

EASTERN KENTUCKY UNIVERSITY
Richmond, Kentucky

FINANCIAL STATEMENTS
June 30, 2014 and 2013

EASTERN KENTUCKY UNIVERSITY

FINANCIAL STATEMENTS
June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Eastern Kentucky University (the "University"), a component of the Commonwealth of Kentucky, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 the discretely presented component unit of the University, as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 3, 2014

Introduction

Eastern Kentucky University is a public institution of higher learning located in central Kentucky and serving primarily the Eastern region of the Commonwealth. Many Eastern students are the first among their families to attend college.

In addition to the main campus located in Richmond, Kentucky, the University has six regional campuses throughout the state that offer a diverse range of degree programs from associate to doctoral level degrees. The University's prominent programs include Aviation, Criminal Justice, Education, Environmental Health Science, Forensic Science, Homeland Security, Nursing, Occupational Therapy, and PGA Golf Management. The nationally prominent Honors Program and Mock Trial Team are consistently recognized among the nation's best. Additionally, the College of Justice & Safety is internationally known, with frequent visitors coming from other countries to learn the most up-to-date methods for dealing with national and local security issues.

In the fall 2013 semester, the University served over 16,000 students. A growing number of students are attributable to the University's online program which is now available for over 34 degree programs. The University was ranked nationally by *U.S. News & World Report* as having one of the best online programs.

The University consistently ranks in the top tier of Regional Universities in the South as published by *U.S. News & World Report* in the "Best Colleges" edition. The University is home to more than 1,300 veterans and their dependents and is ranked seventh nationally among the "Best for Vets: Business Schools" by Military Times *EDGE* magazine. In addition, *Forbes* ranks Eastern among the top 10 percent of colleges and universities as one of "America's Best Colleges". The University is also ranked among a prestigious group of only 92 colleges and universities with the distinction of "Great Colleges to Work For" according to the seventh annual report on the academic workplace by the *Chronicle of Higher Education*.

Eastern Kentucky University is one of only three institutions in the nation to receive a 2014 award for Outstanding Institutional Practice in Student Learning Outcomes, awarded by the Council for Higher Education Accreditation (CHEA). Also in 2014, for the fifth consecutive year, the University received the Diversity Award from Minority Access, Inc.

A member of the Ohio Valley Conference, Eastern Kentucky University won the OVC basketball championship in 2013-14, which resulted in an automatic bid to the NCAA tournament. For the year, there were 289 student-athletes named Colonel Scholars in recognition of achieving a 3.0 or higher grade point average.

The audited financial statements for the fiscal years 2014 and 2013 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. This section, Management's Discussion and Analysis ("MD&A"), is intended to provide an overview of the University's financial position at June 30, 2014, with selected comparative information for the years ended June 30, 2013, and 2012. The MD&A should be read in conjunction with the accompanying financial statements and notes.

During fiscal year 2014, the University adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The provisions of this Statement were effective for periods beginning after December 15, 2012. This Statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; and recognizes as outflows of resources or inflows of resources certain items that were previously reported as assets and liabilities. The principal effect of the

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adoption of this GASB statement was the requirement in GASB 65 for the expensing of debt issuance costs. The University has reflected this accounting change retroactively as required by the GASB guidance.

Please see *Adoption of New Accounting Pronouncements* in Note 1 of the financial statements for further details.

Financial Highlights

At June 30, 2014, Eastern Kentucky University's financial position remained strong as reflected in the Statement of Net Position.

- Total assets decreased by \$4.6 million to \$423.4 million at June 30, 2014, compared to \$428.0 million at June 30, 2013. The major factors affecting this decrease include \$2.5 million related to the decrease in cash restricted for incomplete capital projects, offset by an increase in current assets of \$1.8 million and a decrease in net capital assets of \$5.4 million.
- With the adoption of GASB 65, the unamortized deferred refunding balance is reflected as a deferred outflow. The change in deferred outflow in 2014 was a decrease of \$.2 million.
- Overall liabilities decreased by \$10.5 million to \$103.7 million at June 30, 2014, compared to \$114.2 million at June 30, 2013. This decrease is primarily the result of an \$8.7 million decrease in bonds and leases payable, and a decrease of \$2.0 million in accrued salaries and benefits.
- Total net position at June 30, 2014, was \$320.7 million; an increase of \$5.7 million over the June 30, 2013 level of \$315.0 million. The greatest factors affecting this increase include increases in investments in capital assets and funds restricted for scholarships of \$5.5 million, and a decrease in funds restricted for capital projects of \$4.0 million.

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 Position as of June 30, 2014 and 2013, the Statements of Revenues, Expenses, and Changes in Net Position, 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*. The 2013 and 2012 financial information has been retroactively restated were applicable as required by the implementation of GASB 65. All amounts shown on the charts and tables in management's discussion and analysis are shown in thousands.

Reporting Entity

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

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EASTERN KENTUCKY UNIVERSITY
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Statements of Net Position

The Statements of Net Position 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 position reported as capital, restricted, or unrestricted. Unrestricted net position is further designated for specific purposes as noted in this discussion and in the notes to the financial statements.

Assets – Total assets at June 30, 2014, were \$423.4 million compared to \$428.0 million at June 30, 2013, a decrease of \$4.6 million.

Cash and Cash Equivalents – Total cash and cash equivalents at June 30, 2014, totaled \$68.1 million; \$0.3 million more than the June 30, 2013, level of \$67.8 million. While restricted cash and cash equivalents of funds designated primarily for capital project purposes showed a decrease of \$2.5 million, the increase is attributable to the increase of cash and cash equivalents from operations totaling \$2.8 million.

Investments – The Foundation holds and manages investments owned by the University. At June 30, 2014, the market value of investments held by the Foundation on behalf of the University was \$18.6 million compared to \$17.4 million at June 30, 2013, an increase of \$1.2 million.

Capital Assets – The historical cost, less accumulated depreciation, of the University's capitalized assets was \$309.7 million as of June 30, 2014, a net decrease after depreciation of \$5.5 million from the \$315.2 million balance at June 30, 2013. The largest contributions to this decrease include a \$26.9 million net increase in capital assets in service and a decrease in construction in progress of \$13.9 million, primarily related to the completion of various projects on campus. Depreciation expense for the fiscal year totaled \$16.3 million.

Other Asset Categories – The balances in the various other asset categories were essentially unchanged at June 30, 2014, compared to June 30, 2013, with the exception of accounts receivable (net of allowance) which decreased in total by \$697 thousand; loans to students, which increased in total by \$291 thousand; and prepaid interest, which decreased in total by \$351 thousand.

Deferred Outflows – With the adoption of GASB Statement No. 65, deferred outflows are now being recognized as what was previously reported as a component of bonds payable. The deferred outflows for the year ended June 30, 2014, totaled \$945 thousand and represent the unamortized deferred refunding balance of bonds. The balance was \$1.2 million at June 30, 2013.

Liabilities – Total liabilities at June 30, 2014, were \$103.7 million compared to \$114.2 million at June 30, 2013. This decrease of \$10.5 million is primarily attributable to a decrease in revenue bonds payable and capital leases of \$8.7 million and a change in determination from capital to operating lease for leased computers. There was also a decrease of accrued salaries and payroll of \$2.0 million.

Bonds Payable and Capital Lease Obligations – In total, bonds payable and capital lease obligations decreased by \$8.7 million as of June 30, 2014, compared to June 30, 2013. At June 30, 2014, the total bonds payable and capital lease obligations was \$74.3 million versus \$83.0 million at June 30, 2013. This decrease is attributable primarily to computer leases expiring.

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EASTERN KENTUCKY UNIVERSITY
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Other Liability Categories – At June 30, 2014, the balances in various other liability categories decreased by \$1.7 million to \$29.4 million compared to \$31.1 million at June 30, 2013. The majority of the balances in this category are comprised of accounts payable, interest payable, payroll/benefits liabilities, external contracts and grants, and deferred revenues associated with tuition and fees billed in June 2014, for summer school classes.

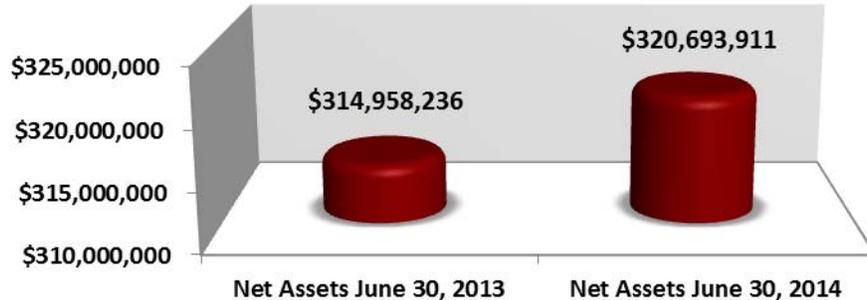
Net Position – Total Net Position at June 30, 2014, was \$320.7 million; an increase of \$5.7 million over the \$315.0 million at June 30, 2013.

Net Investment in Capital Assets – Net position invested in capital assets increased by \$3.1 million as of June 30, 2014, to \$236.4 million over the June 30, 2013, level of \$233.3 million. The primary contributing factor to this increase was the decrease in outstanding debt.

Restricted Net Position – In total, restricted net position decreased by \$2.9 million to \$35.3 million at June 30, 2014, compared to \$38.2 million at June 30, 2013. The net decrease is primarily attributable to the decrease in restricted cash for capital projects, although there was an increase in restricted cash for scholarships.

Unrestricted Net Position – Unrestricted net position increase by \$5.5 million to \$49.0 million at June 30, 2014, compared to the June 30, 2013, unrestricted net position of \$43.5 million.

