These investments may involve equity or debt. The major sub-sectors that comprise equity investments include the purchase of land (including timberland and farmland), the purchase of fully-or partially-leased commercial properties, and the purchase of renovation properties (buying existing properties and upgrading them), as well as investments in new construction (called "development"). There are also investments that can be made on the debt side, including first mortgage lending, mezzanine lending, distressed lending (senior lending to troubled assets), and the purchase of real estate bank loans (pools of loans sold off by banks that want to lower the level of reserve capital that must be held against such loans).

4) Funds of funds ("FOFs") – These funds invest in several partnerships within private equity (venture, buyout, debt, and real estate). FOFs that commit capital to many partnerships in one sector (such as biotech, software, or telecom) or one sub-class (for example all venture funds or all debt funds) are called "concentrating" funds. FOFs that invest across sectors and sub-classes are "diversifying" funds. There are also FOFs that mix investments in limited partnerships with direct investments in underlying platforms, and these are called "hybrid" funds. Finally, FOFs that buy existing partnerships that are for resale by LPs are called "secondaries" funds.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

5) Debt Funds – These funds provide lending to companies that are being restructured or re-capitalized. Among debt funds, there are two major sub-sectors: Mezzanine debt and distressed debt. Mezzanine funds initiate lending to companies of all sizes, both private and public. Mezzanine funds have a subordinated claim on the underlying assets relative to senior lenders (banks, bondholders, etc.) and, in return, can charge a higher interest rate on the debt. Distressed debt funds buy existing public and/or private debt of distressed companies. Distressed debt funds can be further broken down into two groups: 1) those where GPs take control of the distressed companies and work through the bankruptcy process to pick new managers and strategies for restructuring, and 2) those where GPs do not take control of these companies and instead focus on trading the distressed securities.

A summary of the alternative investment restrictions on redemption and liquidity as of June 30, 2010, is presented as follows:

	Balance at June 30, 2010	Unfunded Commitments	Redemption Notice	Redemption Frequency
Hedge fund	$ 5,735,311	$ -	60 days	Quarterly
Limited partnerships	$ 677,836	$ -	N/A	Fund Dissolved

The following is the Level 3 investment activity for the year ending June 30, 2010:

	Hedge Funds	Limited Partnerships
Balance – July 1, 2009	$ 5,461,747	$ 588,313
Total gains or losses (realized/unrealized) included in earnings (or changes in net assets)	236,580	77,398
Purchases, issuances and settlements	36,984	12,125
Funds which have ended initial lockup constraints and can be liquidated in less than 90 days	(5,735,311)	-
Balance – June 30, 2010	$ -	$ 677,836

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

	Hedge Funds	Limited Partnerships
Balance – July 1, 2008	$ 7,540,980	$ 614,707
Total gains or losses (realized/unrealized) included in earnings (or changes in net assets)	(1,266,709)	(16,079)
Purchases, issuances and settlements	(812,524)	(10,315)
Balance – June 30, 2009	$ 5,461,747	$ 588,313

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

D. ENDOWMENT (Continued)

The Foundation's endowment consists of 342 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.

UPMIFA was enacted in Kentucky subsequent to year-end and is effective as of July 15, 2010. Therefore, the Foundation will report under UPMIFA for fiscal year 2011.

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 $1,320,686 and $4,941,575 as of June 30, 2010 and 2009, 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, 2010 and 2009 is as follows:

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,320,686)	$ 2,924,561	$ 32,198,633	$ 33,802,508
Board-designated endowment funds	5,771,049	-	-	5,771,049
Total	4,450,363	2,924,561	32,198,633	39,573,557
Less endowment held for others	(1,522,805)	(2,322,042)	(12,206,805)	(16,051,652)
Net endowment owned by Foundation	$ 2,927,558	$ 602,519	$ 19,991,828	$ 23,521,905

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

D. ENDOWMENT (Continued)

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

Changes in endowment net assets for the years ended June 30, 2010 and 2009 are as follows:

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 7,283,232	$ 2,360,155	$ 31,734,113	$ 41,377,500
Investment return:				
Investment income, net of fees	145,914	558,736	-	704,650
Net realized and unrealized appreciation (depreciation)	4,521,217	485,651	-	5,006,868
Total investment return	4,667,131	1,044,387	-	5,711,518
Contributions/transfers	(7,500,000)	-	464,520	(7,035,480)
Appropriation of endowment assets for expenditures	-	(479,981)	-	(479,981)
Endowment net assets, end of year	4,450,363	2,924,561	32,198,633	39,573,557
Less endowment held for others	(1,522,805)	(2,322,042)	(12,206,805)	(16,051,652)
Net endowment owned by Foundation	$ 2,927,558	$ 602,519	$ 19,991,828	$ 23,521,905

