EASTERN KENTUCKY UNIVERSITY

REPORT ON AUDIT OF INSTITUTION OF HIGHER EDUCATION IN ACCORDANCE WITH UNIFORM GUIDANCE

June 30, 2016

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Regents
Eastern Kentucky University and
The 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" or "University"), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2016 and 2015, 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 did not audit the financial statements of Eastern Kentucky University Foundation, Inc., which represents the entire discretely presented component unit of the University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Eastern Kentucky University Foundation, Inc., is based solely on the report of other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Eastern Kentucky University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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.

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, based on our audits and the reports of other auditors, 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, 2016 and 2015, 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, the Schedule of the University's Proportionate Share of the Net Pension Liability on page 80, and the Schedule of the University's Contributions on page 81, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cast Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 3, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 3, 2016

Introduction

Eastern Kentucky University ("EKU" or the "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. Nearly 89% of EKU undergraduates are Kentucky residents, the highest of all public, 4-year institutions in Kentucky. In addition, 76% of EKU graduates are employed in Kentucky the year after graduation, also the state's highest among all public 4-year institutions.

In addition to the main campus located in Richmond, Kentucky, the University has five 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 is consistently recognized among the nation's best, leading the nation in the number of student presenters at the National Collegiate Honors Council for the past 27 years. 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 2015 semester, the University served approximately 17,000 students, a near-record current enrollment for EKU. A growing number of students are attributable to the University's online program which is now available for 31 complete degree programs, and is ranked among the nation's best and most affordable of online programs in the United States. The fall 2015 freshman class is the best-prepared in the University's history with 39% award merit scholarship, the highest ACT and GPA scores, and the number of Governor's Scholars up more than 70%.

The University has consistently ranked in the top tier of Regional Universities in the South as published by *U.S. News & World Report* for the past six years. The University is home to more than 1,500 veterans and their dependents and has been ranked no lower than third nationally five of the past six years among the "*Best for Vets: Business Schools*" by Military Times *EDGE* magazine. In addition, *Forbes Magazine* has rated Eastern among "*America's Best Colleges*" for eight consecutive years. The University is also ranked among a prestigious group of colleges and universities with the distinction of "*Great Colleges to Work For*" five of the last eight years according to the annual report on the academic workplace by the *Chronicle of Higher Education.*

EKU recently concluded their most successful year in private fund-raising in the past 13 years, bringing in $8.9 million in gifts and pledges the fiscal year 2016. Eastern Kentucky University is one of only 361 U.S. colleges and universities selected for the 2015 Community Engagement Classification from the Carnegie Foundation for the Advancement of Teaching. The University has been recognized for five consecutive years for Contributions to the Public Good from *Washington Monthly* magazine and is one of only three institutions in the U.S. to receive the 2014 Award for Outstanding Institutional Practice in Student Learning Outcomes according to the Council for Higher Education Accreditation.

The audited financial statements for the fiscal year 2016 for Eastern Kentucky 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, 2016, with selected comparative information for the years ended June 30, 2015 and June 30, 2014. The MD&A should be read in conjunction with the accompanying financial statements and notes.

Financial Highlights

At June 30, 2016, Eastern Kentucky University's financial position increased as reflected in the Statement of Net Position.

- Total assets increased by $41.8 million to $507.4 million at June 30, 2016, compared to $465.6 million at June 30, 2015. The major factors affecting this increase include an increase in net capital assets of $52.1 million, offset by a decrease in cash of $15.6 million.

- With the adoption of GASB 68 in FY15, the contributions to the KTRS and KERS pensions are reflected as a deferred outflow. Deferred outflows of the pensions increased by $43.7 million to $59.7 million at June 30, 2016, compared to $16 million at June 30, 2015.

- Overall liabilities increased by $58.1 million to $576.2 million at June 30, 2016, compared to $518.1 million at June 30, 2015. This increase is primarily the result of a $65.4 million increase in Net Pension Liability.

- Total net position at June 30, 2016 increased $12.2 million to $(42.9) million over the June 30, 2015 amount of $(55.1) million. The greatest factors affecting this increase include an increase in investments in capital assets of $44.3 million, and a decrease in funds restricted for capital projects of $8.4 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, 2016 and June 30, 2015, 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 2016 and 2015 fiscal years, 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 2014 financial information (shown in the Management's Discussion and Analysis) has been retroactively restated where applicable as required by the implementation of GASB 68. 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").

Statement of Net Position

The Statement 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.

(Continued)

Assets – Total assets at June 30, 2016, were $507.4 million compared to $465.6 million at June 30, 2015, an increase of $41.8 million.

Cash and Cash Equivalents – Total cash and cash equivalents at June 30, 2016, totaled $69.9 million; $15.6 million less than the June 30, 2015, level of $85.5 million. This decrease is attributable primarily to a decrease of cash and cash equivalents from operations totaling $14.8 million.

Investments – The Foundation holds and manages investments owned by the University. At June 30, 2016, the market value of investments held by the Foundation on behalf of the University was $16.8 million compared to $17.7 million at June 30, 2015, a decrease of $810 thousand.

Capital Assets – The historical cost, less accumulated depreciation, of the University's capitalized assets was $388.5 million as of June 30, 2016, a net increase after depreciation of $52.1 million from the $336.4 million balance at June 30, 2015. The largest contributions to this increase include a $46.2 million increase in capital assets in progress primarily attributable to construction of Phase II of the Science Building. Depreciation expense for the fiscal year totaled $15.1 million.

Other Asset Categories – The balances in the various other asset categories were essentially unchanged at June 30, 2016, compared to June 30, 2015, with the exception of accounts receivable (net of allowance) which increased in total by $7.3 million; loans to students, which decreased in total by $499 thousand; and prepaid interest, which decreased in total by $757 thousand.

Deferred Outflows – With the adoption of GASB Statement No. 65 and No. 68, 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, 2016, totaled $60.5 million and represent the unamortized deferred refunding balance of bonds, as well as the contributions to the KTRS and KERS pension. This is an increase of $43.7 million over the June 30, 2015 balance of $16.8 million.

Liabilities – Total liabilities at June 30, 2016, were $576.2 million compared to $518.1 million at June 30, 2015. This increase of $58.1 million is primarily attributable to an increase in Net Pension Liability from fiscal year 2015 of $65.4 million.

Bonds Payable and Capital Lease Obligations – In total, bonds payable and capital lease obligations decreased by $7.3 million as of June 30, 2016, compared to June 30, 2015. At June 30, 2016, the total bonds payable and capital lease obligations were $100.8 million versus $108.1 million at June 30, 2015. This decrease is attributable primarily to the principal payments made on the bonds and capital leases.

Other Liability Categories – At June 30, 2016, the balances in various other liability categories decreased by $100 thousand to $28.8 million compared to $28.9 million at June 30, 2015. 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 2016, for summer school classes.

Deferred Inflows – With the adoption of GASB Statement No. 65 and No. 68, deferred inflows are now being recognized as what was previously reported as a component of liabilities. The deferred inflows for the year ended June 30, 2016, totaled $34.6 million and represent the KTRS and KERS pension, as well as a Service Concession for Housing projects currently being constructed as part of the P3 initiative on campus. This is an increase of $15.2 million compared to the June 30, 2015 deferred Inflows balance of $19.4 million.

(Continued)

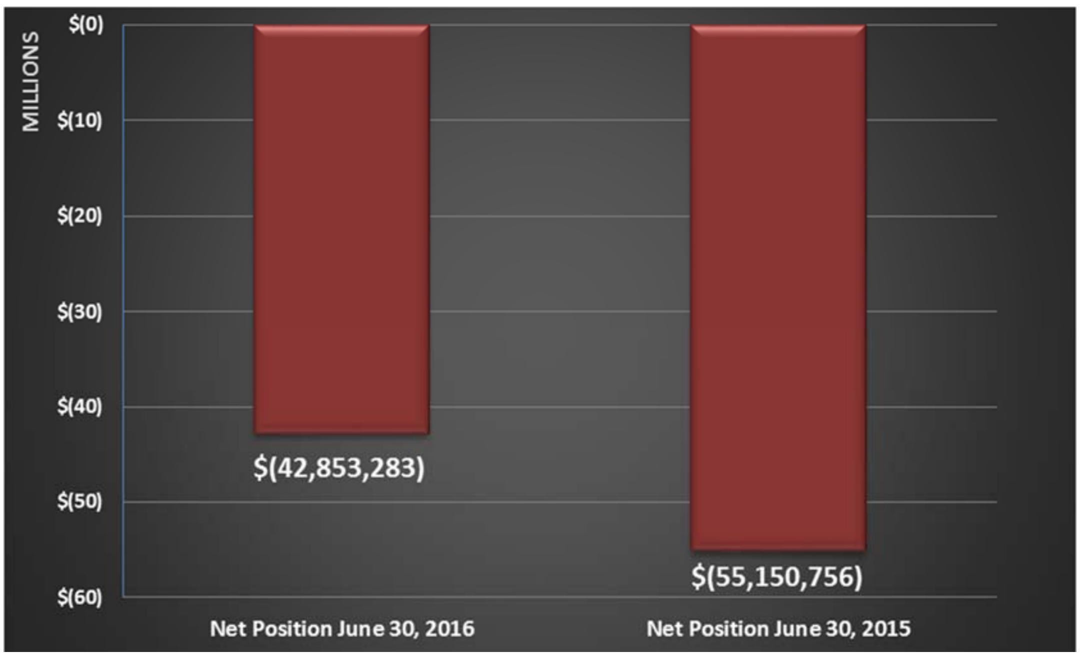
Net Position – Total Net Position at June 30, 2016, was $(42.9) million; an increase of $12.2 million over the $(55.1) million at June 30, 2015.

Net Investment in Capital Assets – Net position invested in capital assets increased by $44.4 million as of June 30, 2016, to $288.5 million compared to the June 30, 2015, level of $244.1 million. The primary contributing factor to this increase was acquiring capital assets offset by the depreciation of assets.

Restricted Net Position – In total, restricted net position decreased by $10.3 million to $23.1 million at June 30, 2016, compared to $33.4 million at June 30, 2015. The net decrease is primarily attributable to the decrease in restricted expendable for capital projects of $8.4 million.

Unrestricted Net Position – Unrestricted net position decreased by $21.8 million to $(354.5) million at June 30, 2016, compared to the June 30, 2015, unrestricted net position of $(332.7) million. This decrease is primarily attributable to the increase of the KTRS and KERS Pension expense.

The chart below illustrates the net position for the years ended June 30, 2016 and 2015:



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.

	2016	2015	2014
Inventories	$ 468	$ 374	$ 388
Outstanding encumbrances	6,328	6,908	4,034
Departmental commitments	14,547	14,564	19,578
Designated projects and contingency reserves	4,328	6,290	12,986
Health care self-insurance reserve	3,000	3,000	2,600
Auxiliary working capital	8,315	11,271	9,432
University capital projects	7,906	9,345	-
KTRS Pension	(252,462)	(247,320)	(242,940)
KERS Pension	(146,900)	(137,125)	(135,013)
Total unrestricted	$ (354,470)	$ (332,693)	$ (328,935)

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

	2016	2015	2014
ASSETS			
Current assets	$ 71,569	$ 79,756	$ 76,496
Capital assets – net	388,560	336,441	309,732
Other noncurrent assets	47,320	49,432	37,186
Total assets	$ 507,449	$ 465,629	$ 423,414
DEFERRED OUTFLOWS			
Unamortized deferred refunding balance	$ 748	$ 745	$ 944
Contributions to KTRS/KERS Pensions	59,709	16,010	11,679
Total deferred outflows	$ 60,457	$ 16,755	$ 12,623
LIABILITIES			
Current liabilities	$ 36,771	$ 36,609	$ 36,232
Noncurrent liabilities	539,428	481,574	457,065
Total liabilities	$ 576,199	$ 518,183	$ 493,297
DEFERRED INFLOWS			
Service Concession - Housing	$ 21,985	$ -	$ -
KTRS/KERS Pensions	12,575	19,351	-
Total deferred inflows	$ 34,560	$ 19,351	$ -
NET POSITION			
Net investment in capital assets	$ 288,469	$ 244,131	$ 236,365
Restricted – expendable	11,680	21,944	23,843
Restricted – nonexpendable	11,468	11,468	11,468
Unrestricted	(354,470)	(332,693)	(328,935)
Total net position	$ (42,853)	$ (55,150)	$ (57,259)

(Continued)

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.

Operating Results – As indicated in the Statement of Revenues, Expenses, and Changes in Net Position, there was a net loss of $123.8 million from operations for the fiscal year ended June 30, 2016, prior to consideration of state appropriations and other net nonoperating revenues. This is compared to a loss of $112.8 million from operations for the fiscal year ended June 30, 2015.

Operating Revenues

Below is a summary of operating revenues for fiscal year 2016 as compared to fiscal years 2015 and 2014:

	Year ended June 30,		
	2016	2015	2014
Tuition and fees	$ 155,597	$ 145,872	$ 137,801
Scholarships and discounts	(59,392)	(54,891)	(51,223)
Net tuition and fees	96,205	90,981	86,578
Grants and contracts	50,867	50,647	48,070
Other revenues	21,753	19,278	17,211
Total education and general fund	168,825	160,906	151,859
Auxiliaries	28,453	26,872	22,169
Scholarships and discounts	(10,871)	(11,432)	(8,455)
Net auxiliaries	17,582	15,440	13,714
Total operating revenues	$ 186,407	$ 176,346	$ 165,573

Tuition and Fees – Income from student tuition and fee assessments, shown net of the tuition discount, was $96.2 million for the fiscal year ended June 30, 2016, compared to $90.9 million for the fiscal year ended June 30, 2015. The increase of $5.3 million in net tuition and fees reflects principally an increase in enrollment for the University during the year ended June 30, 2016.