The chart below illustrates the change in net position from the year ended June 30, 2013, to the year ended June 30, 2014:



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Unrestricted Net Position

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Inventories	\$ 388	\$ 378	\$ 428
Outstanding encumbrances	4,034	2,141	2,747
Departmental commitments	19,578	17,010	17,808
Designated projects and contingency reserves	12,986	13,003	10,749
Health care self-insurance reserve	2,600	2,300	2,300
Auxiliary working capital	<u>9,432</u>	<u>8,620</u>	<u>9,533</u>
Total unrestricted	<u>\$ 49,018</u>	<u>\$ 43,452</u>	<u>\$ 43,565</u>

The following are the major components reflected in the Statements of Net Position:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Current assets	\$ 76,496	\$ 74,651	\$ 69,442
Capital assets – net	309,732	315,192	310,559
Other noncurrent assets	<u>37,186</u>	<u>38,156</u>	<u>55,370</u>
Total assets	<u>\$ 423,414</u>	<u>\$ 427,999</u>	<u>\$ 435,371</u>
DEFERRED OUTFLOWS			
Unamortized deferred refunding balance	\$ 944	\$ 1,165	\$ -
LIABILITIES			
Current liabilities	\$ 35,672	\$ 38,988	\$ 33,466
Noncurrent liabilities	<u>67,993</u>	<u>75,218</u>	<u>82,794</u>
Total liabilities	<u>\$ 103,665</u>	<u>\$ 114,206</u>	<u>\$ 116,260</u>
NET POSITION			
Net investment in capital assets	\$ 236,365	\$ 233,302	\$ 221,531
Restricted – expendable	23,843	25,969	42,955
Restricted – nonexpendable	11,468	12,235	12,207
Unrestricted	<u>49,018</u>	<u>43,452</u>	<u>42,418</u>
Total net position	<u>\$ 320,694</u>	<u>\$ 314,958</u>	<u>\$ 319,111</u>

Statements of Revenues, Expenses, and Changes in Net Position

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

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Operating Results – As indicated in the Statement of Revenues, Expenses, and Changes in Net Position, there was a net loss of \$104.3 million from operations for the fiscal year ended June 30, 2014, prior to consideration of state appropriations and other net nonoperating revenues. This is compared to a loss of \$113.1 million from operations for the fiscal year ended June 30, 2013.

Operating Revenues

Below is a summary of operating revenues for fiscal year 2014 as compared to fiscal years 2013 and 2012:

	Year ended June 30,		
	2014	2013	2012
Tuition and fees	\$ 137,801	\$ 130,552	\$ 127,850
Scholarships and discounts	<u>(51,223)</u>	<u>(52,305)</u>	<u>(48,311)</u>
Net tuition and fees	86,578	78,247	79,539
Grants and contracts	48,070	49,846	53,072
Other revenues	<u>17,211</u>	<u>17,748</u>	<u>17,142</u>
Total education and general fund	151,859	145,841	149,753
Auxiliaries	22,169	19,822	20,328
Scholarships and discounts	<u>(8,455)</u>	<u>(6,891)</u>	<u>(6,605)</u>
Net auxiliaries	<u>13,714</u>	<u>12,931</u>	<u>13,723</u>
Total operating revenues	<u>\$ 165,573</u>	<u>\$ 158,772</u>	<u>\$ 163,476</u>

Tuition and Fees – Income from student tuition and fee assessments, shown net of the tuition discount, was \$86.5 million for the fiscal year ended June 30, 2014, compared to \$78.2 million for the fiscal year ended June 30, 2013. The increase of \$8.3 million in net tuition and fees reflects principally an increase in enrollment for the University's online program during the year ended June 30, 2014.

Grants and Contracts – For the fiscal year ended June 30, 2014, there was \$48.1 million recognized revenue from all grants and contracts compared to \$49.8 million for the year ended June 30, 2013; a slight decrease of \$1.7 million. Revenues recognized from external grants and contracts can vary significantly from one fiscal year to the next given variations in new awards, awards ending their grant cycle, and amounts recognized for activities occurring in a given year.

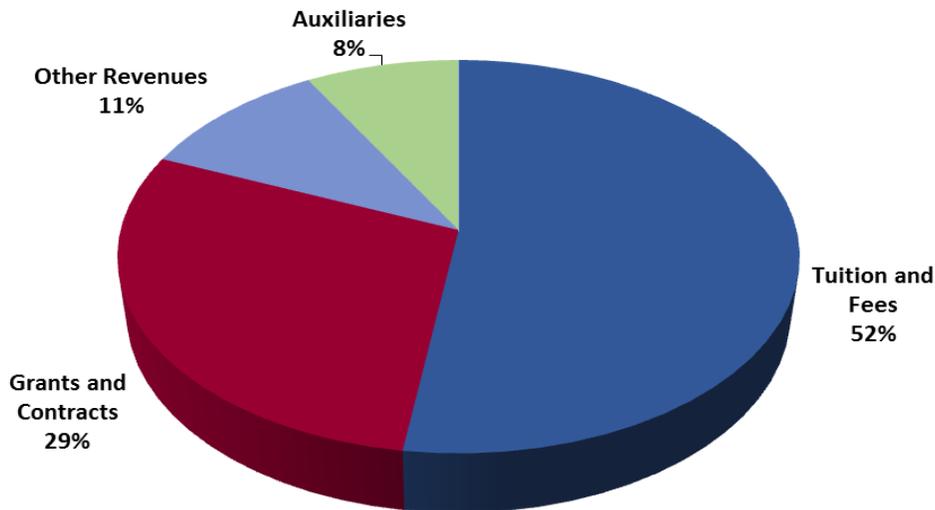
Auxiliaries – Auxiliary enterprises consist of University functions provided for the academic and physical well-being of students. While these functions are not directly related to providing educational services, they are important for student convenience and support. Like tuition and fees, housing revenues 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 Position, \$13.7 million is reported for net auxiliary revenues for the year ended June 30, 2014, compared to \$12.9 million for the year ended June 30, 2013. The majority of auxiliary revenues for both fiscal years is attributable to student residence hall fees.

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Other Operating Revenues – 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. For the fiscal year ended June 30, 2014, total other operating revenues were \$17.2 million compared to \$17.7 million for June 30, 2013, a decrease of \$537 thousand.

Source of Operating Revenues – Fiscal Year 2014



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 activities and those activities where funding is restricted for specific purposes, 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, 2014, educational and general expenditures totaled \$269.9 million compared to \$271.8 million for the fiscal year ended June 30, 2013; a decrease of \$1.9 million. This reduction in expense for the year ending June 30, 2014, was largely attributable to the University's Strategic Budget Reallocation Plan, as well as the reduction of faculty/staff salaries and fringe benefits resulting from the Voluntary Buyout Program.

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, 2014, were \$19.6 million, compared to \$19.9 million for the year ended June 30, 2013.

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Below is a summary of operating expenditures for fiscal year 2014, compared to fiscal years 2013 and 2012:

	Year ended June 30,		
	2014	2013	2012
Instruction, academic support and libraries	\$ 115,550	\$ 117,583	\$ 118,871
Research and public service	42,594	43,226	45,444
Student services	18,166	18,203	18,245
Institutional support and operations and maintenance of plant	48,382	47,019	47,034
Student financial aid	12,202	10,896	12,970
Depreciation	13,156	14,740	12,690
Other operation expenses	243	308	244
Total educational and general expenses	250,293	251,975	255,498
 Auxiliaries	 19,611	 19,869	 20,137
 Total operating expenses	 \$ 269,904	 \$ 271,844	 \$ 275,635

Instruction, Academic Support, and Libraries – The total expenditures of these three areas, which directly relate to teaching, academic, and faculty support, decreased \$2.0 million to \$115.6 million for the year ended June 30, 2014, compared to \$117.6 million for the year ended June 30, 2013.

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, 2014, total expenditures related to research and public service was \$42.6 million, compared to \$43.2 million for the fiscal year ended June 30, 2013; a decrease of \$632 thousand.

Student Services – Expenditures for student services for fiscal year 2014 was relatively unchanged at \$18.2 million compared to fiscal year 2013. The student services function includes expenditures for many activities contributing to student development outside the instructional setting.