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

D. ENDOWMENT (Continued)

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 and unrealized depreciation	(9,316,451)	(2,370,569)	-	(11,687,020)
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

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.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

D. ENDOWMENT (Continued)

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, 2010 and 2009, consisted of the following unconditional promises to give:

	2010				2009
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Current pledges receivable:					
Due within one year	$ 343	$ 54,218	$ 788,073	$ 842,634	$ 1,072,713
Allowance	-	-	(65,000)	(65,000)	(50,000)
Total current pledges receivable	343	54,218	723,073	777,634	1,022,713
Long-term pledges receivable:					
Due after one year to five years	1,029	47,868	26,748	75,645	161,402
Due after five years	688	21,332	12,860	34,880	61,005
Allowance	-	-	(10,000)	(10,000)	(25,000)
Discount to NPV	(11)	(511)	(116)	(638)	(25,047)
Total long-term pledges receivable	1,706	68,689	29,492	99,887	172,360
Net pledges receivable	$ 2,049	$ 122,907	$ 752,565	$ 877,521	$ 1,195,073

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

F. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2010 and 2009, consisted of:

	2010	2009
Land	$ 2,324,373	$ 2,116,373
Land improvements	148,225	8,107
Buildings and improvements	2,585,083	2,258,557
Machinery and equipment	152,884	152,884
Capitalized bonds costs	61,422	61,422
	5,271,987	4,597,343
Less accumulated depreciation	139,590	119,298
Property and equipment – net	$ 5,132,397	$ 4,478,045

G. NET ASSETS

Temporarily Restricted Net Assets – Temporarily restricted net assets available for scholarships and other program support were $2,113,470 and $2,531,305 at June 30, 2010 and 2009, 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, 2010 and 2009:

	2010	2009
Purpose restrictions accomplished/time restrictions expired:		
Scholarship program expenses	$ 526,975	$ 806,167
Other educational program areas and support	771,929	1,998,035
	$ 1,298,904	$ 2,804,202

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

H. RELATED-PARTY TRANSACTIONS

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

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 9). The bond proceeds were 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. The payable to Arlington at June 30, 2010 is $54,730.

During fiscal year 2010, the University transferred certain real property (the Arlington House and 15 acres) it had held since it was gifted to the University in the 1960's, along with $400,000 in receivables from Arlington, primarily from payroll and other operational expenses. The Foundation transferred real property of approximate value of the receivable to the University. These were logical transfers between parties due to the Foundation's recent participation in assisting Arlington in upgrading its club house, which is owned by the Foundation.

Eastern Kentucky University – The University provides various administrative services to the Foundation. As a result of these related-party services and other transactions, the Foundation has recorded a payable to the University of $108,791 and a receivable from the University of $179,120 as of June 30, 2010 and 2009, respectively. The University disbursed $652,809 and $789,606 on behalf of the Foundation for employee salaries and benefits during the years ended June 30, 2010 and 2009, respectively. The University disbursed $526,975 and $806,167 on behalf of the Foundation for scholarships during the years ended June 30, 2010 and 2009, respectively.

Outstanding pledges receivable due from related parties of the Foundation were $740,568 and $764,837 as of June 30, 2010 and 2009, respectively.

I. BONDS PAYABLE

The Foundation issued Variable Rate Demand Economic Development Revenue Bonds, Series 2008, in the amount of $1,770,000 through Fifth Third Bank to help finance the Arlington renovation project (see Note 8). The bonds mature in 2017 and have a variable interest rate that is based on the USD – SIFMA Municipal Swap Index. To protect the Foundation against a potential interest rate increase, the Foundation entered into an interest rate swap agreement, thereby locking into a fixed interest rate of 3.4% for the duration of the loan term. At June 30, 2010, the interest rate swap had a total notional amount of $1,625,000. The fair value of the swap agreement reflects an obligation of the Foundation of $111,021 at June 30, 2010. This change in value is recognized as a decrease in net assets.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

I. BONDS PAYABLE (Continued)

Scheduled principal repayment requirements are as follows:

Year ending June 30	
2011	$ 150,000
2012	155,000
2013	165,000
2014	170,000
2015	180,000
Thereafter	805,000
Total	$ 1,625,000

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:

	2010	2009
Eastern Kentucky University – investments held for		
Regional University Endowment Trust Fund	$ 14,528,847	$ 12,788,987
Programs of Distinction	1,522,805	8,508,776
Total	$ 16,051,652	$ 21,297,763

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, 2010 and 2009, $427,802 and $275,149, 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%.