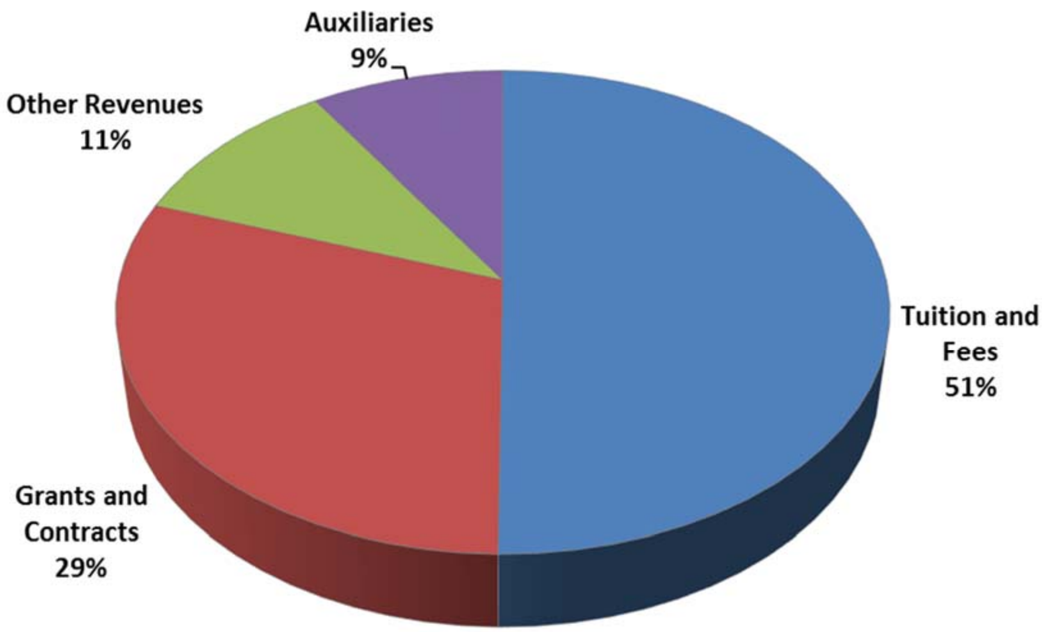
Grants and Contracts – For the fiscal year ended June 30, 2016, there was $50.9 million recognized revenue from all grants and contracts compared to $50.6 million for the year ended June 30, 2015; a slight increase of $300 thousand. Revenues recognized from external grants and contracts can vary significantly 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, $17.6 million is reported for net auxiliary revenues for the year ended June 30, 2016, compared to $15.4 million for the year ended June 30, 2015. The majority of auxiliary revenues for both fiscal years is attributable to student residence hall fees.

(Continued)

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, 2016, total other operating revenues were $21.8 million compared to $19.3 million for June 30, 2015, an increase of $2.5 million.

Source of Operating Revenues – Fiscal Year 2016



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, 2016, educational and general expenditures totaled $268.8 million compared to $259.9 million for the fiscal year ended June 30, 2015; an increase of $8.9 million. This increase in expense for the year ending June 30, 2016, was largely attributable to the increase of student financial aid support provided to the University.

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, 2016, were $24.7 million, compared to $22.7 million for the year ended June 30, 2015.

Below is a summary of operating expenditures for fiscal year 2016, compared to fiscal years 2015 and 2014:

	Year ended June 30, 2016	2015	2014
Instruction, academic support and libraries	$ 120,290	$ 117,826	$ 115,550
Research and public service	44,933	44,077	42,594
Student services	20,915	19,252	18,166
Institutional support and operations and maintenance of plant	54,051	53,244	48,382
Student financial aid	14,417	11,800	12,202
Depreciation	14,069	13,426	13,156
Other operation expenses	160	291	243
Total educational and general expenses	268,835	259,916	250,293
Auxiliaries	24,744	22,715	19,611
Pension expense	16,605	6,493	-
Total operating expenses	$ 310,184	$ 289,124	$ 269,904

Instruction, Academic Support, and Libraries – The total expenditures of these three areas, which directly relate to teaching, academic, and faculty support, increased $2.5 million to $120.3 million for the year ended June 30, 2016, compared to $117.8 million for the year ended June 30, 2015.

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, 2016, total expenditures related to research and public service was $44.9 million, compared to $44.1 million for the fiscal year ended June 30, 2015; an increase of $855 thousand.

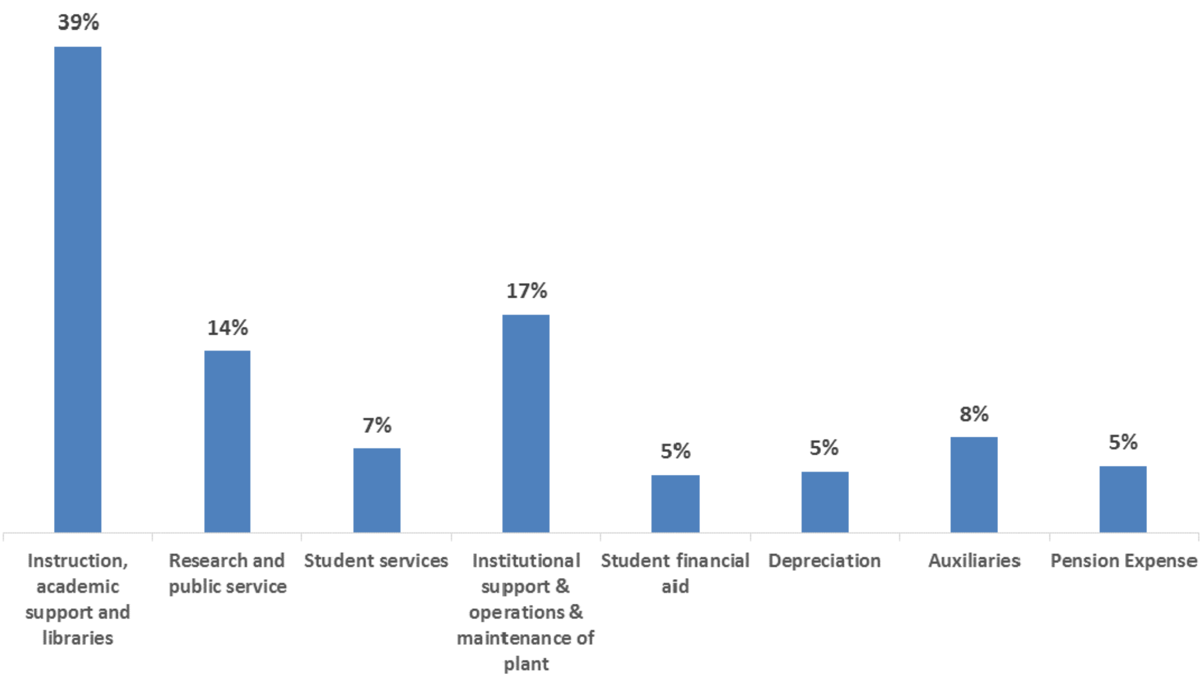
Student Services – Expenditures for student services for fiscal year 2016 increased by $1.7 million to $20.9 million compared to $19.2 million in fiscal year 2015. The student services function includes expenditures for many activities contributing to student development outside the instructional setting.

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, 2016, the expenditures for these areas totaled $54.1 million compared to $53.2 million for the year ended June 30, 2015; an increase of $900 thousand.

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 2016, the total financial aid expenditure was $84.7 million compared to $78.1 million for fiscal year 2015, an increase of $6.6 million as shown in the table on the following page.

Pension Expense – Upon adoption of GASB Statement No. 68 Accounting and Financial Reporting for Pensions, the University reports Pension Expense on the Statement of Revenues, Expenses, and Change in Net Position. For the fiscal year ending June 30, 2016, the University recorded $16.6 million of Pension Expense. This is a $10.1 million increase from the fiscal year ending June 30, 2015 Pension Expense of $6.5 million.

Major Areas of Operating Expense – Fiscal Year 2016



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, 2016, was $14.4 million compared to $11.8 million for the year ended June 30, 2015. The increase of $2.6 million in net student financial aid resulted from greater student enrollment.

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

	Year ended June 30, 2016	2015	2014
Tuition and fee discount	$ 59,392	$ 54,891	$ 51,223
Auxiliary enterprises discount	10,871	11,432	8,455
Student financial aid expense	14,417	11,800	12,202
Student financial aid expense	$ 84,680	$ 78,123	$ 71,880

Non-operating Revenues/Expenses

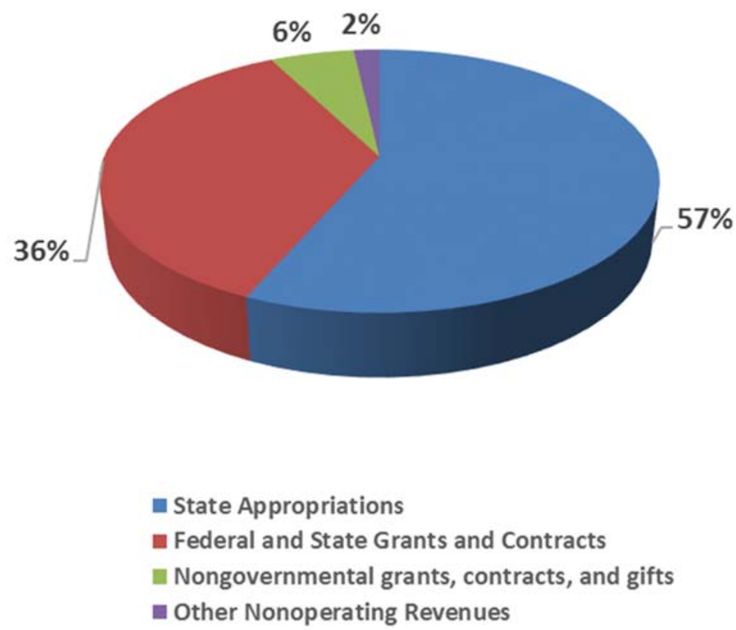
State Appropriations – Funding from state appropriations for operations and debt service for the fiscal year ended June 30, 2016 remained the same as the prior fiscal year amount of $68.0 million.

Investment Income – Total investment income for the fiscal years ended June 30, 2016 and 2015, was $(323) thousand and $(612) thousand, respectively; an increase of $289 thousand.

Federal and State Grants and Contracts – Total federal and state grant revenue for the fiscal year ended June 30, 2016, was $43.1 million, compared to $42.6 million from fiscal year 2015. This was an increase from prior year revenue of $473 thousand.

Other Non-Operating Revenues – Other Non-Operating revenues totaled $2.1 million for the year ended June 30, 2016, remaining unchanged from the amount of $2.1 million from the prior year ended June 30, 2015.

Major Sources of Non-Operating Revenues – Fiscal Year 2016



Capital Support – For the year ended June 30, 2016, the University received funds from the Commonwealth totaling $21.9 million for a new capital project, compared to fiscal year 2015 when the University received funds from the Commonwealth totaling $7.9 million for new capital projects.

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

	Year ended June 30, 2016	2015	2014
Operating revenues	$ 186,407	$ 176,346	$ 165,572
Operating expenses	310,184	289,125	269,904
Operating loss	(123,777)	(112,779)	(104,332)
Nonoperating revenues – net	114,093	106,907	110,494
Income (loss) before capital appropriations	(9,684)	(5,872)	6,162
Capital appropriations	21,982	7,980	(426)
Increase in net position	12,298	2,108	5,736
Net Position – beginning of year	(55,151)	(57,259)	(62,995)
Net Position – end of year	$ (42,853)	$ (55,151)	$ (57,259)

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, 2016	2015	2014
Cash provided by (used in)			
Operating activities	$ (98,144)	$ (88,116)	$ (89,073)
Noncapital financing activities	111,147	110,673	108,758
Capital and related financing activities	(28,741)	(7,078)	(21,826)
Investing activities	88	1,983	4,965
Net change in cash and cash equivalents	(15,651)	17,462	2,824
Cash and cash equivalents – beginning of year	85,587	68,125	51,639
Cash and cash equivalents – end of year	$ 69,937	$ 85,587	$ 54,463

(Continued)

Capital Asset and Debt Administration

During fiscal years 2016, and 2015, the following projects were completed by the University:

	Year ended June 30, 2016	2015
Rowlett Chiller	$ 268	$ -
Burrier Building Chiller Replacement	206	-
Keen Johnson Compressor Replacement	16	-
Weaver Health Domestic Water Heater	18	-
240 Summit St. (Buchanan House) HVAC	15	-
Donovan Cooling Tower Replacement	75	-
Pedestrian Gateway-Construction	575	-
Pedestrian Gateway-Columns	99	-
Pedestrian Mall Light Poles	64	-
Crabbe Library Noel Studio Reading Porch	507	-
Crabbe Library Plaza/Mall Renovate	519	-
Lilley Cornett Woods Bunk House	192	-
LC Woods Research Facility (partially grant funded)	369	-
Meadowbrook Farm Cattle Pen-RCF 1051	199	-
RCF 1245-Pedestrian Entrance	57	-
RCF1371-Farm Manager's House Renov	30	-
Commonwealth 14th Floor Renovation	504	-
Dupree Hall Boiler Replacement	259	-
Keene Hall Boiler Replacement	322	-
Commonwealth Renovation Flr 15-19	567	-
Intramural Fields Stairs/Railing	24	-
Ashland Building Addition	208	-
Commonwealth Renovation Flr 14	2,855	-
Ashland Addition	3,418	-
Ault Building HVAC	-	40
Keen Johnson Bell Tower	-	319
RCF 1096 – Challenge Course	-	175
244 Summit Street Renovation	-	167
RCF 1111 – Gifford Theater Seating	-	110
RCF 1176 – EELI Program – Crabbe Lib HVAC	-	80
Martin Hall Cooling Tower Replacement	-	121
Dupree Cooling Tower Replacement	-	112
Martin Hall Blow Down Separator	-	23
Martin Hall Fire Main Supply Line	-	64
McBrayer Arena Lighting RCF 1077	-	306
McBrayer Arena Floor Replacement RCF 1078	-	275
Eight New Tennis Courts – RCF 1082	-	607
RCF 1017 – Baseball Outfield Fense	-	32
RCF 1156 – Football Stadium Fencing	-	27
RCF 1217 – Women's Locker Room Air Conditioner	-	33
Total	$ 11,366	$ 2,491

(Continued)

The following projects were still in process at June 30, 2016:

	Total Expenditures Through June 30, 2016	Estimated Cost to Complete at June 30, 2016
Begley Building Sewer Lift Station	$ 29	$ 122
Model Gym Floor	144	-
Steam Tunnel & Condensate Return	233	-
Ramsey Heat Plan Renovation	315	-
College of Education Complex	32	83,423
C6E6-Renovate HVAC Systems	1,389	812
RCF 1345-Sidewalk Project-grant funded	43	-
RCF 1345-Sidewalk Project-EKU funded	11	-
Todd Hall Cooling Tower Replacement	115	-
Todd Hall Boiler Replacement	248	-
Burnham Sullivan Temp AC	-	114
Roy Kidd Statue	15	45
Adams Tennis Center Roof	247	8
Sullivan Hall Hot Water Tank	15	14
Telford Hall Deaerator	39	-
Hall B	9,622	-
Martin Hall	12,363	-
Renovate HVAC Systems	5,660	-
Renovate/Improve Athletic Facilities	1,581	14,102
Science Building – Phase 2 and 3	30,446	30,876
Design Student Recreation and Wellness Center	186	-
Total	$ 62,733	$ 129,516

Long-term debt at June 30, 2016, was $100.8 million compared to $108.1 million at June 30, 2015. The $7.3 million decrease is the result of a decrease to bonds payable for payments of principal owned on bonds in fiscal year 2016.