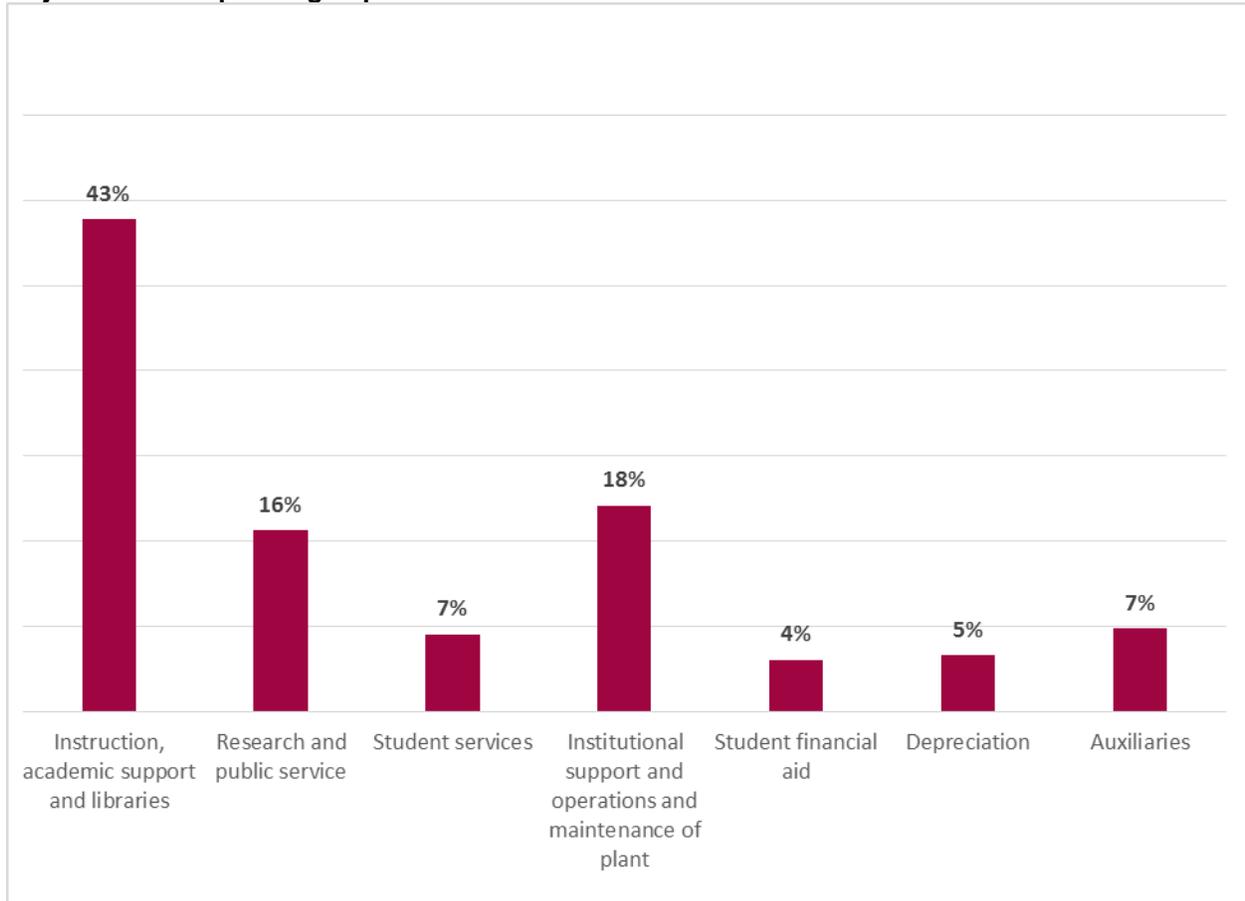
Institutional Support and Operations and Maintenance of Plant – These functions provide physical and administrative support for the University and include administrative offices, physical plant operations, noncapital maintenance expenses, utility expenses, technology support, legal, property and liability insurance, and other similar operational support costs. For the fiscal year ended June 30, 2014, the expenditures for these areas totaled \$48.4 million compared to \$47.0 million for the year ended June 30, 2013; an increase of \$1.4 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 Position for the fiscal years highlighted is relatively low in relationship to the total amounts expended for financial aid both from governmental sources and institutional sources. For fiscal year 2014, the total financial aid expenditure was \$71.9 million compared \$70.1 million for fiscal year 2013, as shown in the table on the following page.

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Major Areas of Operating Expense – Fiscal Year 2014



Net student financial aid reported on the Statement of Changes in Revenues, Expenses, and Changes in Net Position reflect the residual financial aid paid directly to the students. The net student financial aid for the year ended June 30, 2014, was \$12.2 million compared to \$10.9 million for the year ended June 30, 2013. The increase of \$1.3 million in net student financial aid resulted from small increases to tuition rates and revisions to the University's institutional funded scholarship award policy which reduced the residual available to refund.

The information below shows the gross dollars associated with financial aid support:

	Year ended June 30,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Tuition and fee discount	\$ 51,223	\$ 52,305	\$ 48,311
Auxiliary enterprises discount	8,455	6,891	6,605
Student financial aid expense	<u>12,202</u>	<u>10,896</u>	<u>12,970</u>
Student financial aid expense (gross)	<u>\$ 71,880</u>	<u>\$ 70,092</u>	<u>\$ 67,886</u>

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Non-operating Revenue/Expenses

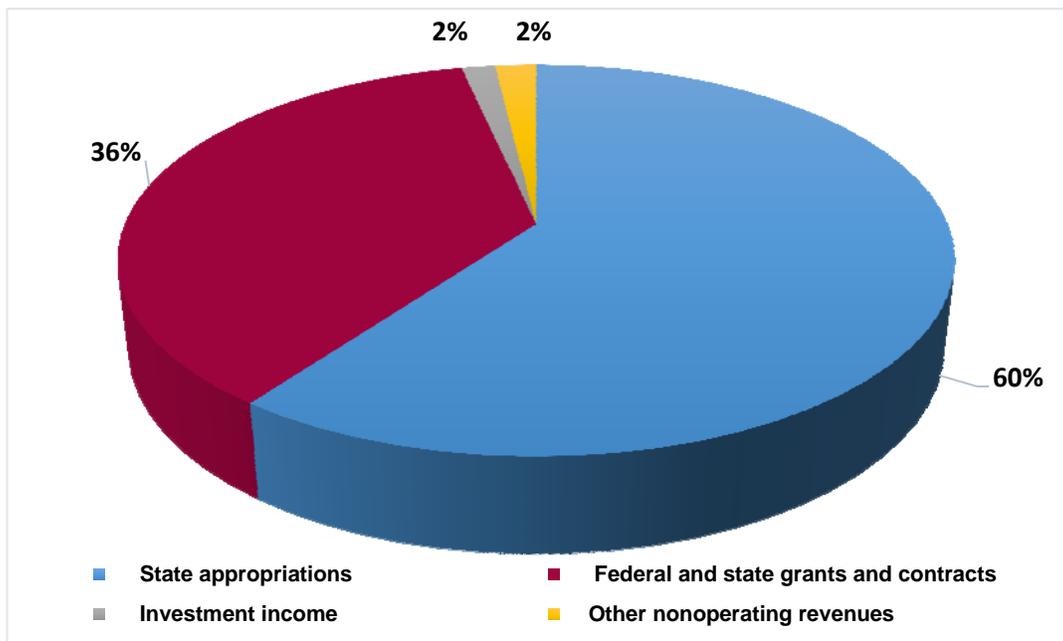
State Appropriations – Funding from state appropriations for operations and debt service for the fiscal year ended June 30, 2014, remained unchanged from the prior fiscal year at \$67.7 million.

Investment Income – Total investment income for the fiscal years ended June 30, 2014, and 2013, was \$1.7 million and (\$85,000) respectively; an increase of \$1.8 million. Investment income from investments managed by the Kentucky Department of Finance reflected total earnings of \$373 thousand for fiscal year 2014, compared to a loss of \$33 thousand for fiscal year 2013.

Federal and State Grants and Contracts – Total federal and state grant revenue for the fiscal year ended June 30, 2014, was \$41.1 million, compared to \$41.5 million from fiscal year 2013. Grant revenue has continued to steadily decline due to the number of grants available stemming from the down turn in the economy.

Other Non-Operating Revenues – Other Non-Operating revenues totaled \$2.1 million for the year ending June 30, 2014, a slight decrease under the amount of \$2.2 million from the prior year ending June 30, 2013.

Major Sources of Non-Operating Revenues – Fiscal Year 2014



Capital Support – For the year ended June 30, 2014, the University returned funds to the Commonwealth totaling \$426,000 for a completed capital project. The University did not receive any capital appropriations for fiscal year 2014, compared fiscal year 2013, when the University received capital appropriations totaling \$1.5 million.

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The following is summary information from the Statements of Revenues, Expenses, and Changes in Net Position.

	Year ended June 30,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 165,572	\$ 158,772	\$ 163,476
Operating expenses	<u>269,904</u>	<u>271,844</u>	<u>275,635</u>
Operating loss	(104,332)	(113,072)	(112,159)
Nonoperating revenues – net	<u>110,494</u>	<u>107,419</u>	<u>111,711</u>
Income (loss) before capital appropriations	6,162	(5,653)	(448)
Capital appropriations	<u>(426)</u>	<u>1,500</u>	<u>(134)</u>
Increase (decrease) in net position	5,736	(4,153)	(582)
Net Position – beginning of year	<u>314,958</u>	<u>319,111</u>	<u>319,693</u>
Net Position – end of year	<u>\$ 320,694</u>	<u>\$ 314,958</u>	<u>\$ 319,111</u>

Statements of Cash Flows

The Statements of Cash Flows provides information related to cash sources and uses during the fiscal year. The Statement 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 the 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 Position.

The following is summary information from the Statements of Cash Flows:

	Year ended June 30,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash provided by (used in)			
Operating activities	\$ (89,073)	\$ (86,979)	\$ (100,500)
Noncapital financing activities	108,758	109,182	110,477
Capital and related financing activities	(21,826)	(29,107)	(5,715)
Investing activities	<u>4,965</u>	<u>16,231</u>	<u>(4,418)</u>
Net change in cash and cash equivalents	2,824	9,327	(156)
Cash and cash equivalents – beginning of year	<u>51,639</u>	<u>42,312</u>	<u>42,468</u>
Cash and cash equivalents – end of year	<u>\$ 54,463</u>	<u>\$ 51,639</u>	<u>\$ 42,312</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

Capital Asset and Debt Administration

During fiscal years 2014, and 2013, the following projects were completed by the University:

	<u>Year ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
New Student Housing	\$ 20,295	\$ -
Capitalized Bond Interest – New Student Housing	1,144	-
Baseball Field Lighting RCF 1035	564	-
Softball Field Lighting RCF 1036	225	-
Palmer Air Chiller Replacement	184	-
Gibson Fluid Cooler Replacement	137	-
Begley Building Chiller	101	-
Ault Building HVAC Replacement	101	-
Hummel Planetarium Seating RCF 874	77	-
Dairy Research and Education Center	25	-
208 Summit Street Renovation	24	-
Thompson/Schwendeman Expansion Project	12	-
Turkey Hughes Baseball Field Lighting	5	-
Hood Softball Field Lighting	5	-
Energy Savings Project	-	31,730
Leach Driving Range Resurface	-	250
Leach Driving Range Storage Buildings	-	185
Todd Hall Chiller Replacement	-	194
Martin Hall Boiler Replacement	-	189
Begley Locker Room AC	-	143
Power Factor Correction Project	-	131
Palmer Hall Elevator Update	-	110
Other Miscellaneous Projects	-	362
	<hr/>	<hr/>
Total	\$ <u>22,899</u>	\$ <u>33,294</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

The following projects were still in process at June 30, 2014:

	Total Expenditures Through June 30, <u>2014</u>	Estimated Cost to Complete at June 30, <u>2014</u>
244 Summit Street Renovation	\$ 111	\$ 44
Begley Building Prefab Concrete	40	2,341
Commonwealth Renovation	56	595
Keen Johnson Bell Tower	293	83
Crabbe Library Plaza/Mall Renovate	48	452
College of Education Complex	30	82,970
Lilley Cornett Woods Bunk House	9	141
Lilley Cornett Woods Research Facility	17	264
Renovate HVAC Systems – C6E6	394	741
Challenge Course	93	79
Meadowbrook Farm Cattle Pen	5	205
Martin Hall Cooling Tower Replacement	4	111
Telford Hall Blow Down Separator	18	12
Martin Hall Blow Down Separator	22	8
McBrayer Arena Lighting	295	-
McBrayer Floor Replacement	193	162
Baseball Outfield Fence	5	27
Renovate HVAC System – C5LP	1,741	604
Science Complex – Phase II	484	6,863
Ashland Building Addition	<u>108</u>	<u>34</u>
 Total	 <u>\$ 3,966</u>	 <u>\$ 95,736</u>

Long-term debt at June 30, 2014, was \$74.3 million compared to \$83 million at June 30, 2013. The \$8.7 million net decrease was largely caused by debt payments of \$6.1 million and \$2.0 million reductions in capital lease obligations, among other various factors.

Economic and Other Factors Impacting Future Periods

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

- The University will begin Phase II of the New Science Building (NSB) in the 2014-15 year. This project remains the University's top priority. With funding of NSB Phase II, all science departments will be housed together in one state-of-the-art modern facility. Phase II is expected to be complete by late 2017.

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

- The level of state-appropriated funds received by the University will continue to be a major factor in the future of the University. Presently, state-appropriated funds represent approximately 30 percent of the University's education and general budget. The remaining 70 percent of the education and general budget must come from other sources, primarily student tuition revenue. The Council on Post-Secondary Education (CPE) continues to limit the amount of annual tuition increases that state universities may implement, which limits the ability of Universities to generate additional revenue. Improving the affordability of a college education for our students remains vitally important to Eastern and with every tuition increase there must be a corresponding focus and analysis of student financial aid available to our students.
- Given the ongoing and often conflicting pressures for revenue generation, the goal of maximizing affordability for our students, and the goal of continually strengthening the core educational mission of the University, the University must continue to seek additional revenue from other sources. Other sources include unrestricted annual gifts, the Eastern Kentucky University Foundation, funds generated through University research activities, as well as entrepreneurial venture opportunities. The University remains committed to continuing to seek more and better ways to operate as efficiently as possible and continually reduce expenses.
- In the fall 2014 semester, the University will participate in a long-term lease with Grand Campus Properties, LLC, to offer additional residential housing options for students at the University. The housing complex on Lancaster Avenue is known as Grand Campus, and will be included with the University's existing housing stock as an attractive option for upper class residential students. There is a total of 512 beds in the two buildings and the units are constructed in a suite-style, apartment format. Four students live in each suite and each suite includes a kitchen area, dining area, a living area, and four separate bedrooms and bathrooms. Each unit comes fully furnished and will be maintained and operated by the University.

Studies continually show that student success is clearly linked to campus engagement, and living and learning on campus in University housing is a significant factor in engaging students. And, as more students choose to live on campus in University housing, auxiliary revenues will be maximized for further investments on campus.

- The demolition of Combs Residence Hall will occur in the fall of 2014. With the removal of this building, a new pedestrian entrance to campus will be constructed to welcome visitors, prospective students, and the community to our campus. In addition, an arboretum to be designed by nationally known garden designer and Kentuckian Jon Carloftis, will occupy the space near this new entry. The Martin Tennis Courts will be relocated to the south campus near the Greg Adams Tennis Center.
- Construction is expected to begin this fall on the Noel Reading Porch located on the south side of the John Grant Crabbe Library. This library addition is made possible by a gift from Ron and Sherrie Lou Noel, whose earlier gift made possible the construction of the Noel Studio for Academic Creativity. The Noel Reading Porch will eventually look out over a new pedestrian mall green space that should be completed in spring 2015.