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 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 27 percent of the University's education and general budget. The remaining 73 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.

(Continued)

- The University feels strongly that campus facility improvements will lead to more students choosing success. The various facility improvement projects around campus are included in the Center for Student Life initiatives announced during the year.

- The Performance Based Funding model to be implemented in Kentucky in 2018 will leave five percent of higher education funding contingent upon performance. The basis for funding has yet to be decided, however the University believes it will be some measurement of degrees produced. With the first school to achieve their goals receiving 100% of their funding, the University will be pressed in order to meet these goals timely without further impacting finances.

- The University has committed an additional $4.4million to its scholarship budget for the Fall 2016 class. With the additional funding the University will be able to attract more college ready students from around the Commonwealth and surrounding states.

- The University has developed a comprehensive alumni engagement program including a re-launch of the EKU Magazine, a new digital communication platform for alumni and donors, and a new 12-month schedule of on-campus and regional events.

- The University's top general fund capital construction priorities remains a new Model Laboratory School/College of Education complex, renovation of the Moore Building and a new aviation facility at Madison Airport.

- The creation of the Carloftis Gardens, a new Pedestrian Walkway across the By-pass connecting campus, and the renovation of the Powell Student Center will bring more student life activity across the entire University campus.

- Construction of a new dining facility to open in 2018 and construction of two P3-funded Residence Halls will be an asset to bringing prospective students to EKU. In addition, the construction of a Scholar House for single mothers enrolled in EKU and construction of a new parking structure will bring growth to our University.

- Make No Little Plans: A Vision for 2020 – The Eastern Kentucky University Strategic Plan has been approved by the Board of Regents. Strategic priorities in the plan include academic excellence; commitment to student success; institutional distinction; financial strength; campus revitalization; and service to communities and region.

- 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.

- Kentucky's economy is showing signs of improvement with revenue forecasts ticking upward. National economic recovery is also underway and the Commonwealth's economic health is inextricably linked with the national and international economy. The latest projected growth forecast for the U.S. economy is about 2.2% for 2017 and 1.1% for 2016.

(Continued)

Requests for Information

This financial report is designed to provide a general overview of Eastern Kentucky University's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Vice President of Finance and Administration, Eastern Kentucky University, Coates CPO 35A, 521 Lancaster Avenue, Richmond, KY 40475.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 43,821,930	$ 58,608,805
Accounts receivable – less allowance of $3,430,557 for 2016 and $3,337,897 for 2015	25,562,819	18,246,646
Loans to students – less allowance of $304,429 for 2016 and $283,777 for 2015	262,809	316,139
Inventories	467,723	373,957
Prepaid expenses	1,453,396	2,210,481
Total current assets	71,568,677	79,756,028
Noncurrent Assets		
Restricted cash and cash equivalents	26,114,735	26,978,573
Investments	16,870,919	17,672,817
Loans to students – less allowance of $601,654 for 2016 and $622,306 for 2015	4,334,288	4,780,524
Capital assets – net of accumulated depreciation of $254,847,871 for 2016 and $238,287,246 for 2015	317,104,965	312,750,107
Capital assets not being depreciated	71,455,366	23,690,690
Total noncurrent assets	435,880,273	385,872,711
Total Assets	507,448,950	465,628,739
Deferred Outflows		
Unamortized deferred refunding loss balance	748,009	745,199
KTRS/KERS pension	59,708,561	16,009,640
Total deferred outflows	60,456,570	16,754,839
Total Assets and Deferred Outflows	$ 567,905,520	$ 482,383,578

(Continued)

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	2016	2015
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	$ 7,694,481	$ 7,306,956
Accrued interest	813,292	803,961
Accrued salaries and benefits	4,611,760	5,101,095
Accrued compensated absences	5,840,555	5,933,093
Payroll withholding payable	1,093,899	1,216,160
Refundable deposits	69,935	617,201
Assets held for others	342,497	321,334
Unearned revenue	8,397,440	7,664,795
Bonds payable	6,137,641	5,949,140
Leases payable	1,770,000	1,695,000
Total current liabilities	36,771,500	36,608,735
Noncurrent Liabilities		
Bonds payable, noncurrent portion	61,168,832	66,945,145
Leases payable, noncurrent portion	31,762,560	33,525,000
Net pension liability	446,496,428	381,104,508
Total noncurrent liabilities	539,427,820	481,574,653
Total liabilities	576,199,320	518,183,388
Deferred Inflows		
Service concession – housing	21,984,914	-
KTRS/KERS pension	12,574,569	19,350,946
Total deferred inflows	34,559,483	19,350,946
Net Position		
Net investment in capital assets	288,469,308	244,130,430
Restricted		
Expendable for capital projects	2,555,074	10,992,448
Expendable for loans to students	5,442,757	6,540,228
Expendable for scholarships	1,299,161	1,297,112
Expendable for institutional support	2,383,283	3,114,504
Unexpendable for permanent endowment	11,467,772	11,467,772
Unrestricted	(354,470,638)	(332,693,250)
Total net position	(42,853,283)	(55,150,756)
Total Liabilities, Deferred Inflows and Net Position	$ 567,905,520	$ 482,383,578

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 5,239,646	$ 4,042,269
Pledges receivable – net	504,836	78,240
Cash surrender value of life insurance	204,672	205,832
Other assets	40,528	62,776
Total current assets	5,989,682	4,389,117
Noncurrent assets		
Investments	58,818,633	60,725,631
Pledges receivable – net	1,715,515	43,144
Property and equipment – net	745,521	4,619,336
Total noncurrent assets	61,279,669	65,388,111
Total Assets	$ 67,269,351	$ 69,777,228
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 46,910	$ 50,150
Due to University	638,250	430,502
Note payable - current maturities	849,428	266,441
Total current liabilities	1,534,588	747,093
Noncurrent liabilities		
Note payable – less current maturities	-	849,025
Deferred gift liabilities	333,269	348,495
Assets held for others	16,849,284	17,659,309
Total noncurrent liabilities	17,182,553	18,856,829
Total Liabilities	18,717,141	19,603,922
Net assets		
Unrestricted		
Board designated endowment	5,735,024	5,524,453
Undesignated	(1,617,541)	448,664
	4,117,483	5,973,117
Temporarily restricted	16,388,207	17,696,393
Permanently restricted	28,046,520	26,503,796
Total net assets	48,552,210	50,173,306
Total Liabilities and Net Assets	$ 67,269,351	$ 69,777,228

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended June 30, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Tuition and fees – net	$ 96,205,325	$ 90,980,531
Federal grants and contracts	22,594,632	20,456,223
State grants and contracts	25,255,299	25,958,017
Nongovernmental grants, contracts, and gifts	3,017,660	4,232,769
Sales and services of educational activities	6,134,257	6,413,375
Auxiliary enterprises – housing	13,051,098	12,170,360
Auxiliary enterprises – other	4,530,240	3,269,942
Other operating revenues	15,618,630	12,864,958
Total operating revenues	186,407,141	176,346,175
OPERATING EXPENSES		
Educational and general		
Instruction	94,619,751	93,708,918
Research	850,676	700,916
Public service	44,082,183	43,376,570
Libraries	4,368,699	3,937,366
Academic support	21,301,922	20,179,592
Student services	20,914,604	19,252,078
Institutional support	31,959,358	32,799,509
Operations and maintenance of plant	22,091,352	20,444,961
Depreciation	14,068,622	13,425,530
Student financial aid	14,417,205	11,799,809
Auxiliary enterprises		
Housing and other auxiliaries	21,833,139	18,586,339
Depreciation	2,911,462	4,128,844
Pension expense	16,605,061	6,493,146
Other operating expenses	160,185	291,434
Total operating expenses	310,184,219	289,125,012
Operating loss	(123,777,078)	(112,778,837)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	68,033,800	68,033,800
Federal and state grants and contracts	43,112,844	42,639,565
Nongovernmental grants, contracts, and gifts	6,978,608	-
Investment income	(322,740)	(612,258)
Interest expense	(4,515,151)	(4,653,773)
Other nonoperating revenues	2,140,450	2,136,876
Other nonoperating expenses	(1,334,760)	(637,569)
Net nonoperating revenues	114,093,051	106,906,641
Loss before capital appropriations	(9,684,027)	(5,872,196)
Capital appropriations	21,981,500	7,980,196
Increase in net position	12,297,473	2,108,000
Net position – beginning of year	(55,150,756)	(57,258,756)
Net position – end of year	$ (42,853,283)	$ (55,150,756)

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS, (LOSSES), AND OTHER SUPPORT				
Contributions	$ 1,858,244	$ 2,657,441	$ 1,542,724	$ 6,058,409
Investment returns – net of investment expenses of $163,295	185,812	1,237,809	-	1,423,621
Net realized and unrealized gains (losses) on investments	(232,995)	(1,094,028)	-	(1,327,023)
Other income – net	178,378	68,265	-	246,643
	1,989,439	2,869,487	1,524,724	6,401,650
Net assets released from restrictions	4,177,673	(4,177,673)	-	-
Total revenues, gains (losses) and other support	6,167,112	(1,308,186)	1,524,724	6,401,650
EXPENSES				
Support for the University	10,105,280	-	-	10,105,280
Management and general	155,775	-	-	155,775
Interest	29,941	-	-	29,941
Bad debts (recoveries)	(2,367,390)	-	-	(2,367,390)
Depreciation	99,140	-	-	99,140
Total expenses	8,022,746	-	-	8,022,746
Change in net assets	(1,855,634)	(1,308,186)	1,542,724	(1,621,096)
Net assets – beginning of year	5,973,117	17,696,393	26,503,796	50,173,306
Net assets – end of year	$ 4,117,483	$ 16,388,207	$ 28,046,520	$ 48,552,210

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS (LOSSES), AND OTHER SUPPORT				
Contributions	$ 666,321	$ 1,963,802	$ 1,550,668	$ 4,180,791
Investment returns – net of investment expenses of $261,225	159,243	1,012,699	-	1,171,942
Net realized and unrealized gains (losses) on investments	136,935	(1,190,280)	-	(1,053,345)
Other income – net	504,089	-	-	504,089
	1,466,588	1,786,221	1,550,668	4,803,477
Net assets released from restrictions	2,766,850	(2,766,850)	-	-
Total revenues, gains (losses) and other support	4,233,438	(980,629)	1,550,668	4,803,477
EXPENSES				
Support for the University	4,304,774	-	-	4,304,774
Management and general	84,260	-	-	84,260
Interest	37,734	-	-	37,734
Bad debts	758,267	-	-	758,267
Depreciation	191,614	-	-	191,614
Total expenses	5,376,649	-	-	5,376,649
Change in net assets	(1,143,211)	(980,629)	1,550,668	(573,172)
Net assets – beginning of year	7,116,328	18,677,022	24,953,128	50,746,478
Net assets – end of year	$ 5,973,117	$ 17,696,393	$ 26,503,796	$ 50,173,306

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2016 and 2015

	2016	2015
OPERATING ACTIVITIES		
Tuition and fees	$ 93,711,020	$ 91,779,369
Grants, contracts and gifts	45,798,094	51,446,061
Payments to suppliers	(64,787,701)	(62,435,125)
Payments for utilities	(8,112,244)	(8,011,376)
Payments to employees	(138,026,602)	(133,027,183)
Payments for benefits	(53,269,254)	(50,857,705)
Payments to students	(12,035,399)	(11,195,562)
Loans issued to students and employees	(575,406)	(872,866)
Collections of loans to students and employees	1,074,972	1,198,912
Auxiliary enterprise charges		
Residence halls	12,318,594	11,974,711
Other	4,530,240	3,269,942
Sales and services of educational activities	6,134,257	6,413,375
Other receipts	15,095,702	12,200,973
Net cash used in operating activities	(98,143,727)	(88,116,474)
NONCAPITAL FINANCING ACTIVITIES		
State appropriations	68,033,800	68,033,800
Other nonoperating revenues – grants and contracts	43,112,844	42,639,565
Net cash provided by noncapital financing activities	111,146,644	110,673,365
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(40,226,640)	(20,739,231)
Principal paid on bonds payable and capital leases	(7,145,767)	(6,320,000)
Interest paid on bonds payable and capital leases	(5,491,336)	(5,325,260)
Proceeds on issuance of bonds payable	-	15,189,426
State reimbursement of capital lease payments	2,140,450	2,136,876
Capital appropriations	21,981,500	7,980,196
Net cash used in capital and related financing activities	(28,741,793)	(7,077,993)
INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	8,096,540	9,257,876
Interest on investments	549,274	355,053
Purchase of investments	(8,557,651)	(7,629,029)
Net cash provided by investing activities	88,163	1,983,900
Increase (decrease) in cash and cash equivalents	(15,650,713)	17,462,798
Cash and cash equivalents – beginning of year	85,587,378	68,124,580
Cash and cash equivalents – end of year	$ 69,936,665	$ 85,587,378

(Continued)

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2016 and 2015

	2016	2015
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (123,777,078)	$ (112,778,837)
Depreciation expense	16,980,084	17,554,372
Changes in operating assets and liabilities		
Accounts receivable – net	(7,316,173)	998,240
Loans to students – net	499,566	326,045
Inventories	(93,766)	13,796
Prepaid expenses	757,085	(335,446)
Accounts payable	387,525	(370,184)
Accrued liabilities	(704,134)	212,569
Refundable deposits	(547,266)	45,481
Assets held for others	21,163	29,808
Unearned revenue	732,645	(305,465)
Deferred outflows – KTRS/KERS pension	(43,698,921)	(4,330,438)
Deferred inflows – KTRS/KERS pension	(6,776,377)	19,350,946
Net pension liability	65,391,920	(8,527,361)
Net cash flows used in operating activities	$ (98,143,727)	$ (88,116,474)
Supplemental cash flows information		
Capital assets acquired through capital lease	$ 13,326	$ 25,500,000
Capital assets acquired through service concession arrangement	21,984,914	-
Donated capital assets	6,978,608	-
Capital asset acquisitions in accounts payable	233,745	318,205

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 discretely presented 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. The Foundation is included in the University's financial statements as a component unit as it is organized exclusively to benefit the University by generating funding and performing the University's development activities. The separate financial statements of the Foundation can be obtained by written request to the Eastern Kentucky University Foundation, Jones 324 Coates CPO 19A, 521 Lancaster Avenue, Richmond, Kentucky 40475.