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

- Planning for a new multi-purpose athletic facility will begin this fall that will replace visitor grandstands at Roy Kidd Stadium. The facility will include classrooms, small conference rooms, a nutrition and dietetics center, training facilities, a new football locker room, and offices for football coaches and staff. The University has secured a major lead gift toward the project, which also includes funding from a \$15 million agency bond issue approved by the Commonwealth. The baseball and softball fields will also receive upgrades, including bleacher renovations, new press boxes, and restrooms.
- **Make No Little Plans: the Vision for 2020** – The Eastern Kentucky University Strategic Planning Steering Committee has identified priorities that are vital to the success of the future of our institution. These priorities include academic and institutional excellence; a commitment to student success; and service to our community and region. The Steering Committee is using these priorities to move forward with a visionary strategic plan that will lead the University into 2020.
- The future of Kentucky's economy remains uncertain. Economic recovery is persistently slow and Kentucky revenue forecasts continue to disappoint. Our Commonwealth's economic health is inextricably linked with the national and international economy. The latest forecast for the U.S. economy is growth of about 2.1% for 2014 (down from an estimated 3% a year ago), and growth of about 3.1% in 2015.
- Beginning July 1, 2014, the University will adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27. While the extent of the change to the Statement of Net Position is yet to be determined, management believes that the implementation of this statement it will result in a significant decrease in net position.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 54,463,033	\$ 51,639,329
Accounts receivable – less allowance of \$2,478,305 for 2014 and \$2,167,122 for 2013	19,244,886	19,941,418
Loans to students – less allowance of \$87,709 for 2014 and \$81,804 for 2013	524,839	466,713
Inventories	387,753	377,521
Prepaid expenses	<u>1,875,035</u>	<u>2,225,709</u>
Total current assets	<u>76,495,546</u>	<u>74,650,690</u>
Noncurrent Assets		
Restricted cash and cash equivalents	13,661,547	16,126,806
Investments	18,626,645	17,364,810
Loans to students – less allowance of \$818,374 for 2014 and \$824,279 for 2013	4,897,869	4,664,753
Capital assets – net of accumulated depreciation of \$230,301,396 for 2014 and \$218,467,473 for 2013	<u>309,732,741</u>	<u>315,192,265</u>
Total noncurrent assets	<u>346,918,802</u>	<u>353,348,634</u>
Total Assets	<u>423,414,348</u>	<u>427,999,324</u>
Deferred Outflows		
Unamortized deferred refunding balance	<u>944,510</u>	<u>1,164,896</u>
Total deferred outflows	<u>944,510</u>	<u>1,164,896</u>
Total Assets and Deferred Outflows	<u>\$ 424,358,858</u>	<u>\$ 429,164,220</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
 STATEMENTS OF NET POSITION
 June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 7,677,139	\$ 8,219,189
Accrued interest	754,707	776,810
Accrued salaries and benefits	5,164,918	7,201,146
Accrued compensated absences	5,761,632	5,061,215
Payroll withholding payable	1,160,483	1,141,862
Refundable deposits	571,720	521,100
Assets held for others	291,526	322,114
Unearned revenue	7,970,260	7,907,829
Bonds payable	5,254,746	5,158,932
Leases payable	<u>1,625,000</u>	<u>2,677,912</u>
Total current liabilities	<u>36,232,131</u>	<u>38,988,109</u>
Noncurrent Liabilities		
Bonds payable, noncurrent portion	57,712,816	62,967,561
Lease payable, noncurrent portion	<u>9,720,000</u>	<u>12,250,314</u>
Total noncurrent liabilities	<u>67,432,816</u>	<u>75,217,875</u>
 Total liabilities	 <u>103,664,947</u>	 <u>114,205,984</u>
Net Position		
Net investment in capital assets	236,364,690	233,302,441
Restricted		
Expendable for capital projects	12,031,271	16,058,845
Expendable for loans to students	6,522,666	6,541,461
Expendable for scholarships	3,850,631	1,489,754
Expendable for institutional support	1,438,729	1,878,383
Unexpendable for permanent endowment	11,467,772	12,235,154
Unrestricted	<u>49,018,152</u>	<u>43,452,198</u>
Total net position	<u>320,693,911</u>	<u>314,958,236</u>
 Total Liabilities and Net Position	 <u>\$ 424,358,858</u>	 <u>\$ 429,164,220</u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,862,500	\$ 1,705,168
Pledges receivable – net of allowance of \$73,816 for 2014 and \$10,000 for 2013	125,686	282,292
Accounts and notes receivable – net	48,014	52,279
Due from related parties – net	246,447	277,212
Prepaid expenses	-	647
Total current assets	<u>3,282,647</u>	<u>2,317,598</u>
Noncurrent assets		
Investments	62,082,933	53,755,763
Pledges receivable – net of allowance of \$196,799 for 2014 and \$65,000 for 2013	334,409	461,869
Property and equipment – net	<u>5,787,871</u>	<u>5,965,703</u>
Total noncurrent assets	<u>68,205,213</u>	<u>60,183,335</u>
Total Assets	<u>\$ 71,487,860</u>	<u>\$ 62,500,933</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 57,652	\$ 208,928
Due to related parties	169,400	387,724
Fair value adjustment in interest rate swap	-	76,438
Bonds payable, current maturities	<u>258,654</u>	<u>170,000</u>
Total current liabilities	485,706	843,090
Noncurrent liabilities		
Assets held for others	18,626,620	17,278,764
Bonds payable	1,115,058	985,000
Annuity payments and deferred giving liability	<u>364,328</u>	<u>367,764</u>
Total liabilities	<u>20,591,712</u>	<u>19,474,618</u>
Net assets		
Unrestricted	4,634,030	4,427,646
Temporarily restricted	18,427,092	12,798,029
Permanently restricted	<u>27,835,026</u>	<u>25,800,640</u>
Total net assets	<u>50,896,148</u>	<u>43,026,315</u>
Total Liabilities and Net Assets	<u>\$ 71,487,860</u>	<u>\$ 62,500,933</u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Tuition and fees – net	\$ 86,577,771	\$ 78,246,475
Federal grants and contracts	27,184,848	26,144,953
State grants and contracts	19,387,104	22,090,836
Nongovernmental grants, contracts, and gifts	1,497,884	1,610,372
Sales and services of educational activities	5,465,810	4,967,709
Auxiliary enterprises – housing	10,059,502	9,025,498
Auxiliary enterprises – other	3,654,189	3,905,795
Other operating revenues	<u>11,745,862</u>	<u>12,780,354</u>
Total operating revenues	<u>165,572,970</u>	<u>158,771,992</u>
OPERATING EXPENSES		
Educational and general		
Instruction	92,015,444	93,119,445
Research	1,114,323	1,740,544
Public service	41,480,436	41,485,864
Libraries	3,718,650	3,668,094
Academic support	19,815,713	20,795,090
Student services	18,166,962	18,202,692
Institutional support	25,589,695	29,924,241
Operations and maintenance of plant	22,792,239	17,095,120
Depreciation	13,155,660	14,739,558
Student financial aid	12,201,759	10,895,565
Auxiliary enterprises		
Housing and other auxiliaries	16,476,546	16,734,732
Depreciation	3,134,427	3,134,427
Other operating expenses	<u>242,976</u>	<u>308,463</u>
Total operating expenses	<u>269,904,830</u>	<u>271,843,835</u>
Operating loss	(104,331,860)	(113,071,843)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	67,673,700	67,673,700
Federal and state grants and contracts	41,083,988	41,508,321
Investment income	1,746,580	(84,840)
Interest expense	(2,018,681)	(1,938,749)
Other nonoperating revenues	2,135,906	2,167,826
Other nonoperating expenses	<u>(127,934)</u>	<u>(1,907,521)</u>
Net nonoperating revenues	<u>110,493,559</u>	<u>107,418,737</u>
Income (loss) before capital appropriations	6,161,699	(5,653,106)
Capital appropriations	<u>(426,024)</u>	<u>1,500,000</u>
Increase (decrease) in net position	<u>5,735,675</u>	<u>(4,153,106)</u>
Net position – beginning of year	314,958,236	320,257,544
Restatement for GASB 65	<u>-</u>	<u>(1,146,202)</u>
Net position – beginning of year, as restated	<u>314,958,236</u>	<u>319,111,342</u>
Net position – end of year	<u>\$ 320,693,911</u>	<u>\$ 314,958,236</u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND GAINS				
Contributions	\$ 293,958	\$ 1,349,948	\$ 1,267,004	\$ 2,910,910
Investment returns – net of investment expenses of \$268,626	120,088	1,374,131	-	1,494,219
Net realized and unrealized losses on investments	490,841	5,144,714	-	5,635,555
Other income – net	414,659	-	-	414,659
Change in allocation of funds held for others	-	(767,382)	767,382	-
Net assets released from restrictions – satisfaction of program and time restrictions	<u>1,472,349</u>	<u>(1,472,349)</u>	<u>-</u>	<u>-</u>
Total revenues and gains	2,791,895	5,629,062	2,034,386	10,455,343
EXPENSES				
Payments and support for the University	<u>2,585,510</u>	<u>-</u>	<u>-</u>	<u>2,585,510</u>
Change in net assets	206,385	5,629,062	2,034,386	7,869,833
Net assets – beginning of year	<u>4,427,646</u>	<u>12,798,029</u>	<u>25,800,640</u>	<u>43,026,315</u>
Net assets – end of year	<u>\$ 4,634,031</u>	<u>\$ 18,427,091</u>	<u>\$ 27,835,026</u>	<u>\$ 50,896,148</u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND GAINS				
Contributions	\$ 258,013	\$ 1,068,340	\$ 1,167,055	\$ 2,493,408
Investment returns – net of investment expenses of \$241,133	68,447	1,023,314	-	1,091,761
Net realized and unrealized losses on investments	539,678	6,010,021	-	6,549,699
Other income – net	662,928	-	-	662,928
Net assets released from restrictions – satisfaction of program and time restrictions	<u>1,452,379</u>	<u>(1,452,379)</u>	<u>-</u>	<u>-</u>
Total revenues and gains	<u>2,981,445</u>	<u>6,649,296</u>	<u>1,167,055</u>	<u>10,797,796</u>
EXPENSES				
Payments and support for the University	<u>2,437,013</u>	<u>-</u>	<u>-</u>	<u>2,437,013</u>
Change in net assets	544,432	6,649,296	1,167,055	8,360,783
Net assets – beginning of year	<u>3,883,214</u>	<u>6,148,733</u>	<u>24,633,585</u>	<u>34,665,532</u>
Net assets – end of year	<u>\$ 4,427,646</u>	<u>\$12,798,029</u>	<u>\$ 25,800,640</u>	<u>\$ 43,026,315</u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Tuition and fees	\$ 87,495,065	\$ 79,754,408
Grants, contracts and gifts	48,353,887	53,856,755
Payments to suppliers	(59,777,604)	(55,859,963)
Payments for utilities	(10,270,362)	(7,762,426)
Payments to employees	(127,997,837)	(131,522,336)
Payments for benefits	(45,592,456)	(46,221,549)
Payments to students	(11,525,870)	(10,198,968)
Loans issued to students and employees	(1,223,049)	(953,183)
Collections of loans to students and employees	931,807	1,034,905
Auxiliary enterprise charges		
Residence halls	10,071,959	9,151,632
Other	3,654,189	3,905,795
Sales and services of educational activities	5,465,810	4,967,709
Other receipts	<u>11,341,643</u>	<u>12,868,808</u>
Net cash used in operating activities	(89,072,818)	(86,978,413)
NONCAPITAL FINANCING ACTIVITIES		
State appropriations	67,673,700	67,673,700
Other nonoperating revenues – grants and contracts	<u>41,083,988</u>	<u>41,508,321</u>
Net cash provided by noncapital financing activities	108,757,688	109,182,021
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(12,986,722)	(23,329,322)
Principal paid on bonds payable and capital lease	(8,742,160)	(7,892,732)
Interest paid on bonds payable and capital lease	(1,820,398)	(1,868,190)
State reimbursement of capital lease payments	2,135,906	2,167,826
Proceeds from sale of capital assets	13,075	315,249
Capital appropriations	<u>(426,024)</u>	<u>1,500,000</u>
Net cash used in capital and related financing activities	(21,826,323)	(29,107,169)
INVESTING ACTIVITIES		
Change in restricted cash	2,465,259	14,821,554
Proceeds from sales and maturities of investments	8,991,352	7,258,055
Interest on investments	398,724	278,663
Purchase of investments	<u>(6,890,178)</u>	<u>(6,127,549)</u>
Net cash provided by investing activities	<u>4,965,157</u>	<u>16,230,723</u>
Increase in cash and cash equivalents	2,823,704	9,327,162
Cash and cash equivalents – beginning of year	<u>51,639,329</u>	<u>42,312,167</u>
Cash and cash equivalents – end of year	<u>\$ 54,463,033</u>	<u>\$ 51,639,329</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (104,331,860)	\$ (113,071,843)
Depreciation expense	16,290,087	17,873,985
Changes in operating assets and liabilities		
Accounts receivable – net	696,532	3,762,154
Loans to students – net	(291,242)	81,722
Inventories	(10,232)	50,793
Prepaid expenses	350,674	(670,607)
Accounts payable	(542,050)	822,735
Accrued liabilities	(1,317,190)	2,217,513
Refundable deposits	50,620	66,455
Assets held for others	(30,588)	(15,428)
Unearned revenue	<u>62,431</u>	<u>1,904,108</u>
Net cash flows used in operating activities	<u>\$ (89,072,818)</u>	<u>\$ (86,978,413)</u>

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. 61 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.

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 Position 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, realized gains 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. 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, 2014 and 2013, was \$748,190 and \$720,444, 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 Position date.

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

Deferred Outflows and Inflows of Resources – Deferred outflows represent the consumption of resources that are applicable to a future reporting period, but do not require any further exchange of goods or services. Deferred outflows of resources in the University's financial statements consist of the unamortized deferred refunding balance.

Net Position - Under the provisions of GASB Statement No. 63, resources of the University are classified for accounting and reporting purposes into the following net position categories:

Net investment in Capital Assets: Represents the University's investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to the acquisition, construction, or improvement of those assets.

Restricted – Expendable: Represents resources the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted – Unexpendable: Represents resources the University is legally or contractually obligated to retain in perpetuity.

Unrestricted: The unrestricted component of net position represents assets, deferred outflows, liabilities and deferred inflows whose use by the University is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board. Substantially all unrestricted resources are designated for academic and research programs and initiatives, capital projects and operating reserves.

Operating and Nonoperating Revenues and Expenses – Operating activities as reported on the Statements of Revenues, Expenses and Changes in Net Position are those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Primarily all of the University's expenses are from exchange transactions. Certain revenue streams are recorded as nonoperating revenues, as required by GASB standards, including state appropriations, federal Pell grant revenue, gifts and investment income. In addition, interest expense is shown as a nonoperating expense.

Release of Restricted Resources – When an expense or outlay is incurred for which both restricted and unrestricted resources 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.

(Continued)

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

Scholarship Discounts and Allowances – Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statements of Revenues, Expenses, and Changes in Net Position. 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, 2014, were \$51,222,747 and \$7,084,432, respectively. The scholarship allowances on tuition and fees and on housing for the year ended June 30, 2013, were \$52,305,485 and \$6,890,581, respectively. Payments made directly to students are presented as student financial aid expenses in the Statements of Revenues, Expenses, and Changes in Net Position.

Adoption of New Accounting Pronouncements - In fiscal year 2014, the provisions of the following GASB Statements became effective:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012. The provisions of this Statement were effective for periods beginning after December 15, 2012. This Statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The principal effect to the University of the adoption of GASB No. 65 resulted in the expensing of debt issuance costs. The University has reflected this accounting change retroactively as required by the standard. Therefore, the Unrestricted Net Position of the University at July 1, 2012 was decreased \$1,146,202. The effect of this change on the 2013 Statement of Changes in Revenue, Expenses and Net Position was a decrease of \$126,178 in interest expense and a corresponding increase in the change in Net Position.

In addition, the University has reclassified the unamortized deferred refunding balance (see Note 6) of \$1,164,896 at June 30, 2013 from part of long term borrowings to a deferred outflow as required by GASB No. 65.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, issued March 2012. The provisions of this Statement were effective for periods beginning after December 15, 2012. This Statement is intended to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, *Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*, and *No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The adoption of this standard did not have a significant impact on the University's financial condition, operating results or financial statements.

(Continued)

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

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement specifies the information required to be disclosed by the governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

Recent Accounting Pronouncements - As of June 30, 2014, the GASB has issued the following statements not yet implemented by the University.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2014. This Statement is intended to improve accounting and financial reporting by state and local governments for pensions. It improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement also will require the liabilities for underfunded pension liabilities to be reported on the Statement of Financial Position.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013. The provisions of this Statement are effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB No. 68* issued November 2013. This Statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognizes a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

The University's management has not yet determined the effect these statements will have on the University's financial statements. However, management does believe the adoption of GASB 68 will significantly decrease the University's net position when it is implemented.

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.

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.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

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

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

	<u>2014</u>	<u>2013</u>
Depository accounts		
Local bank deposits – collateral held as a pledge in the University's name	\$ 21,083,739	\$ 22,462,328
Cash on hand	11,502	11,033
State investment pool – uninsured and Uncollateralized	<u>47,029,339</u>	<u>45,292,774</u>
Total deposits	<u>\$ 68,124,580</u>	<u>\$ 67,766,135</u>

Deposits at June 30 as presented on the Statement of Net Position include:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 54,463,033	\$ 51,639,329
Restricted cash and cash equivalents	<u>13,661,547</u>	<u>16,126,806</u>
Total deposits	<u>\$ 68,124,580</u>	<u>\$ 67,766,135</u>

Investments at June 30 consisted of:

	<u>2014</u>	<u>2013</u>
Money market funds	\$ 25	\$ 86,046
Restricted assets held by the Foundation	<u>18,626,620</u>	<u>17,278,764</u>
Total investments	<u>\$ 18,626,645</u>	<u>\$ 17,364,810</u>

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)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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:

	<u>2014</u>	<u>2013</u>
Percentage of pool invested in:		
Cash equivalents – trustee	6%	7%
Registered investment companies equity funds	67	64
Registered investment companies fixed income funds	13	13
Alternative investments	<u>14</u>	<u>16</u>
Total	<u>100%</u>	<u>100%</u>

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal policy to specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings provide information about the investment’s credit risk. The University does not have a formal policy that would limit its investment choices. However, investments are required to be in compliance with Commonwealth statute.

The credit quality of the University’s investments as of June 30, 2014, is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Not Rated</u>	<u>AAA/Aaa</u>	<u>AA, A, and BBB</u>
Cash equivalents – trustee	\$ 1,048,195	\$ 1,048,195	\$ -	\$ -
Investments with Foundation	<u>17,578,450</u>	<u>15,115,767</u>	<u>590,226</u>	<u>1,872,457</u>
Total investments	<u>\$ 18,626,645</u>	<u>\$ 16,163,962</u>	<u>\$ 590,226</u>	<u>\$ 1,872,457</u>

The credit quality of the University’s investments as of June 30, 2013, is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Not Rated</u>	<u>AAA/Aaa</u>	<u>AA, A, and BBB</u>
Cash equivalents – trustee	\$ 1,178,198	\$ 1,178,198	\$ -	\$ -
Investments with Foundation	<u>16,186,612</u>	<u>14,579,587</u>	<u>516,213</u>	<u>1,090,812</u>
Total investments	<u>\$ 17,364,810</u>	<u>\$ 15,757,785</u>	<u>\$ 516,213</u>	<u>\$ 1,090,812</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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 Income – Investment income for the year ended June 30, 2014 resulted in a gain of \$1,746,580 consisting primarily of unrealized gain of investments and an interest accrual adjustment from the Kentucky Department of Finance who manages the University's cash investments.

Investment income for the year ended June 30, 2013 resulted in a loss of \$84,840 consisting primarily of unrealized losses of investments and an interest accrual adjustment from the Kentucky Department of Finance who manages the University's cash investments.

NOTE 3 – ACCOUNTS RECEIVABLE

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

	<u>2014</u>	<u>2013</u>
Student tuition and fees	\$ 7,333,188	\$ 8,233,263
Auxiliary enterprises	486,252	464,144
Federal, state and private grants and contracts	11,253,762	11,239,860
Other state agencies	28,198	28,198
Other	<u>2,621,791</u>	<u>2,143,575</u>
Total	21,723,191	22,109,040
Less allowance for uncollectible accounts	<u>(2,478,305)</u>	<u>(2,167,622)</u>
Accounts receivable – net	<u>\$ 19,244,886</u>	<u>\$ 19,941,418</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014, is as follows:

	Balance - June 30, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	Balance – June 30, <u>2014</u>
Capital assets not being depreciated					
Land	\$ 5,637,953	\$ -	\$ -	\$ -	\$ 5,637,953
Works of art	23,000	8,300	-	-	31,300
Livestock for educational purposes	334,720	126,780	-	-	461,500
Construction in progress	<u>17,877,270</u>	<u>8,988,904</u>	<u>(36,875)</u>	<u>(22,861,790)</u>	<u>3,967,509</u>
Total capital assets not being depreciated	23,872,943	9,123,984	(36,875)	(22,861,790)	10,098,262
Other capital assets					
Land improvements	56,025,073	23,660	(8,400)	-	56,040,333
Buildings	381,030,227	113,134	-	22,861,790	404,005,151
Leasehold improvements	556,987	-	-	-	556,987
Equipment	31,161,430	2,541,673	(6,187,416)	-	27,515,687
Library books	<u>41,013,077</u>	<u>1,184,272</u>	<u>(379,632)</u>	<u>-</u>	<u>41,817,717</u>
Total other capital assets	509,786,794	3,862,739	(6,575,448)	22,861,790	529,935,875
Less accumulated depreciation for					
Land improvements	(18,547,414)	(3,149,744)	3,267	-	(21,693,891)
Buildings	(142,669,680)	(10,153,082)	-	-	(152,822,762)
Leasehold improvements	(197,666)	(80,495)	-	-	(278,161)
Equipment	(22,496,789)	(1,629,737)	4,073,265	-	(20,053,261)
Library books	<u>(34,555,924)</u>	<u>(1,277,029)</u>	<u>379,632</u>	<u>-</u>	<u>(35,453,321)</u>
Total accumulated depreciation	<u>(218,467,473)</u>	<u>(16,290,087)</u>	<u>4,456,164</u>	<u>-</u>	<u>(230,301,396)</u>
Capital assets – net	<u>\$ 315,192,264</u>	<u>\$ (3,303,364)</u>	<u>\$ (2,156,159)</u>	<u>\$ -</u>	<u>\$ 309,732,741</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 4 – CAPITAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2013, is as follows:

	Balance - June 30, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	Balance – June 30, <u>2013</u>
Capital assets not being depreciated					
Land	\$ 5,637,953	\$ -	\$ -	\$ -	\$ 5,637,953
Works of art	18,000	5,000	-	-	23,000
Livestock for educational purposes	446,900	-	(112,180)	-	334,720
Construction in progress	<u>31,467,288</u>	<u>19,703,845</u>	<u>-</u>	<u>(33,293,863)</u>	<u>17,877,270</u>
Total capital assets not being depreciated	37,570,141	19,708,845	(112,180)	(33,293,863)	23,872,943
Other capital assets					
Land improvements	24,524,039	-	-	31,501,034	56,025,073
Buildings	379,286,472	24,055	-	1,719,700	381,030,227
Leasehold improvements	483,858	-	-	73,129	556,987
Equipment	31,495,993	1,409,395	(1,743,958)	-	31,161,430
Library books	40,280,754	1,354,066	(621,743)	-	41,013,077
Capitalized bond costs	<u>1,414,490</u>	<u>440,788</u>	<u>(1,855,278)</u>	<u>-</u>	<u>-</u>
Total other capital assets	477,485,606	3,228,304	(4,220,979)	33,293,863	509,786,794
Less accumulated depreciation for					
Land improvements	(15,752,261)	(2,795,153)	-	-	(18,547,414)
Buildings	(132,335,029)	(10,334,651)	-	-	(142,669,680)
Leasehold improvements	(116,094)	(81,572)	-	-	(197,666)
Equipment	(20,964,750)	(3,251,633)	1,719,594	-	(22,496,789)
Library books	(33,913,828)	(1,263,839)	621,743	-	(34,555,924)
Amortization – capitalized bond costs	<u>(268,288)</u>	<u>(147,136)</u>	<u>415,424</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>(203,350,250)</u>	<u>(17,873,984)</u>	<u>2,756,761</u>	<u>-</u>	<u>(218,467,473)</u>
Capital assets – net	<u>\$ 311,705,497</u>	<u>\$ 5,063,165</u>	<u>\$ (1,576,398)</u>	<u>\$ -</u>	<u>\$ 315,192,264</u>