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 and are carried at cost which approximates market value.

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, 2016 and 2015 was $923,528 and $352,319, 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.

Pensions – For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky Teachers' Retirement system (KTRS) and the Kentucky Employees Retirement System (KERS) and additions to /deductions from KTRS' and KERS' fiduciary net position have been determined on the same basis as they are reported by KTRS and KERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 loss balance and pension contributions made after the measurement date. Deferred inflows consist of the KTRS and KERS pension related unamortized balances.

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.

(Continued)

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

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.

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, 2016 were $59,392,254 and $9,255,752, respectively. The scholarship allowances on tuition and fees and on housing for the year ended June 30, 2015 were $54,891,010 and $8,619,632 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 – During fiscal year 2016, the University adopted the following accounting pronouncements:

GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* issued June 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts

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

that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued June 2015. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles in the United States of America. The accounting principles generally accepted in the United States of America hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with accounting principles generally accepted in the United States of America and the framework for selecting those principles. This Statement reduces the accounting principles generally accepted in the United States of America hierarchy to two categories of authoritative accounting principles generally accepted in the United States of America and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative accounting principles generally accepted in the United States of America.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* issued December 2015. This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement.

Adoption of these statements did not have a significant impact on the University's financial position or results of operations.

Recent Accounting Pronouncements - As of June 30, 2016, the GASB has issued the following statements not yet implemented by the University.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, issued June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* issued on June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

(Continued)

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

GASB Statement No. 77, *Tax Abatement Disclosures,* issued August 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, issued December, 2015. The provisions of this Statements are effective for periods beginning after December 15, 2015. This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan).

GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*, issued January 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. This Statement clarifies that certain component units incorporated as not-for-profit corporations should be blended in the financial statements of the primary state or local government in a manner similar to a department or activity of the primary government. The Statement addresses diversity in practice regarding the presentation of not-for-profit corporations in which the primary government is the sole corporate member.

GASB Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*, issued March 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. This Statement addresses certain issues that have been raised with respect to Statement No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.

The University's management has not yet determined the effect these statements will have on the University's financial statements.

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.

Reclassifications – Certain amounts in the accompanying financial statements for the prior year have been reclassified to conform to current year presentation with no effect on net position or change in net position.

(Continued)

NOTE 2 – DEPOSITS, INVESTMENTS AND INVESTMENT RETURN

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

The University requires that balances on deposit with financial institutions 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:

	2016	2015
Depository accounts		
Local bank deposits – collateral held as a pledge in the University's name	$ 17,407,914	$ 29,370,462
Cash on hand	11,749	9,386
State investment pool – uninsured and uncollateralized	52,517,002	56,207,530
Total deposits	$ 69,936,665	$ 85,587,378

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

	2016	2015
Cash and cash equivalents	$ 43,821,930	$ 58,608,805
Restricted cash and cash equivalents	26,114,735	26,978,573
Total deposits	$ 69,936,665	$ 85,587,378

Investments at June 30 consisted of:

	2016	2015
Money market funds	$ 21,635	$ 13,508
Restricted assets held by the Foundation	16,849,284	17,659,309
Total investments	$ 16,870,919	$ 17,672,817

Investments in U.S. government securities and the collateral for repurchase agreements are registered in the name of Eastern Kentucky University or held in the University's name by its agents and trustees. The University may legally invest in direct obligations of, and other obligations guaranteed as to principal, the U.S. Treasury and U.S. agencies, and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in equity securities.

(Continued)

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

University investments held by the Eastern Kentucky University Foundation, Inc. are comprised of the Regional University Excellence Trust Fund and Programs of Distinction endowments (see Note 9). 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:

	2016	2015
Percentage of pool invested in:		
Cash equivalents – trustee	1%	10%
Registered investment companies equity funds	71	63
Registered investment companies fixed income funds	23	22
Alternative investments	5	5
Total	100%	100%

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. Refer to Note 15 B. for a description of those investments.

The fair value of financial instruments as of June 30, 2016 and 2015 is as follows:

	Fair Value Measurements at June 30, 2016 Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 21,635	$ 21,635	$ -	$ -
Eastern Kentucky University Foundation, Inc. investment fund at net asset value per share	16,849,284			
Total investments	$ 16,870,919			

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

	Fair Value Measurements at June 30, 2015 Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 13,508	$ 13,508	$ -	$ -
Eastern Kentucky University Foundation, Inc. investment fund at net asset value per share	17,659,309			
Total investments	$ 17,672,817			

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.

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 years ended June 30, 2016 and 2015 resulted in a loss of $322,740 and $612,258, respectively, consisting primarily of an unrealized loss of investments.

(Continued)

NOTE 3 – ACCOUNTS RECEIVABLE

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

	2016	2015
Student tuition and fees	$ 10,065,988	$ 7,509,792
Auxiliary enterprises	920,000	752,391
Federal, state and private grants and contracts	15,685,676	10,175,388
Other state agencies	28,198	28,198
Other	2,293,514	3,118,774
Total	28,993,376	21,584,543
Less allowance for uncollectible accounts	(3,430,557)	(3,337,897)
Accounts receivable – net	$ 25,562,819	$ 18,246,646

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016, is as follows:

	Balance - June 30, 2015	Additions	Reductions	Transfers	Balance – June 30, 2016
Capital assets not being depreciated					
Land	$ 6,529,605	$ 1,558,723	$ -	$ -	$ 8,088,328
Works of art	120,117	63,000	-	-	183,117
Livestock for educational purposes	483,600	-	(32,625)	-	450,975
Construction in progress	16,557,368	57,544,883	(689)	(11,368,616)	62,732,946
Total capital assets not being depreciated	23,690,690	59,166,606	(33,314)	(11,368,616)	71,455,366
Other capital assets					
Land improvements	56,070,064	1,622,028	-	1,314,305	59,006,397
Buildings	426,201,632	4,697,654	-	10,054,311	440,953,597
Leasehold improvements	556,987	-	-	-	556,987
Equipment	25,197,379	2,280,407	(388,479)	-	27,089,307
Library books	43,011,291	1,423,467	(88,210)	-	44,346,548
Total other capital assets	551,037,353	10,023,556	(476,689)	11,368,616	571,952,836
Less accumulated depreciation for					
Land improvements	(24,047,503)	(3,334,421)	-	-	(27,381,924)
Buildings	(159,316,828)	(10,471,709)	-	-	(169,788,537)
Leasehold improvements	(346,810)	(68,650)	-	-	(415,460)
Equipment	(18,002,494)	(1,791,870)	331,249	-	(19,463,115)
Library books	(36,573,611)	(1,313,434)	88,210	-	(37,798,835)
Total accumulated depreciation	(238,287,246)	(16,980,084)	419,459	-	(254,847,871)
Capital assets – net	$ 336,440,797	$ 52,210,078	$ (90,544)	$ -	$ 388,560,331

(Continued)

NOTE 4 – CAPITAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2015, is as follows:

	Balance - June 30, 2014	Additions	Reductions	Transfers	Balance – June 30, 2015
Capital assets not being depreciated					
Land	$ 5,637,953	$ 891,652	$ -	$ -	$ 6,529,605
Works of art	31,300	88,817	-	-	120,117
Livestock for educational purposes	461,500	22,100	-	-	483,600
Construction in progress	3,967,508	15,139,930	-	(2,550,070)	16,557,368
Total capital assets not being depreciated	10,098,261	16,142,499	-	(2,550,070)	23,690,690
Other capital assets					
Land improvements	56,040,333	840,440	(810,709)	-	56,070,064
Buildings	404,005,151	24,688,556	(5,042,145)	2,550,070	426,201,632
Leasehold improvements	556,987	-	-	-	556,987
Equipment	27,515,688	1,610,619	(3,928,928)	-	25,197,379
Library books	41,817,717	1,369,917	(176,343)	-	43,011,291
Total other capital assets	529,935,876	28,509,532	(9,958,125)	2,550,070	551,037,353
Less accumulated depreciation for					
Land improvements	(21,693,891)	(3,164,321)	810,709	-	(24,047,503)
Buildings	(152,822,763)	(11,313,025)	4,818,960	-	(159,316,828)
Leasehold improvements	(278,160)	(68,650)	-	-	(346,810)
Equipment	(20,053,260)	(1,711,749)	3,762,515	-	(18,002,494)
Library books	(35,453,321)	(1,296,633)	176,343	-	(36,573,611)
Total accumulated depreciation	(230,301,395)	(17,554,378)	9,568,527	-	(238,287,246)
Capital assets – net	$ 309,732,742	$ 27,097,653	$ (389,598)	$ -	$ 336,440,797

NOTE 5 – UNEARNED REVENUE

Unearned revenue as of June 30 is as follows:

	2016	2015
Unearned summer school revenue and activity fees	$ 3,433,395	$ 3,294,964
Unearned grants and contracts revenue	4,497,364	4,056,573
Other	466,681	313,258
Total	$ 8,397,440	$ 7,664,795

(Continued)

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS

Long-term liabilities as of June 30, 2016, and long-term activity for the year ended June 30, 2016, are summarized as follows:

	Balance - July 1, 2015	Additions	Reductions	Refunding	Balance - June 30, 2016	Balance Due Within One Year
Revenue bonds payable	$ 49,510,000	$ -	$ (2,870,000)	$ (5,500,000)	$ 41,140,000	$ 2,920,000
General receipts refunding bonds	20,390,000	5,825,000	(2,575,000)	-	23,640,000	2,690,000
Capitalized lease obligations	35,220,000	13,326	(1,700,766)	-	33,532,560	1,770,000
Unamortized bond premium	2,994,285	104,310	(572,122)	-	2,526,473	527,641
	$ 108,114,285	$ 5,942,636	$ (7,717,888)	$ (5,500,000)	$ 100,839,033	$ 7,907,641

Long-term liabilities as of June 30, 2015, and long-term activity for the year ended June 30, 2015, are summarized as follows:

	Balance - July 1, 2014	Additions	Reductions	Refunding	Balance - June 30, 2015	Balance Due Within One Year
Revenue bonds payable	$ 37,510,000	$ 14,280,000	$ (2,280,000)	$ -	$ 49,510,000	$ 2,870,000
General receipts refunding bonds	22,805,000	-	(2,415,000)	-	20,390,000	2,510,000
Capitalized lease obligations	11,344,999	27,865,441	(3,990,440)	-	35,220,000	1,695,000
Unamortized bond premium	2,652,562	909,426	(567,703)	-	2,994,285	569,140
	$ 74,312,561	$ 43,054,867	$ (9,253,143)	$ -	$ 108,114,285	$ 7,644,140

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.

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 2016 and 2015, $815,000 and $780,000 of principal and $213,489 and $364,625 of interest was paid on the bonds. Total outstanding principal at June 30, 2016 and 2015 was $1,470,000 and $7,785,000, respectively. These bonds were partially refunded during fiscal year 2016. See Series 2016A paragraph in this footnote.

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

On April 1, 2009, the University sold $12,095,000 of Eastern Kentucky University General Receipt Bonds, Series 2009A, at a net interest cost of 3.98%. The proceeds of this bond issue provided funding for the renovation of the Walters Residence Hall and the construction of intramural fields. The bonds mature in varying amounts through May 1, 2028. During fiscal years 2016 and 2015, $660,000 and $645,000 of principal and $326,064 and $345,414 of interest were paid on the bonds. Total outstanding principal at June 30, 2016 and 2015 was $7,820,000 and 8,480,000, 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 2016 and 2015, $870,000 and $855,000 of principal and $629,625 and $646,875 of interest were paid on the bonds. Total outstanding principal at June 30, 2016 and 2015 was $18,095,000 and $18,965,000, 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.

During fiscal years 2016 and 2015, $2,510,000 and $2,415,000 of principal and $673,558 and $1,091,000 of interest were paid on the bonds. The outstanding principal at June 30, 2016 and 2015 is $17,880,000 and $20,390,000.

On April 7, 2015, the University sold $14,280,000 of Eastern Kentucky University General Receipt Bonds, Series 2015A, at a net interest cost of 3.26%. The proceeds of this bond issue provided funding for various athletic projects. The bonds mature in varying amounts through April 1, 2035. During fiscal year 2015, no principal or interest was paid on the bonds. During fiscal year 2016, $525,000 of principal and $428,058 of interest were paid on the bonds. Total outstanding principal at June 30, 2016 and 2015 was $13,755,000 and $14,280,000, respectively.

On March 2, 2016, the University sold $5,825,000 of Eastern Kentucky University General Receipt Bonds, Series 2016A, at a net interest cost of 2.15% to refund a portion of the 2007 Series A Bonds (August 2, 2007, which refinanced outstanding Housing Revenue Series bonds).

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

The refunding resulted in a gross savings between the reacquisition price and the net carrying amount of the old debt. The University completed the refunding to reduce its total debt service payments over the next 11 years. The resulting savings on a present value basis is approximately $477,761. As of June 30, 2016, the defeased amount outstanding was $5,500,000 and the balance held in escrow was $5,701,467. The University has removed the defeased amount from its accounts. This refunding was a noncash transaction and therefore is excluded from the statement of cash flows.

During fiscal year 2016, $65,000 of principal and $15,349 of interest were paid on the bonds. Total outstanding principal at June 30, 2016 was $5,760,000.

Capital Lease Obligations – The University has capitalized certain buildings and equipment under various capital lease agreements. In June 2000, the University entered into a financing/lease agreement with the 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 year 2016, the University modified the previous Grand Campus lease as part of a value added benefit for the public private partnership residence hall project. The lease is extended to a total of 31.5 years with lease payments totaling $115,580,549 over that period, with the University taking ownership at the end of the term. Grand Campus is an approximately 16-acre property adjacent to campus that holds 2 separate student housing dormitories containing a total of 512 bedrooms. The dormitories also have separate bathrooms, common areas, swimming pool, clubhouse, and parking lot among other amenities.