NOTE 5 – UNEARNED REVENUE

Unearned revenue as of June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Unearned summer school revenue and activity fees	\$ 3,179,114	\$ 3,472,578
Unearned grants and contracts revenue	4,335,895	4,037,942
Other	<u>455,251</u>	<u>397,309</u>
Total	<u>\$ 7,970,260</u>	<u>\$ 7,907,829</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS

Long-term liabilities as of June 30, 2014, and long-term activity for the year ended June 30, 2014, are summarized as follows:

	Balance - July 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refunding</u>	Balance - June 30, <u>2014</u>	Balance Due Within <u>One Year</u>
Revenue bonds payable	\$ 39,725,000	\$ -	\$ (2,215,000)	\$ -	\$ 37,510,000	\$ 2,280,000
General receipts refunding bonds	25,130,000	-	(2,325,000)	-	22,805,000	2,415,000
Capitalized lease obligations	14,928,227	-	(3,583,228)	-	11,344,999	1,625,000
Unamortized bond premium	<u>3,271,494</u>	<u>-</u>	<u>(618,932)</u>	<u>-</u>	<u>2,652,562</u>	<u>559,746</u>
	<u>\$ 83,054,721</u>	<u>\$ -</u>	<u>\$ (8,742,160)</u>	<u>\$ -</u>	<u>\$ 74,312,561</u>	<u>\$ 6,879,746</u>

Long-term liabilities as of June 30, 2013, and long-term activity for the year ended June 30, 2013, are summarized as follows:

	Balance - July 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refunding</u>	Balance - June 30, <u>2013</u>	Balance Due Within <u>One Year</u>
Revenue bonds payable	\$ 50,665,000	\$ -	\$ (2,150,000)	\$ (8,790,000)	\$ 39,725,000	\$ 2,215,000
General receipts refunding bonds	-	27,715,000	(2,585,000)	-	25,130,000	2,325,000
Capitalized lease obligations	39,509,728	-	(2,718,274)	(21,863,227)	14,928,227	2,677,912
Unamortized bond premium	<u>-</u>	<u>3,953,961</u>	<u>(682,467)</u>	<u>-</u>	<u>3,271,494</u>	<u>618,932</u>
	<u>\$ 90,174,728</u>	<u>\$ 31,668,961</u>	<u>\$ (8,135,741)</u>	<u>\$ (30,653,227)</u>	<u>\$ 83,054,721</u>	<u>\$ 7,836,844</u>

Consolidated Education Buildings Revenue Bonds – Consolidated Education Buildings Revenue Bonds were sold to construct or renovate certain academic and services buildings on campus or to refinance prior issues. The bonds, 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. Total principal outstanding at June 30, 2012, was \$8,790,000. As discussed below, on July 3, 2012, the remaining outstanding bond (Consolidated Education Buildings Revenue Bonds Series V) were advanced refunded as part of the 2012 Series A General Receipts Revenue bonds transaction.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

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 a net interest rate of 4.41%. The proceeds of this bond issue provided funding for the renovation of the Sidney Clay Residence Hall and the refunding of the Eastern Kentucky University Housing System Revenue Bonds. The bonds mature in varying amounts through May 1, 2027. 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 2014 and 2013, \$750,000 and \$720,000 of principal and \$389,625 and \$418,625 of interest were paid on the bonds. Total outstanding principal at June 30, 2014 and 2013, was \$8,565,000 and \$9,315,000, respectively.

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 years 2014 and 2013, \$625,000 and \$610,000 of principal and \$361,039 and \$376,872 of interest were paid on the bonds. Total outstanding principal at June 30, 2014 and 2013 was \$9,125,000 and \$9,750,000, respectively.

On December 8, 2011, the University sold \$21,480,000 of Eastern Kentucky University General Receipt Bonds, Series 2011A, at a net interest cost of 3.74%. The proceeds of this bond issue provided funding for a new residence hall. The bonds mature in varying amounts through October 1, 2031. During fiscal years 2014 and 2013, \$840,000 and \$820,000 of principal and \$659,588 and \$732,977 of interest were paid on the bonds. Total outstanding principal at June 30, 2014 and 2013 is \$19,820,000 and \$20,660,000, respectively.

On July 3, 2012, the University sold \$27,700,000 of Eastern Kentucky University General Receipts Refunding Bonds, 2012 Series A bonds, at an effective interest rate of 3.49% to advance refund Consolidated Education Revenue Bonds Series V (June 1, 2004, which refinanced outstanding Housing Revenue Series bonds and provided additional funding for the replacement of the campus underground electrical system) of \$8,790,000 and a master lease (September 25, 2008 for an energy savings performance contract) of \$21,863,227. The 2012 Series A bond agreement includes certain covenants and guidelines related to the University's indebtedness.

The net proceeds of \$31,350,000 (including the Original Issuer's Premium) of the 2012 Series A Bonds were used (after payment of underwriting fees, insurance, and other issuance costs) to purchase U.S. government securities. Those securities were deposited to an irrevocable trust with an escrow agent to provide for all future debt service payments on those Series V bonds and the energy savings lease. As a result, the Series V bonds and energy savings lease are considered to be defeased and the liabilities for these obligations have been removed from the statement of Net Position. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,407,906. This difference, reported under GASB 65 (see Note 1) as a deferred outflow, is being charged to operations through the year 2024 using the effective-interest method. The University completed the advance refunding to reduce its total debt service payments over the next 12 years. The resulting savings on a present value basis is approximately \$2.35 million. The balance of the defeased debt in the escrow account at June 30, 2014 is approximately \$8.0 million.

During fiscal years 2014 and 2013, \$2,325,000 and \$2,585,000 of principal and \$1,185,760 and \$1,307,481 of interest was paid on the bonds. The outstanding principal at June 30, 2014 and 2013 is \$22,805,000 and \$25,130,000, respectively.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

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. As discussed above, this master lease agreement was completely refunded as of July 3, 2012 as part of the 2012 Series A Bonds transaction.

During fiscal years 2014 and 2013, \$3,583,226 and \$24,581,501 of principal and \$569,406 and \$755,622 of interest were paid on the capital leases, respectively. The principal maturities and interest repayment requirements on bonds and capital leases are as follows:

Years ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 6,879,746	\$ 2,959,820	\$ 9,839,566
2016	7,048,259	2,728,964	9,777,223
2017	7,234,315	2,483,725	9,718,040
2018	7,452,565	2,194,145	9,646,710
2019	7,677,505	1,892,723	9,570,228
2020-2024	24,805,171	5,211,625	30,016,796
2025-2029	8,980,000	1,874,286	10,854,286
2030-2033	<u>4,235,000</u>	<u>258,700</u>	<u>4,493,700</u>
	<u>\$ 74,312,561</u>	<u>\$ 19,603,988</u>	<u>\$ 93,916,549</u>

Assets under capital leases at original cost totaled \$27,983,345 and \$29,763,102, with accumulated depreciation of \$6,296,942 and \$12,920,447 at June 30, 2014 and 2013, respectively.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 7 – DESIGNATIONS OF UNRESTRICTED NET POSITION

Unrestricted Net Position is 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 Position at June 30 are as follows:

	<u>2014</u>	<u>2013</u>
Inventories	\$ 387,753	\$ 377,521
Outstanding encumbrances	4,034,299	2,141,357
Departmental commitments	19,577,904	17,009,836
Designated projects and contingency reserves	12,986,003	13,781,831
Health care self-insurance reserve	2,600,000	2,300,000
Auxiliary working capital	<u>9,432,194</u>	<u>8,620,394</u>
Total	<u>\$ 49,018,153</u>	<u>\$ 44,230,939</u>

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 College of Justice and Safety POD was liquidated in 2010 to fund an addition to the Stratton Building.

The total fair market value of the Eastern Kentucky University RUETF and POD endowment as of June 30, 2014 and 2013 was \$18,626,620 and \$17,278,764, respectively.

The portion of the RUETF endowment representing the value of the funding received from the Kentucky General Assembly, plus unexpended earnings thereon, was \$16,757,132 and \$15,603,291 as of June 30, 2014 and 2013, 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, 2014 and 2013 was \$1,869,488 and \$1,675,473, respectively, and is included in restricted assets held by the Foundation (see Note 2).

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)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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:

	<u>2014</u>	<u>2013</u>
Funds disbursed by the University on behalf of the Foundation:		
For employee salaries and benefits	\$ 83,541	\$ 245,393
For scholarships	433,916	339,836
Funds held by the Foundation on behalf of or for the benefit of the University as of June 30	18,626,620	17,278,764
Funds due to the University by the Foundation	146,933	387,724

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 highest three or five year 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 hired prior to July 1, 2008 contribute 6.50% of their annual salary and the University contributes 14.18%. Employees participating in KTRS hired after June 1, 2008 contribute 7.16% and the University contributes 14.84%.