(Continued)

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

During fiscal year 2016 and 2015, $1,695,000 and $1,625,000 of principal and $3,172,296 and $2,877,346 of interest were paid on the capital leases, respectively. The principal maturities and interest repayment requirements on bonds and capital leases are as follows:

	Principal	Interest	Total
Years ending June 30,			
2017	$ 7,907,641	$ 5,565,678	$ 13,473,319
2018	8,155,730	5,308,755	13,464,485
2019	8,378,324	5,047,222	13,425,546
2020	8,423,976	4,770,383	13,194,359
2021	6,775,672	4,483,421	11,259,093
2022-2026	17,924,943	20,461,686	38,386,629
2027-2031	12,526,965	19,221,286	31,748,251
2032-2036	7,439,788	16,974,473	24,414,261
2037-2041	6,414,672	14,312,245	20,726,917
2042-2046	12,478,072	10,406,119	22,884,191
2047-2048	4,413,250	1,676,741	6,089,991
	$ 100,839,033	$ 108,228,009	$ 209,067,042

Assets under capital leases at original cost totaled $39,890,000 and $39,890,000, with accumulated depreciation of $13,048,416 and $12,243,890 at June 30, 2016 and 2015, respectively.

NOTE 7 – SERVICE CONCESSION ARRANGEMENT

On February 8, 2016, the University entered into an agreement with a third party that qualifies for treatment as a service concession arrangement as defined in GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*. Under the terms of the agreement, the University will lease land to the third party and the third party will construct student housing, whereby the University is the owner of the constructed building with no obligation for construction costs. Once construction of the building is complete and ready for use, the University will lease it back to the third party and enter into a manage and maintain agreement for cost and revenue sharing. Due to the age and condition of the current housing stock, the University entered the agreement with the expectation of attracting more students and to retain current students. As of June 30, 2016, the building is under construction and included as a capital asset not being depreciated and a deferred inflow of resources in the amount of $21,984,914 as the University owns the asset during the construction phase. Amortization of the deferred inflow will begin once the building is placed in service. The total cost of the project is estimated to be $75,000,000 and building is scheduled to be completed and placed into service by December 1, 2017. There is no related contingency or commitment as of June 30, 2016.

(Continued)

NOTE 8 – 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:

	2016	2015
Inventories	$ 467,723	$ 373,957
Outstanding encumbrances	6,328,465	6,908,007
Departmental commitments	14,546,944	14,564,437
Designated projects and contingency reserves	4,327,732	6,290,277
Health care self-insurance reserve	3,000,000	3,000,000
Auxiliary working capital	8,315,198	11,271,110
University capital projects	7,905,735	9,344,775
KTRS Pension	(252,462,844)	(247,320,497)
KERS Pension	(146,899,591)	(137,125,316)
Total	$ (354,470,638)	$ (332,693,250)

NOTE 9 – 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, 2016 and 2015 was $16,849,284 and $17,659,309.

The portion of the RUETF endowment representing the value of the funding received from the Kentucky General Assembly, plus unexpended earnings thereon, was $15,150,216 and $15,879,388 as of June 30, 2016 and 2015, 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, 2016 and 2015 was $1,699,068 and $1,779,921, and is included in restricted assets held by the Foundation (see Note 2).

NOTE 10 – 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.

	2016	2015
Funds disbursed by the University on behalf of the Foundation:		
For employee salaries and benefits	$ 201,760	$ 68,248
For scholarships	878,701	646,570
Funds held by the Foundation on behalf of or for the benefit of the University as of June 30	16,849,284	17,659,310
Funds due to the University by the Foundation	631,513	430,502

NOTE 11 – PENSION PLANS

Kentucky Teachers' Retirement Systems

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 Teachers' Retirement System ("KTRS"), a defined benefit plan. KTRS, a cost sharing multiple-employer, public employment retirement system, provides retirement benefits based on the 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/CREF, VALIC, and Fidelity. During the 2008 Kentucky legislative session, the General Assembly passed and the Governor signed, Senate Bill 65, a bill that changed the rate of payment the universities make toward the unfunded liability of the KTRS that is associated with optional retirement plan. The rate previously floated on the 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 with required supplementary schedules and a report on the audit of schedules of employer allocations and schedules of pension amounts by employer for KTRS. These reports may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, KY 40601, or visiting the website at http://ktrs.ky.gov.

(Continued)

NOTE 11 – PENSION PLANS (Continued)

2015 KTRS Plan Information

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.0 - 8.20 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 combined mortality table for males or females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2010.

Discount Rate Assumptions:

(a) Discount rate: The discount rate used to measure the total pension liability was 4.88%.

(b) Projected cash flows: The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rates and that employer contributions will be made at the statutorily required rates.

(c) Long term rate of return: The long-term rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(d) Municipal bond rate: The discount rate determination does use a municipal bond rate (3.82%).

(e) Periods of projected benefit payments: The pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2035.

(Continued)

NOTE 11 – PENSION PLANS (Continued)

(f) Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	45%	6.40%
International equity	17%	6.50%
Fixed income	24%	1.60%
High yield bonds	4%	3.10%
Real estate	4%	5.80%
Alternatives	4%	6.80%
Cash	2%	1.50%
Total	100%	

(g) Sensitivity analysis: This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the Eastern Kentucky University's allocated portion of the net pension liability ("NPL") of the system, calculated using the discount rate of 4.88%, as well as what the allocated portion of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (3.88%) or one percentage-point higher (5.88%) than the current rate:

	1% Decrease (3.88%)	Current Discount Rate (4.88%)	1% Increase (5.88%)
Eastern Kentucky University proportionate share of net pension liability (in thousands)	$ 341,915	$ 274,717	$ 219,109

Contributions: Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.540, 161.550 and 161.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. For the fiscal year ended June 30, 2016, University employees were required to contribute 8.185 percent of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.36 percent of covered payroll. The actuarially determined amount, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The University's total contributions to KTRS for the years ended June 30, 2016 and 2015 were $8,843,107 and $7,235,381, respectively, and were equal to the required contributions for the year. In addition, the Commonwealth of Kentucky contributes ad hoc annual cost of living adjustments provided by the General Assembly for KTRS retirees. These contributions totaled $1,175,000 for the year ended June 30, 2015 and are approximately $899,615 for the year ended June 30, 2016.

(Continued)

NOTE 11 – PENSION PLANS (Continued)

Collective Net Pension Liability*:* At June 30, 2016, the University reported a liability for its proportionate share of the net pension liability that reflected a reduction for pension support provided to the University by the Commonwealth of Kentucky. The amount recognized by the University as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the University were as follows:

University's proportionate share of the net pension liability	$ 274,716,842
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	27,936,152
	$ 302,652,994

The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on the University's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2015, the University's proportion was 1.12% and the Commonwealth of Kentucky's proportion associated with the University was 0.11%.

Measurement Date: June 30, 2014 is the actuarial valuation date upon which the TPL is based. An expected TPL is determined as of June 30, 2015 using standard roll forward techniques. The procedure used to determine the TPL as of June 30, 2015 is shown in the GASB 67 report for KTRS submitted on December 4, 2015.

Changes in Assumptions and Benefit Terms: A change in the municipal bond index rate from the prior measurement date to the measurement date resulting in the SEIR changing from 5.23% at the prior measurement date to 4.88% at the measurement date. The change in the discount rate is considered a change in actuarial assumptions under GASB 68.

Pension Expense: For the year ended June 30, 2016, the University recognized pension expense of $15,596,654 and revenue of $1,365,177 for support provided by the Commonwealth of Kentucky.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. As noted in the previous section, the amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive system members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period.

NOTE 11 – PENSION PLANS (Continued)

The table below provides a summary of the deferred inflows and outflows as of the measurement date.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 16,863,653	$ 2,652,058
Change in proportionate share of contributions	9,121,805	-
Differences between expected and actual experience	-	2,999,305
Net difference between projected and actual earnings on pension plan investments	-	6,923,206
	25,985,458	12,574,569
Employer contributions subsequent to the measurement date	8,843,107	-
Total	$ 34,828,565	$ 12,574,569

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2017. The remainder of the deferred outflows and inflows of resources are amortized over five years with remaining amortization as follows:

Deferred Amounts to be recognized in Fiscal Years
Following the Reporting Date

Fiscal Years	Amount
2017	$ 2,111,301
2018	2,111,301
2019	2,111,301
2020	5,982,406
2021	1,094,580
Total	$ 13,410,889

2014 KTRS Plan Information

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.0 - 8.20 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense, including inflation

NOTE 11 – PENSION PLANS (Continued)

Mortality rates were based on the RP-2000 combined mortality table for males or females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2010.

Discount Rate Assumptions:

(a) Discount rate: The discount rate used to measure the total pension liability was 5.23%.

(b) Projected cash flows: The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rates and that employer contributions will be made at the statutorily required rates.

(c) Long term rate of return: The long-term rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(d) Municipal bond rate: The discount rate determination does use a municipal bond rate (4.35%).

(e) Periods of projected benefit payments: The pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035.

(f) Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	45%	6.40%
International equity	17%	6.50%
Fixed income	24%	1.60%
High yield bonds	4%	3.10%
Real estate	4%	5.80%
Alternatives	4%	6.80%
Cash	2%	1.50%
Total	100%	

NOTE 11 – PENSION PLANS (Continued)

(g) Sensitivity analysis: This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the Eastern Kentucky University's allocated portion of the net pension liability ("NPL") of the system, calculated using the discount rate of 5.23 percent, as well as what the allocated portion of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.23 percent) or one percentage-point higher (6.23 percent) than the current rate:

	1% Decrease (4.23%)	Current Discount Rate (5.23%)	1% Increase (6.23%)
Eastern Kentucky University proportionate share of net pension liability (in thousands)	$ 297,774	$ 237,056	$ 186,947

Contributions: Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.540, 161.550 and 161.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. For the fiscal year ended June 30, 2015, University employees were required to contribute 7.68 percent of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.36 percent of covered payroll. The actuarially determined amount, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The University's total contributions to KTRS for the years ending June 30, 2015 and 2014 were $7,235,381 and $8,529,378, respectively, and were equal to the required contributions for the year. In addition, the Commonwealth of Kentucky contributes ad hoc annual cost of living adjustments provided by the General Assembly for KTRS retirees. These contributions totaled $967,817 for the year ending June 30, 2014 and are approximately $1,175,000 for the year ending June 30, 2015.

Collective Net Pension Liability*:* At June 30, 2015, the University reported a liability for its proportionate share of the net pension liability that reflected a reduction for pension support provided to the University by the Commonwealth of Kentucky. The amount recognized by the University as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the University were as follows:

University's proportionate share of the net pension liability	$ 237,056,212
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	26,898,447
	$ 263,954,659

The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on the University's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2014, the University's proportion was 1.10 percent and the Commonwealth of Kentucky's proportion associated with the University was 0.12 percent.

NOTE 11 – PENSION PLANS (Continued)

Measurement Date: June 30, 2013 is the actuarial valuation date upon which the TPL is based. An expected TPL is determined as of June 30, 2014 using standard roll forward techniques. The procedure used to determine the TPL as of June 30, 2014 is shown in the GASB 67 report for KTRS submitted on December 11, 2014.

Changes in Assumptions and Benefit Terms: A change in the municipal bond index rate from the prior measurement date to the measurement date resulting in the SEIR changing from 5.13% at the prior measurement date to 5.23% at the measurement date. The change in the discount rate is considered a change in actuarial assumptions under GASB 68.

Pension Expense: For the year ended June 30, 2015, the University recognized pension expense of $12,934,065 and revenue of $1,318,053 for support provided by the Commonwealth of Kentucky.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. As noted in the previous section, the amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive system members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period.

The table below provides a summary of the deferred inflows and outflows as of the measurement date.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions or other inputs	$ -	$ 3,207,657
Net difference between projected and actual earnings on pension plan investments	-	14,292,009
Employer contributions subsequent to the measurement date	7,235,381	-
Total	$ 7,235,381	$ 17,499,666

(Continued)

NOTE 11 – PENSION PLANS (Continued)

At June 30, 2015, the University reported $7,235,381 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Deferred inflows of resources at June 30, 2015, related to pensions will be recognized in pension expense as follows:

Deferred Amounts to be recognized in Fiscal Years
Following the Reporting Date

Fiscal Years	Amount
2016	$ 4,241,338
2017	4,241,338
2018	4,241,338
2019	4,241,338
2020	534,314
Total	$ 17,499,666

Kentucky Employees Retirement System

Substantially all other full-time University employees are required by law to participate in the Kentucky Employees Retirement System (“KERS”), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System ("KRS"), an agency of the Commonwealth. Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees (“Board”) of KRS administers the KERS, County Employees Retirement System and State Police Retirement System. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to members of that plan, and a pro rate share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630.

More specifically, within KERS, Eastern Kentucky University employees participate in the non-hazardous portion of the plan, which covers all regular full-time members employed in non-hazardous duty positions of any state department, board, or agency directed by executive order to participate in KERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may also be extended to beneficiaries of plan members under certain circumstances.

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of KRS also administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by KRS. The assets of the insurance fund are invested as a whole. The KERS issues a publicly available financial report that includes financial statements and required supplementary information for the KERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

Benefits Provided: The information below summarizes the major retirement benefit provisions of KERS-Non-Hazardous. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

(Continued)

NOTE 11 – PENSION PLANS (Continued)

Non-Hazardous Normal Retirement:

Members whose participation began before 8/1/2004:

Age requirement:	65
Service requirement:	At least one month of non-hazardous duty service credit.
Amount:	If a member has at least 48 months of service, the monthly benefit is 1.97% times final average compensation times years of service. For members who were participants in any one of the state retirement systems from January 1, 1998 through January 1, 1999, the benefit factor is 2.00%. For those members who retired between January 1, 1999 and January 31, 2009 with at least 240 months of service, the benefit factor is 2.20%. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 8/1/2004, but before 9/1/2008:

Age requirement:	65
Service requirement:	At least one month of non-hazardous duty service credit.
Amount:	If a member has at least 48 months of service, the monthly benefit is 2.00% multiplied by final average compensation, multiplied by years of service. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 9/1/2008 but before 1/1/2014:

Age/Service Requirement:	Age 65 with 60 months of non-hazardous duty service credit, or age 57 if age plus service equals at least 87

NOTE 11 – PENSION PLANS (Continued)

Amount: The monthly benefit is the following benefit factor based on service credit at retirement plus 2.00% for each year of service greater than 30 years, multiplied by final average compensation, multiplied by years of service.

Service Credit	Benefit Factor
10 years or less	1.10%
10 - 20 years	1.30%
20 - 26 years	1.50%
26 - 30 years	1.75%

Final compensation is calculated by taking the average of the last (not highest) five (5) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

Members whose participation began on or after 1/1/2014:

Age/Service Requirement: Age 65 with 60 months of non-hazardous duty service credit, or age 57 if age plus service equals at least 87

Amount: Each year that a member is an active contributing member to the system, the member and the member's employer will contribute 5.00% and 4.00%, respectively, of creditable compensation into a hypothetical account. The hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the system's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year.

Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the system as a lump sum or annuitized into a single life annuity option.

(Continued)

NOTE 11 – PENSION PLANS (Continued)

Contributions: For the fiscal year ended June 30, 2015, plan members who began participating prior to September 1, 2008 were required to contribute 5% of their annual creditable compensation. The Commonwealth was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For both of the fiscal years ended June 30, 2016 and 2015, participating employers contributed 38.77%, of each employee's creditable compensation. The actuarially recommended rates set by the Board for the fiscal years ended June 30, 2016 and 2015 were 38.77% and 45.28%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investments earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. 5% of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the pension fund (see Kentucky Administrative Regulation 105KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the cash balance plan. The cash balance plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

2015 KERS Plan Information

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

NOTE 11 – PENSION PLANS (Continued)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

Discount Rate Assumptions:

(a) Discount rate: The discount rate used to measure the total pension liability was 7.5%.

(b) Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

(c) Long-term rate of return: The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the system. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(d) Municipal bond rate: The discount rate determination does not use a municipal bond rate.

(e) Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2117. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 11 – PENSION PLANS (Continued)

(f) Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	42%	5.40%
Combined Fixed Income	20%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	3%	4.50%
Absolute Returns (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash	5%	(0.25%)
Total	100%	

(g) Sensitivity analysis: This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the Eastern Kentucky University's allocated portion of the net pension liability ("NPL") of the system, calculated using the discount rate of 7.50%, as well as what the allocated portion of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage-point higher (8.50%) than the current rate (in thousands):

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Eastern Kentucky University's proportionate share of net pension liability (in thousands)	$ 193,495	$ 171,780	$ 153,409

Employer's Portion of the Collective Net Pension Liability: The proportionate share of the NPL, as indicated in the prior table, is $171,779,586 or 1.71%. The liability was distributed based on 2015 actual employer contributions to the Plan.

Measurement Date: June 30, 2015 is the actuarial valuation date upon which the TPL is based. No update procedures were used to determine the TPL.

Changes in Assumptions and Benefit Terms: The assumed investment rate of return was decreased subsequent to the measurement date from 7.50% to 6.75%, effective July 1, 2015.

Changes Since Measurement Date: The assumed investment rate of return was decreased subsequent to the measurement date from 7.50% to 6.75%, effective July 1, 2015. The impact on the University's financial statements from this change is not known.

Pension Expense: Eastern Kentucky University recognized $18,024,962 of pension expense during 2016.

(Continued)

NOTE 11 – PENSION PLANS (Continued)

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. As noted in the previous section, the amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive system members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period.

The table below provides a summary of the deferred inflows and outflows as of the measurement date.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	$ 8,234,128	$ -
Change in proportionate share of contributions	6,717,066	-
Differences between expected and actual experience	366,992	-
Net difference between projected and actual earning on pension plan investments	489,263	-
	15,807,449	-
Employer contributions subsequent to the measurement date	9,072,547	-
Total	$ 24,879,996	$ -

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2017. The remainder of the deferred outflows of resources will be recognized in pension expense as follows:

Deferred Amounts to be Recognized in Fiscal Years
Following the Reporting Date

Fiscal Years	Amount
2017	$ 6,645,521
2018	6,645,521
2019	1,659,967
2020	856,440
Total	$ 15,807,449

(Continued)

NOTE 11 – PENSION PLANS (Continued)

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

2014 KERS Plan Information

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2008.

Discount Rate Assumptions:

(a) Discount rate: The discount rate used to measure the total pension liability was 7.75%.

(b) Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

(Continued)

NOTE 11 – PENSION PLANS (Continued)

(c) Long-term rate of return: The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the system. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(d) Municipal bond rate: The discount rate determination does not use a municipal bond rate.

(e) Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2116. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(f) Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30%	8.45%
International equity	22%	8.85%
Emerging market equity	5%	10.50%
Private equity	7%	1.25%
Real estate	5%	7.00%
Core U.S. fixed income	10%	5.25%
High-Yield U.S. fixed income	5%	7.25%
Non-U.S. fixed income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	100%	

(Continued)

NOTE 11 – PENSION PLANS (Continued)

(g) Sensitivity analysis: This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the Eastern Kentucky University's allocated portion of the net pension liability ("NPL") of the system, calculated using the discount rate of 7.75 percent, as well as what the allocated portion of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage-point higher (8.75 percent) than the current rate (in thousands):

	1% Decrease (6,75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Eastern Kentucky University's proportionate share of net pension liability (in thousands)	$ 162,050	$ 144,048	$ 127,818

Employer's Portion of the Collective Net Pension Liability: The proportionate share of the NPL, as indicated in the prior table, is $144,048,296 or 1.61%. The liability was distributed based on 2014 actual employer contributions to the plan.

Measurement Date: June 30, 2014 is the actuarial valuation date upon which the TPL is based. No update procedures were used to determine the TPL. An expected TPL is determined as of July 1, 2013 using standard roll back techniques. The roll back calculation subtracts the annual normal cost (also called the service costs), adds the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The procedure was used to determine the TPL as of July 1, 2013, as shown in the GASB 67 report for KERS submitted on November 17, 2014.

Changes in Assumptions and Benefit Terms: There were no changes in assumptions or benefit terms since the prior measurement date.

Changes Since Measurement Date: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Pension Expense: Eastern Kentucky University recognized $10,887,000 of pension expense during 2015.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. As noted in the previous section, the amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive system members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period.

NOTE 11 – PENSION PLANS (Continued)

The table below provides a summary of the deferred inflows and outflows as of the measurement date.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 1,851,280
Employer contributions subsequent to the measurement date	8,774,260	-
Total	$ 8,774,260	$ 1,851,280

At June 30, 2015, the University reported $8,774,260 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Deferred inflows of resources at June 30, 2015, related to pensions will be recognized in pension expense as follows:

Deferred Amounts to be Recognized in Fiscal Years
Following the Reporting Date

Fiscal Years	Amount
2016	$ 462,820
2017	462,820
2018	462,820
2019	462,820
Total	$ 1,851,280

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.5 percent
Salary increase	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

NOTE 11 – PENSION PLANS (Continued)

Summary Pension Plan Information:

Summary Pension Plan Information as of June 30, 2016:

	KERS	KTRS	Total
Net pension liability	$ 171,779,586	$ 274,716,842	$ 446,496,428
Deferred outflows of resources	24,879,996	34,828,565	59,708,561
Deferred inflows of resources	-	12,574,569	12,574,569
Pension expense	18,924,062	15,596,654	34,520,716

Summary Pension Plan Information as of June 30, 2015:

	KERS	KTRS	Total
Net pension liability	$ 144,048,296	$ 237,056,212	$ 381,104,508
Deferred outflows of resources	8,774,260	7,235,381	16,009,641
Deferred inflows of resources	1,851,280	17,499,666	19,350,946
Pension expense	10,887,000	12,934,065	23,821,065

NOTE 12 – 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, 2016 and 2015 totaled $15,576,439 and $14,527,416, respectively. Administrative fees incurred for the year ended June 30, 2016 and 2015 were $1,037,459 and $890,296, respectively.

Changes in the liability for self-insurance at June 30, 2016 are as follows:

	2016	2015
Liability – beginning of year	$ 1,826,491	$ 1,823,611
Accruals for current year claims and changes in estimate	17,056,994	16,387,182
Claims paid	(15,576,440)	(14,527,416)
Other costs	(1,469,590)	(1,856,886)
Liability – end of year	$ 1,837,455	$ 1,826,491

(Continued)

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Construction Commitments – The estimated cost to complete construction projects under contract at June 30, 2016, is approximately $129.5 million. The projects are to be financed principally by appropriations from the Commonwealth, proceeds from bonds, internal funds and gifts.

Claims and Litigation – The University is subject to various litigation and other claims in the ordinary course of business. University officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the 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.

NOTE 14 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

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

	2016	2015
Salaries and wages	$ 137,439,883	$ 133,134,690
Employee benefits	53,151,839	50,913,514
Supplies and other services	58,753,324	56,183,010
Travel	5,325,826	5,391,713
Depreciation	16,980,084	17,554,374
Student scholarships and financial aid	12,035,399	11,195,562
Utilities	8,112,244	8,011,376
Pension expense	16,605,061	6,493,146
Other operating expenses	1,780,559	247,627
Total	$ 310,184,219	$ 289,125,012

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Eastern Kentucky University Foundation, Inc. (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 (University). Specifically, it was founded to cooperate with the University and with the University's Board of Regents (Board) in the promotion of the educational, civic, and charitable purposes of the University and the Board in any lawful manner deemed appropriate by the Foundation's Board of Directors. This purpose includes the encouragement of scholarship and research, the promotion of the prestige, expansion, and development of the University's physical plant and faculty, and the assistance of its students and alumni.

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

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

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

Cash and Cash Equivalents - The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. Throughout the year, the Foundation's cash and cash equivalents balances typically exceed the amount insured by the Federal Deposit Insurance Corporation.

Investments - Investments in equity securities having a readily determinable market value and all debt securities are carried at fair value. Income from investments consists of dividends and interest income net of related investment expenses. Income from investments which is initially restricted by donor stipulation and for which the restriction will be satisfied in the same fiscal year is included in unrestricted net assets. Other income from investments is reflected on the accompanying statement of activities as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

(Continued)

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

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

Alternative investments, consisting of limited partnerships, are carried at estimated fair value provided by the management of the alternative investment funds as of year-end. 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 estimated fair value of the Foundation's alternative investments total approximately $2,639,000 and $3,002,000 as of June 30, 2016 and 2015, respectively.

The Foundation invests the endowment matching funds for the Regional University Endowment Trust Fund on behalf of the University (see Note 15 I.). Dividends and interest income and realized and unrealized gains and losses on investments are allocated between the Foundation and the University based on the percentage of investments owned.

The Foundation previously adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, net appreciation (depreciation) 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 (depreciation). In cases where the donor has placed temporary restrictions on the use of the income from endowed gifts, related net appreciation (depreciation) 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 is stated at cost and is depreciated on the straight-line method over the estimated useful lives of the assets; 40-50 years for buildings and building improvements, 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 greater than one year. Renovations to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expenses are incurred.

The Foundation reviews for the impairment of long-lived assets subject to depreciation and amortization, including property and equipment, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. No such impairment losses have been recognized with respect to the years ended June 30, 2016 and 2015.

Deferred Gift Liabilities - The carrying amount for deferred gift liabilities is the actuarially determined present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements.

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.

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

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

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 on the accompanying statement of activities as net assets released from restrictions.

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 that 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 into 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 a risk-free interest rate applicable to the years in which the unconditional promises are received (discount rates ranging from 1.14% to 6.09%). Amortization using the level-yield method is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Income Taxes - The Internal Revenue Service (IRS) has determined that the Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code (Code). The Foundation is however subject to federal income tax on any unrelated business taxable income. Additionally, the Foundation has been determined by the IRS not to be a private foundation within the context of Section 509(a) of the Code.

Accounting principles generally accepted in the United States of America prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits or liabilities will be recognized only if the tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit or liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit or liability will be recorded. Management is not aware of any tax benefits or liabilities which would warrant recognition as of June 30, 2016 (nor does it expect this to change in the next 12 months) and 2015.

The Foundation would recognize interest and penalties related to uncertain tax positions in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties as of June 30, 2016 and 2015.

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 totaling approximately $17,510,000 and $14,998,000 as of June 30, 2016 and 2015, 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)

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

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

Reclassifications - Certain amounts for 2015 have been reclassified to conform with the 2016 presentation. These reclassifications had no effect on the previously reported 2015 change in net assets or total net assets as of June 30, 2015.

Subsequent Events - Management has performed an analysis of the activities and transactions subsequent to year-end to determine the need for any adjustments to and/or discussions within the accompanying financial statements as of and for the year ended June 30, 2016. Management has performed its analysis through the date of the Independent Auditor's Report, the date the financial statements were available to be issued. See Notes 15 G. and 15 J.

B. FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting principles generally accepted in the United States of America 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)

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

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The fair value of financial instruments as of June 30, 2016 is as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 874,859	$ 874,859	$ -	$ -
Equities	41,878,768	41,765,648	-	113,120
Fixed income	13,426,337	13,426,337	-	-
Alternatives:				
Limited partnerships	2,638,669	-	-	2,638,669
	$ 58,818,633	$ 56,066,844	$ -	$ 2,751,789

The fair value of financial instruments as of June 30, 2015 is as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 6,037,133	$ 6,037,133	$ -	$ -
Equities	38,557,381	38,444,261	-	113,120
Fixed income	13,128,921	13,128,921	-	-
Alternatives:				
Limited partnerships	3,002,196	-	-	3,002,196
	$ 60,725,631	$ 57,610,315	$ -	$ 3,115,316

The fair values of money market funds, equity investments, and fixed income investments are generally determined using quoted market prices and are classified as Level 1 financial instruments, with the exception of a specific equity investment in a closely-held bank holding company which has been classified as a Level 3 financial instrument. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions, and third-party pricing services.

(Continued)

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

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

Description of Alternative Investments Strategy and Liquidity

The Foundation’s alternative investments generally consist of limited partnerships and hedge funds. Additional disclosure relative to the underlying strategies for these types of investments is as follows:

- **Limited partnerships -** As of June 30, 2016 and 2015, the Foundation invests in various limited partnerships which employ the following investment strategies. The categories represent the variety of strategies used rather than a description of each limited partnership.

    1) Buyout funds - These funds invest in more established companies that are in need of repair or growth to boost returns. Generally, interests are purchased through some combination of preferred shares and debt. There are various investment opportunities in buyout, such as “buy and build,” “spinoffs,” ”ownership transitions,” and “recapitalizations.”

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

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

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

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

(Continued)

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

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

- **Hedge funds** - The Foundation also generally invests in hedge funds which employ the following investment strategies. The categories represent the variety of investment strategies used rather than a description of each hedge fund.

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

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

3) Capital structure arbitrage - The strategy of these funds typically involves taking long and short positions in different financial instruments and asset classes within the capital structure of the same company (debt and equity investments).

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

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

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

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

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

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

The following table provides additional information as of June 30, 2016 relative to alternative investments:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partnerships	$ 2,638,669	$ 724,321	Funds Dissolved	N/A

(Continued)

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

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The respective limited partnerships have incorporation dates ranging from 2005 to 2008. Each of the limited partnerships have a term of fifteen years, provided, however, that the fund manager, in its sole discretion, may elect to extend such term for up to three one-year periods if it believes such extensions are necessary or desirable in order to effect an orderly liquidation of the limited partnership investments. The fund manager may, in its sole discretion, elect to terminate the limited partnership prior to the end of the term or any extension period.