Effective August 1, 1996, optional 403(b) defined contribution retirement plans are available for new employees who would otherwise be covered by the KTRS. The providers of the optional retirement plans are Aetna (ING), TIAA/CRFF, 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 KTRS that is associated with the Optional Retirement Plan. The rate previously floated on an annual basis depending upon the unfunded liability of the KTRS. Senate Bill 65 changed the floating rate to a fixed rate of 5.1% effective April 7, 2008. The fixed rate is set to expire on July 1, 2048. As of April 7, 2008, the employee contribution to their selected plan is 6.16% of their annual salary. As determined by the KTRS Board of Trustees, the University contributes 8.74% and also provides an additional 5.10% to KTRS as an unfunded liability.

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.

(Continued)

NOTE 10 – PENSION PLANS (Continued)

Substantially all other full-time University employees are required by law to participate in the Kentucky Employee's Retirement System ("KERS"), a cost sharing multiple-employer, public employee retirement system. KERS provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age 65 or has less than 27 years of service. The plan also provides for disability, death and survivor benefits, and medical insurance. Employees in nonhazardous positions contribute 5% of salary. Employers contribute at the rate determined by the KERS Board of Trustees to be necessary for the actuarial soundness of the systems as required by KRS 61.565. The employer rate is reviewed annually following valuation of the plan. Effective July 1, 2011 the University contribution rate to KERS is 19.82%. Employees hired prior to September 1, 2008 contribute 5% of their annual salary, 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.

The total pension cost, which equal the University's contributions and the required contributions, for all retirement plans for the years ended June 30, 2014, 2013 and 2012 was \$19,600,000, \$19,549,000 and \$17,944,000, respectively. Employees contributed approximately \$7,017,000, \$7,175,000 and \$6,993,000, in fiscal years 2014, 2013 and 2012, respectively. The University's total payroll costs were approximately \$126,301,000, \$133,187,000 and \$132,269,000, respectively for the years ended June 30, 2014, 2013 and 2012. The payroll for employees covered by the retirement plan was approximately \$109,448,000, \$114,882,000 and \$115,417,000, for the years ended June 30, 2014, 2013 and 2012, 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 75% 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, 2014 and 2013, totaled \$14,412,568 and \$16,637,422, respectively. Administrative fees incurred for the years ended June 30, 2014 and 2013, were \$567,629 and \$1,303,066, respectively.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 11 – RISK MANAGEMENT

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Liability – beginning of year	\$ 1,200,000	\$ 1,178,653	\$ 1,274,668
Accruals for current year claims and changes in estimate	15,935,520	17,961,835	16,959,314
Claims paid	(14,412,568)	(16,637,422)	(15,838,333)
Other costs	<u>(899,341)</u>	<u>(1,303,066)</u>	<u>(1,216,996)</u>
Liability – end of year	<u>\$ 1,823,611</u>	<u>\$ 1,200,000</u>	<u>\$ 1,178,653</u>

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Construction Commitments – The estimated cost to complete construction projects under contract at June 30, 2014, is approximately \$95.7 million. The projects are to be financed principally by appropriations from the Commonwealth, proceeds from bonds, internal funds and gifts.

Voluntary Buyout Program (“VBP”) – During the year ended June 30, 2013, the University’s Board of Regents authorized the development of a Strategic Reallocation of Budget Plan including a plan for a reduction in workforce. The expense for the year June 30, 2013 related to the 130 employees who elected the VBP was \$3,365,696. At June 30, 2013, \$1,610,742 of the VBP expense was accrued to be paid in fiscal 2014. The expense was paid in fiscal 2014, leaving no remaining VBP obligation.

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 University’s financial position or results of operations.

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

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 13 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

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

	<u>2014</u>	<u>2013</u>
Salaries and wages	\$ 126,301,584	\$ 133,187,298
Employee benefits	45,971,519	46,774,099
Supplies and other services	55,606,626	50,905,426
Travel	4,706,466	4,813,444
Depreciation	16,290,087	17,873,985
Student scholarships and financial aid	11,525,870	10,198,968
Utilities	9,247,127	7,762,426
Other operating expenses	<u>255,551</u>	<u>328,189</u>
Total	<u>\$ 269,904,830</u>	<u>\$ 271,843,835</u>

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation – The financial information of the Foundation has been prepared in conformity with accounting principles generally accepted in the United States of America as established by the Financial Accounting Standards Board (FASB). Certain FASB standards differ from GASB standards. No modifications have been made to the Foundation financial information included in the University’s financial report to account for these differences. The complete financial statements for the Foundation may be obtained by a written request to the Eastern Kentucky University Foundation, Inc., 521 Lancaster Avenue, CPO 19, Richmond, KY 40475

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.

(Continued)

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

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. Periodically throughout the year, the Foundation's cash balance exceeds the amount insured by the Federal Deposit Insurance Corporation, including at year-end.

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, 2014 and 2013. 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 \$8,467,000 and \$8,249,000 as of June 30, 2014 and 2013, respectively.

The Foundation has adopted The *Uniform Prudent Management of Institutional Funds Act* ("UPMIFA"). Under UPMIFA, net appreciation on endowment fund investments, whose income is otherwise unrestricted as to use, is reported as temporarily restricted net assets until appropriated for expenditure by the Foundation, unless the donor has permanently restricted such net appreciation. In cases where the donor has placed temporary restrictions on the use of the income from endowed gifts, related net appreciation is subject to those restrictions and is reported as a part of temporarily restricted net assets until the restriction has been met.

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 14 – 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.

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 \$21,814,274 and \$18,184,196 at June 30, 2014 and 2013, 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.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

B. INVESTMENTS AND INVESTMENT RETURNS

Investments held at June 30, 2014 and 2013, by the Foundation were as follows:

	<u>2014</u>	<u>2013</u>
Money market funds	\$ 3,941,216	\$ 3,563,842
Fixed income funds	8,444,135	7,337,828
Equity funds	41,208,326	34,592,781
Real estate	22,452	12,026
Alternatives	<u>8,466,804</u>	<u>8,249,286</u>
Total investments	<u>\$ 62,082,933</u>	<u>\$ 53,755,763</u>

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, 2014 and 2013. 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.

C. FAIR VALUE OF FINANCIAL INSTRUMENTS

U.S. GAAP 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.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The fair value of financial instruments as of June 30, 2014 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	\$ 3,941,216	\$ 3,941,216	\$ -	\$ -
Fixed income funds	8,444,135	8,444,135	-	-
Equity funds	41,208,326	41,208,326	-	-
Real estate	22,452	22,452	-	-
Alternatives:				
Hedge funds	5,012,400	-	5,012,400	-
Limited partnerships	<u>3,454,404</u>	<u>-</u>	<u>-</u>	<u>3,454,404</u>
Total investments	<u>\$ 62,082,933</u>	<u>\$ 53,616,129</u>	<u>\$ 5,012,400</u>	<u>\$ 3,454,404</u>

The fair value of financial instruments as of June 30, 2013 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	\$ 3,563,842	\$ 3,563,842	\$ -	\$ -
Fixed income funds	7,337,828	7,337,828	-	-
Equity funds	34,592,781	34,592,781	-	-
Real estate	12,026	12,026	-	-
Alternatives:				
Hedge funds	4,798,215	-	4,798,215	-
Limited partnerships	<u>3,451,071</u>	<u>-</u>	<u>-</u>	<u>3,451,071</u>
Total investments	<u>\$ 53,755,763</u>	<u>\$ 45,506,477</u>	<u>\$ 4,798,215</u>	<u>\$ 3,451,071</u>
Interest rate swap	\$ 76,438	\$ -	\$ 76,438	\$ -

(Continued)

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

D. NET ASSETS

Temporarily Restricted Net Assets – Temporarily restricted net assets, net of amounts held for others, is available for scholarships and other program support.

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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Purpose restrictions accomplished/time restrictions expired:		
Scholarship program expenses	\$ 433,916	\$ 339,836
Other educational program areas and support	<u>1,038,433</u>	<u>1,112,543</u>
	<u>\$ 1,472,349</u>	<u>\$ 1,452,379</u>

E. RELATED-PARTY TRANSACTIONS

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 \$146,933 and \$387,724 as of June 30, 2014 and 2013, respectively.

The University disbursed \$83,541 and \$245,393 on behalf of the Foundation for employee salaries and benefits during the years ended June 30, 2014 and 2013, respectively. The University disbursed \$433,916 and \$339,836 on behalf of the Foundation for scholarships during the years ended June 30, 2014 and 2013, respectively. These disbursements are not reimbursed by the Foundation.

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.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

F. BONDS AND NOTES PAYABLE

The Foundation issued an unsecured, commercial note in the amount of \$1,500,000 for the purpose of refunding the Variable Rate Demand Economic Development Revenue Bonds, Series 2008 issuance. The note matures in 2019 and has a fixed interest rate of 2.97% per annum.

Scheduled principal repayment requirements are as follows:

Year ending June 30,	
2015	\$ 258,654
2016	266,441
2017	274,463
2018	282,726
2019	<u>291,428</u>
Total	<u>\$ 1,373,712</u>

G. ASSETS HELD FOR OTHERS

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

	<u>2014</u>	<u>2013</u>
Eastern Kentucky University – investments held for Regional University Endowment Trust Fund Programs of Distinction	\$ 16,757,132 <u>1,869,488</u>	\$ 15,603,291 <u>1,675,473</u>
Total	<u>\$ 18,626,620</u>	<u>\$ 17,278,764</u>