The years ended June 30, 2016 and 2015 activity with respect to the investments reflected as Level 3 is as follows:

The year ended June 30, 2016 activity with respect to the investments reflected as Level 3 is as follows:

	2016	2015
Beginning of year	$ 3,115,316	$ 3,567,524
Net realized and unrealized gains (losses) on investments included in the change in net assets	33,021	(467,608)
Net purchases (sales) of investments	(396,548)	15,400
End of year	$ 2,751,789	$ 3,115,316

The amount of total gains or losses for the years ended June 30, 2016 and 2015 relating to Level 3 investments still held at year-end is as follows:

	2016	2015
Limited partnerships	$ 33,021	$ (467,608)

See also Note 15 H. with respect to deferred gift liabilities (Level 3 fair value measurement).

C. ENDOWMENT

The Foundation's endowment consists of approximately 405 individual funds established for a variety of purposes. The endowment includes both donor restricted endowment funds and funds designated by the Foundation's Board Directors to function as endowments (Board designated endowment funds). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Foundation's Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

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

C. ENDOWMENT (Continued)

In 2010, the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) was adopted by the Commonwealth of Kentucky. The Foundation interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The purposes of the endowment fund
- The duration and preservation of the endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the “historic dollar value” level the Foundation is required to preserve as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are to be reported in unrestricted net assets. As of June 30, 2016, funds with deficiencies total $37,669 (see the below table as of June 30, 2016). There are no such funds with deficiencies as of June 30, 2015.

At June 30, 2016, endowment net assets consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 5,735,024	$ -	$ -	$ 5,735,024
Donor restricted	(37,669)	11,425,971	26,979,340	38,367,642
	$ 5,697,355	$ 11,425,971	$ 26,979,340	$ 44,102,666

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

C. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 5,524,453	$ 13,223,408	$ 26,451,874	$ 45,199,735
Contributions	244,833	1,373,971	527,466	2,146,270
Investment return				
Net investment income	185,812	1,241,736	-	1,427,548
Net unrealized and realized depreciation	(232,995)	(1,119,105)	-	(1,352,100)
Appropriation of endowment assets for expenditure	(24,748)	(3,294,039)	-	(3,318,787)
End of year	$ 5,697,355	$ 11,425,971	$ 26,979,340	$ 44,102,666

At June 30, 2015, endowment net assets consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 5,524,453	$ -	$ -	$ 5,524,453
Donor restricted	-	13,223,408	26,451,874	39,675,282
	$ 5,524,453	$ 13,223,408	$ 26,451,874	$ 45,199,735

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 2,804,406	$ 15,979,176	$ 24,901,206	$ 43,684,788
Contributions	2,472,687	-	1,550,668	4,023,355
Investment return				
Net investment income	148,273	1,012,699	-	1,160,972
Net unrealized and realized appreciation (depreciation)	125,980	(880,807)	-	(754,827)
Appropriation of endowment assets for expenditure	(26,893)	(2,887,660)	-	(2,914,553)
End of year	$ 5,524,453	$ 13,223,408	$ 26,451,874	$ 45,199,735

(Continued)

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

C. ENDOWMENT (Continued)

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

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (dividends and interest). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The endowment assets of the Foundation are invested in a broad range of equities and debt securities, thereby limiting the market risk exposure in any single investment manager or individual investment.

Spending Policy and How the Investment Objectives Relate to the Spending Policy - The Foundation has a policy of appropriating for distribution each year up to 5.0% of a three year rolling average of the fund's value. Likewise, it is the policy of the Foundation that, annually, up to 1.5% of a three year rolling average of the fund's value be designated for unrestricted use by the Foundation in furtherance of its singular mission to provide support for the advancement of the University. The policies are monitored by the Executive Committee of the Foundation's Board of Directors and may be amended in accordance with market conditions. Earnings above the annually designated portions are reinvested in the corpus to insure long-term growth and stability.

(Continued)

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

D. PLEDGES RECEIVABLE

At June 30, 2016, net pledges receivable consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current pledges receivable:				
Estimated to be collected in less than one year	$ 20,000	$ 344,836	$ 151,200	$ 516,036
Less allowance	-	(3,700)	(7,500)	(11,200)
	20,000	341,136	143,700	504,836
Long-term pledges receivable:				
Estimated to be collected in one to five years	80,000	543,838	1,042,317	1,666,155
Estimated to be collected thereafter	-	311,812	-	311,812
Less allowance	-	(12,400)	(25,800)	(38,200)
Less discounts to net present value	(11,651)	(119,564)	(93,037)	(224,252)
	68,349	723,686	923,480	1,715,515
	$ 88,349	$ 1,064,822	$ 1,067,180	$ 2,220,351

At June 30, 2015, net pledges receivable consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current pledges receivable:				
Estimated to be collected in less than one year	$ -	$ 26,318	$ 92,400	$ 118,718
Less allowance	-	-	(40,478)	(40,478)
	-	26,318	51,922	78,240
Long-term pledges receivable:				
Estimated to be collected in one to five years	-	53,756	27,000	80,756
Estimated to be collected thereafter	-	-	100	100
Less allowance	-	-	(21,239)	(21,239)
Less discounts to net present value	-	(10,612)	(5,861)	(16,473)
	-	43,144	-	43,144
	$ -	$ 69,462	$ 51,922	$ 121,384

(Continued)

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

E. PROPERTY AND EQUIPMENT

At June 30, 2016 and 2015, net property and equipment consists of the following:

	2016	2015
Land	$ 250,000	$ 1,808,723
Land improvements	-	523,225
Buildings and building improvements	600,000	3,185,083
	850,000	5,517,031
Less accumulated depreciation	(104,479)	(897,695)
	$ 745,521	$ 4,619,336

During the year ended June 30, 2016, the Foundation transferred/contributed to the University all of the Arlington Golf Course related property and equipment (see also Note 15 J.). Such property and equipment had a net book value totaling approximately $3,774,000 as of the transfer/contribution effective December 31, 2015.

During the year ended June 30, 2015, the Foundation contributed to the University certain fixed assets with a net book value totaling approximately $977,000 (see also Note 15 J.). Such items largely represented contributions received over time by the Foundation on the University's behalf.

Depreciation expense for the years ended June 30, 2016 and 2015 totals $99,140 and $191,614, respectively.

F. NET ASSETS

Temporarily Restricted Net Assets - Temporarily restricted net assets are available for scholarships and other University program support.

Permanently Restricted Net Assets - Permanently restricted net assets consist of restricted endowments requiring the principal to be invested in perpetuity. The income thereon is available for scholarships, chairs, and other University program support.

Net Assets Released From Restrictions - Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events as specified by the donors. Net assets released from restrictions consist of the following for the years ended June 30, 2016 and 2015:

	2016	2015
Purposes restrictions satisfied/time restrictions expired:		
Capital projects	$ 1,064,191	$ 512,159
Scholarships program	824,599	640,820
Academic programs	539,841	389,933
Other support for the University	1,749,042	1,223,938
	$ 4,177,673	$ 2,766,850

(Continued)

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

G. NOTE PAYABLE

During the year ended June 30, 2014, the Foundation entered into a $1,500,000 commercial bank note payable, the proceeds of which were used to retire the Variable Rate Demand Economic Development Revenue Bonds, Series 2008 issuance. The uncollateralized/unsecured bank note payable bears interest at fixed rate of 2.97% and is payable in monthly principal and interest payments totaling $24,665 through May 2019, with a final balloon payment due at maturity (June 2019). The outstanding principal balance at June 30, 2016 and 2015 is $849,428 and $1,115,466, respectively.

Subsequent to June 30, 2016, the Foundation paid in full the bank note payable (see also Note 15 J.). Accordingly, the bank note payable is reflected as a current liability on the accompanying statement of financial position as of June 30, 2016.

H. DEFERRED GIFT LIABILITIES

Over time, the Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value.

The accompanying statements of financial position reflect a liability at June 30, 2016 and 2015 totaling $333,269 and $348,495, respectively, which represents the estimated present value of the future annuity obligations calculated using discount rates ranging from 5.5% to 8.4%. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancy, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate (represents the discount rate at the date of the contribution determined in accordance with the Internal Revenue Code). The carrying amount of the deferred gift liabilities estimates fair value and is calculated using Level 3 inputs (see also Note 15 B.).

The years ended June 30, 2016 and 2015 activity with respect to deferred gift liabilities is as follows:

	2016	2015
Beginning of year	$ 348,495	$ 364,328
Payment obligations	(44,425)	(10,837)
Net actuarial (gain) loss	29,199	(4,996)
End of year	$ 333,269	$ 348,495

At June 30, 2016 and 2015, investments (which are reflected at fair value) relative to such deferred gift liabilities total $589,356 and $642,352, respectively.

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

I. ASSETS HELD FOR OTHERS

Assets held for others represent resources in the possession of, but not under the control of, the Foundation. At June 30, 2016 and 2015, assets held for others consist of the following:

	2016	2015
Regional University Endowment Trust Fund	$ 15,150,216	$ 15,879,388
Programs of Distinction	1,699,068	1,779,921
	$ 16,849,284	$ 17,659,309

J. RELATED PARTY TRANSACTIONS

Eastern Kentucky University – The University provides various administrative services to the Foundation. In addition, during the year ended June 30, 2016, the University expended $878,701 and $201,760 on behalf of the Foundation with respect to scholarships and employee salaries/related benefits, respectively. Such amounts are ultimately reimbursed by the Foundation. During the year ended June 30, 2015, the University expended $646,570 and $68,248 on behalf of the Foundation with respect to scholarships and employee salaries/related benefits, respectively. At June 30, 2016 and 2015, the amount due to the University on the accompanying statements of financial position totals $638,250 and $430,502, respectively.

As indicated in Note 15 E., during the year ended June 30, 2015, the Foundation contributed to the University certain fixed assets with a net book value totaling approximately $977,000.

Arlington Golf Course – Through December 31, 2015, the Foundation owned the Arlington Golf Course property, a golf course built and owned by the Foundation on Foundation owned property. The Foundation leased the property to Arlington Association, Inc. (Arlington) under the terms of a year-to-year lease agreement which could be terminated by either party with notice. The monthly lease payment was $24,665. Arlington assumed all expenses associated with the operation and maintenance of the golf course and related facilities and received the related income from the operation thereof. At December 31, 2015 and June 30, 2015, Arlington owed the Foundation $1,554,474 and $1,406,484, respectively, with respect to unpaid lease payments.

Additionally, at December 31, 2015 and June 30, 2015, Arlington owed the Foundation $329,982 under the terms of a $400,000 line of credit agreement (in addition to $270,000 borrowed by Arlington from May 2011 through February 2012 under a separate borrowing arrangement), the proceeds of which had been used by Arlington to fund on-going capital improvements to the golf course and related facilities. The line of credit bore interest at 4.0%. Interest was payable monthly. The line of credit agreement did not provide for a maturity date.

Lastly, at December 31, 2015 and June 30, 2015, Arlington was also indebted to the Foundation in the amount of $348,608. Such amount largely represented an obligation originally due from Arlington to the University which the University then subsequently transferred to the Foundation in 2009.

(Continued)

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

J. RELATED PARTY TRANSACTIONS (Continued)

At December 31, 2015 and June 30, 2015, the gross amount of the various amounts due from Arlington totaled $2,503,064 and $2,355,074, respectively. Based upon management's review of the financial condition of Arlington and its operating activity, an allowance totaling $2,355,074 was provided as of June 30, 2015 (and as of December 31, 2015).

Effective December 31, 2015, the Foundation contributed to the University the Arlington Golf Course property and related equipment. Such property and equipment totaled approximately $6,316,000, approximately $2,542,000 of which had been simultaneously transferred to the Foundation from Arlington to settle the various amounts Arlington owed to the Foundation as described above. Bad debts (recoveries) on the accompanying statement of activities for the year ended June 30, 2016 includes the impact of the $2,355,074 total amount due from Arlington as of June 30, 2015 for which an allowance was provided as indicated above.

In conjunction with the approximately $6,316,000 of property and equipment the Foundation contributed to the University, in June 2016, the University transferred $983,452 of cash to the Foundation. In July 2016, the Foundation used $851,521 of the $983,452 to pay in full the bank note payable, including the unpaid interest accrued thereon (see also Note 15 G.). The remaining $131,931 reimbursed the Foundation for the principal payments it had made on the bank note payable subsequent to the December 31, 2015 effective date of this transaction. The approximately $5,333,000 difference between the $6,316,000 of property and equipment transferred to the University and the $983,452 received from the University is included in Support for the University on the accompanying statement of activities for the year ended June 30, 2016.

Other - At June 30, 2016 and 2015, outstanding gross pledges receivable due from related parties (members of the University's Board of Regents, the Foundation's Board of Directors, or employees of the University) total $897,365 and $41,381, respectively. Such gross pledges receivable amounts are included in the amounts reflected in Note 4.

K. RECENTLY ISSUED ACCOUNTING STANDARDS UPDATE

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 changes presentation and disclosure requirements for not-for-profit organizations to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users of the financial statements. This standard includes qualitative and quantitative requirements in the following areas: 1) net asset classes, 2) investment return, 3) expenses, 4) liquidity and the availability of resources, and 5) presentation of operating cash flows. The provisions of ASU 2016-14 are effective for the year ending June 30, 2019. Early adoption is permitted. The Foundation is currently evaluating this standard and its related impact on the Foundation's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(in thousands)
June 30, 2016 and 2015

KERS	2016	2015
University's proportion of the net pension liability	1.71%	1.61%
University's proportionate share of the net pension liability	$ 171,780	$ 144,048
University's covered-employee payroll	$ 29,378	$ 27,312
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	584.72%	527.42%
Plan fiduciary net position as a percentage of the total pension liability	22.32%	22.32%

KTRS	2016	2015
University's proportion of the net pension liability	1.12%	1.10%
University's proportionate share of the net pension liability	$ 274,717	$ 237,056
State's proportionate share of the net pension liability associated with the University	27,936	26,899
Total	$ 302,653	$ 263,955
University's covered-employee payroll	$ 54,733	$ 53,531
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	501.92%	442.84%
Plan fiduciary net position as a percentage of the total pension liability	42.49%	45.59%

* The amounts presented for each fiscal year were determined as of the year end that occurred one year prior.

** This is a ten-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S CONTRIBUTIONS
(in thousands)
June 30, 2016 and 2015

KERS	2016	2015
Contractually required contribution	$ 9,072	$ 8,774
Contributions in relation to the contractually required contribution	(9,072)	(8,774)
Contribution deficiency (excess)	$ -	$ -
University's covered-employee payroll	$ 29,378	$ 27,312
Contributions as a percentage of covered-employee payroll	30.88%	32.13%

KTRS	2016	2015
Contractually required contribution	$ 8,843	$ 7,235
Contributions in relation to the contractually required contribution	(8,843)	(7,235)
Contribution deficiency (excess)	$ -	$ -
University's covered-employee payroll	$ 54,733	$ 53,531
Contributions as a percentage of covered-employee payroll	16.16%	13.52%

* This is a ten-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

Changes of benefit terms and assumptions:

KERS

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

- Tiered Structure for benefit accrual rates
- 2. New retirement eligibility requirements
- 3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

Changes of assumptions: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

KTRS

Changes of benefit terms: None

Changes of assumptions: In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined cont

SUPPLEMENTAL INFORMATION

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Eastern Kentucky University ("the University" or "University") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 3, 2016. Our report includes a reference to other auditors who audited the financial statements of Eastern Kentucky University Foundation, Inc., as described in our report on the University's financial statements. The financial statement of Eastern Kentucky University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 3, 2016

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Eastern Kentucky University's ("the University" or "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2016. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 3, 2016

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2016

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Direct Programs –				
Federal Pell Grant Program		84.063	$ 25,590,645	$ -
Federal Supplemental Educational Opportunity Grant		84.007	587,071	-
Federal Work Study Program		84.033	646,999	-
Federal Work Study Service Tutors		84.033	32,059	-
Federal Work Study Job Location/ Development		84.033	48,425	-
Federal Perkins Loan Program		84.038	6,550,493	-
Teach Grant		84.379	35,752	-
Federal Direct Student Loan - PLUS		84.268	13,643,053	-
Federal Direct Student Loan		84.268	80,381,748	-
Nurse Faculty Loan Program		93.264	2,609	-
Nursing Student Loans		93.364	6,900	-
Total Student Financial Aid Cluster			127,525,754	-
TRIO Cluster				
NOVA Student Support Services FY 14		84.042A	4,800	-
NOVA Student Support Services FY 15		84.042A	53,764	-
NOVA Student Support Services FY 16		84.042A	278,398	-
Educational Talent Search FY 15		84.044A	75,520	-
Educational Talent Search FY 16		84.044A	295,301	-
Upward Bound 2015		84.047A	12,819	-
Upward Bound 2016		84.047A	407,412	-
Upward Bound 2017		84.047A	80,910	-
Ronald McNair Post Baccalaureate Program FY 15		84.217A	77,997	-
Ronald McNair Post Baccalaureate Program FY 16		84.217A	136,711	-
Total TRIO Cluster			1,423,632	-
PREPaRE FY 14		84.325	253,719	95,367
			129,203,105	95,367
Pass-Through Programs -				
Kentucky Cabinet for Health and Family Services				
University Training Consortium FY 16	PON2 736 1500001287 1	84.412	838,586	-
Kentucky Department for Technical Education				
PD for Teacher Educators in Career and Technical Education	PON2 540 1500002675 1	84.048	15,000	-
Perkins Grant: Grant Management	PON2 540 1500002514 1	84.048	40,085	-
Field Based Teacher Education FY 16	PON2 540 1500002521 1	84.048A	59,417	-
KY Engineering and Technical Initiative	PON2 540 1600001600 1	84.048	171	-
			114,673	-

See accompanying notes to schedule of expenditures of federal awards.

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2016

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
U.S. DEPARTMENT OF EDUCATION (Continued)				
Pass-Through Programs (Continued) –				
Kentucky Department of Education				
Kentucky Center for Instructional Discipline FY16	PON2 540 1500002369 1	84.027	$ 664,445	$ -
Regional Center/Southeast Regional Center	PON2 540 1500000074 1	84.011A	122,825	-
Migrant Education Regional Service FY 16	PON2 540 1500002652 1	84.011A	296,102	18,658
21st Century Community Learning FY 16	PON2 540 1400002257 1	84.287	356,823	-
ITP P-12 Educational Interpreter In-Service 2015-2016	PON2 540 1400001996 1	84.027	358,161	-
Migrant Regional Center Recruiter FY16	PON2 540 1400002781 1	84.011A	38,346	-
Path 2 Promise Clay County Adult Education	PON2 415 1600001565 1	84.002	3,998	-
			1,840,700	18,658
Kentucky Department of Vocational Rehabilitation				
Interpreter Training Program Deaf & Hard Hearing FY 16	PON2 531 1400002445 1	84.126	84,757	-
Interpreter Training Program FY 2015	PON2 531 1400002445 1	84.126	327,454	-
Vocational Rehab Interpreting FY 15	PON2 531 1400002441 1	84.126	427,748	-
			839,959	-
Kentucky Education Professional Standards Board				
EKU CTE KTIP Grant FY 16	PON2 183 1600000953 1	84.048	4,010	-
Kentucky Council on PostSecondary Education				
Madison County Adult Education FY 16	PON2 415 1600001638 1	84.002A	90,985	-
Madison County Adult Education FY 16	PON2 145 1600001638 1	84.002	34,266	-
Clay County Adult Education FY 16	PON2 415 1600001638 1	84.002A	79,791	-
Clay County Adult Education FY16	PON2 415 1600001638 1	84.002	30,050	-
Garrard County Adult Education FY 16	PON2 415 1600001638 1	84.002A	29,598	-
Garrard County Adult Education FY16	PON2 415 1600001638 1	84.002	11,147	-
Gear Up Statewide eMentoring Legacy	PON2 415 1200006940 1	84.334	60,815	-
			336,652	-

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
U.S. DEPARTMENT OF EDUCATION (Continued)				
Pass-Through Programs (Continued) –				
Office of the Governor of Kentucky				
Early Childhood Train Stand				
FY 15/16	PON2 135 1500001583 1	84.412	$ 4,027	$ -
			3,978,607	-
Total U.S. Department of Education			133,181,712	114,025
RESEARCH AND DEVELOPMENT				
Direct Programs –				
Department of Agriculture				
Wetland and Forest Monitoring in				
the Daniel Boone National Forest		10.Unknown	7,632	-
Department of Health and Human Services				
Treatment of Traumatically Injured		93.853	5,065	-
Department of the Interior				
Distribution, Movement KY Arrow Darter		15.650	1,683	-
Long-Term Evaluation of the Interacting				
Effect of Fire and White-Nose Syndrome				
on Endangered Bats		15.232	59,737	-
			61,420	-
National Science Foundation				
Enhancing Research Capacity: LCW		47.074	177,719	-
Building and Sustaining a Research				
Database for a Global Biodiversity Hotspot		47.074	39,325	22,236
			217,044	22,236
			291,161	22,236
Pass-Through Programs –				
Department of Interior				
Kentucky Waterways Alliance				
eDNA Survey – Kentucky				
Cave Shrimp	MOA 10/19/12	15.625	2,581	-
Kentucky Natural Lands Trust				
Management Strategies				
Running Buffalo Clover	MOA 07/25/13	15.657	1,064	-
Arkansas Game and Fish Commission				
DNA Barcode Reference Library				
eDNA	Letter of Agreement	15.634	10,051	3,448
North Carolina Wildlife Resources				
Commission				
Conservation Genetics of				
Gopher Frogs in North				
Carolina	WM-0292	15.634	928	-

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
RESEARCH AND DEVELOPMENT (Continued)				
Pass-Through Programs (Continued) –				
University of Kentucky Research Foundation				
Examining the Impacts of Valley Fills on Stream Water	G11AP20081	15.805	$ 2,195	$ -
Department of Defense				
Kentucky Department of Military Affairs				
Biological Assess EKY Training Site – ARRA	PON2 095 1500001763 1	12.401	34,460	-
Development of Habitat Models	PON2 095 1500001763 1	12.401	14,876	-
			49,336	3,448
Department of Health and Human Services				
Cabinet for Health and Family Services				
ICAP: Pilot Study	PON2 729 1600000932 1	93.627	1,147	-
University of Louisville				
KBRIN Lead Faculty Award FY 16	ULRF-13-1493A-01	93.389	31,952	-
KBRIN Lead Faculty Award FY 17	ULRF-13-1493B-01	93.389	7,562	-
Platinum-LHRH	ULRF-13-1493B-01	93.389	22,549	
Invitro and Invivo Analysis Of Pt-LHRH and Re/Tc-LHRH	ULRF-13-1493A-01	93.859	42,957	-
			105,020	-
University of Kentucky				
Bridging the Gap: Appalachian Students in Biomedical Research	3048109749-13-130	93.859	275,371	-
Environmental Protection Agency				
Kentucky Division of Water				
Statewide Validation KY-WRAM (Yr2)	PON2 129 1400002408 1	66.461	47,382	-
Survey of Kentucky Wetlands: Intensification of National Wetland Condition Assessment	PON2 129 1600001416 1	66.461	111,630	-
			159,012	-
University of Louisville Research Foundation, Inc.				
Assessment of Hydrologic Functions in Combined Stream and Floodplan Restoration	ULRF-13-1246-01	66.461	18,514	-

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
RESEARCH AND DEVELOPMENT (Continued)				
Pass-Through Programs (Continued) –				
National Science Foundation				
Clemson University				
CEDAR (Collaborative Research: Dev.)	1612-206-2008750	47.050	$ 2,662	$ -
Kentucky EPSCOR				
Effect of Bromoenol Lactone	Letter of Agreement	47.079	4,736	-
Characterization of Gene Expression	OIA-1355438	47.083	9,360	-
			14,096	-
University of Kentucky Research Foundation, Inc.				
Gluthatione as a Protectant Against Oxidation	3200000271-16-038	47.083	56,556	-
Protein-Baed Diagnostics	3048111570-15-153	47.079	(1,053)	-
Powering the Kentucky Bioeconomy for a Sustainable	3048111570-15-022	47.079	11,491	-
			66,994	-
			708,971	3,448
Total Research and Development			1,000,132	25,684
DEPARTMENT OF DEFENSE				
Direct Programs –				
Defense Intelligence Agency				
Bluegrass State Intelligence FY15		12.598	176,196	
Bluegrass State Intelligence FY16		12.598	226,847	53,595
Total Department of Defense			403,043	53,595
DEPARTMENT OF AGRICULTURE				
Direct Programs –				
Office of Rural Development				
Student Internship USDA Forest Service		10.Unknown	4,040	-
Pass-Through Programs –				
Kentucky Department of Education				
Upbound Bound Summer Food Program 2015	Letter of Agreement	10.559	11,542	-

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
DEPARTMENT OF AGRICULTURE (Continued)				
Pass-Through Programs –				
Kentucky Cabinet for Health and Family Services				
UTC FY 16	PON2 736 1500001287 1	10.561	$ 578,738	$ 17,943
UTC Cost Centers FY15	Letter of Agreement	10.561	6,612	-
UTC Cost Centers FY 16	Letter of Agreement	10.561	213,929	-
UTC FY 12	PON2 736 1100002010 1	10.561	(213)	-
UTC FY 13	PON2 726 1200001467 1	10.561	(225)	-
UTC FY 15	PON2 736 1400001493 1	10.561	(563)	-
			798,278	17,943
			809,820	17,943
Total Department of Agriculture			813,860	17,943
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs –				
Health Resources and Service Administration				
Health Centers Cluster:				
BCHC FY 16 Community Health Center		93.224	1,755,291	-
BCHC Outreach and Enroll 2015/2016		93.224	13,188	-
BCHC FY 17		93.224	695,611	-
BCHC Quality Improvement FY 16		93.527	26,078	-
BCHC Expanded Supplemental FY 16		93.527	260,958	-
Substance Abuse Service Expansion		93.527	21,114	-
Total Health Centers Cluster			2,772,240	-
Kentucky Environmental Public Health Traineeships Program		93.964	10,418	-
Terp Tube		93.433	28,979	-
			2,811,637	-
Pass-Through Programs –				
Montgomery County Health Department				
Family Planning FY 16	Letter of Agreement	93.217	21,179	-
Kentucky Cabinet for Health and Family Services				
Education Pays FY 15/16	PON2 736 1400004121 1	93.558	379,875	-
Department for Medicaid Services FY 15	PON2 746 1400001181 1	93.778	35,682	-
Medicaid Waiver Management Appl FY 16	PON2 746 1500004917 1	93.778	28,231	-
DBHDID FY 16	PON2 729 1500001918 1	93.958	327,408	-
DBHDID FY16	PON2 729 1500001918 1	93.959	536,507	-
DBHDID FY 16	PON2 729 1500001918 1	93.243	109,041	-
DBHDID FY 16	PON2 729 1500001918 1	93.829	262	-
UTC Cost Centers FY 16	Letter of Agreement	93.658	211,479	-
UTC Cost Centers FY 16	Letter of Agreement	93.558	90,051	-
UTC Cost Centers FY 16	Letter of Agreement	93.667	735	-
UTC Child Support FY 15	PON2 727 1400001601 1	93.563	67,050	2,604

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)				
Pass-Through Programs (Continued) – Kentucky Cabinet for Health and Family Services (Continued)				
UTC Child Support Conference FY15	PON2 727 1400001601 1	93.563	$ 45,069	$ -
University Training Consortium FY 16	PON2 736 1500001287 1	93.087	212,578	48,136
University Training Consortium FY 16	PON2 736 1500001287 1	93.556	804,992	29,024
University Training Consortium FY 16	PON2 736 1500001287 1	93.558	896,711	43,483
University Training Consortium FY 16	PON2 736 1500001287 1	93.575	99,574	-
University Training Consortium FY 16	PON2 736 1500001287 1	93.590	488,099	-
University Training Consortium FY 16	PON2 736 1500001287 1	93.603	1,060,552	321,107
University Training Consortium FY 16	PON2 736 1500001287 1	93.658	2,776,073	765,882
University Training Consortium FY 16	PON2 736 1500001287 1	93.667	2,808	-
University Training Consortium FY 16	PON2 736 1500001287 1	93.669	175,818	26,095
University Training Consortium FY 16	PON2 736 1500001287 1	93.674	749,012	68,965
UTC Cost Centers FY 15	Letter of Agreement	93.658	16,881	-
UTC Cost Centers FY 15	Letter of Agreement	93.558	2,556	-
University Training Consortium FY 15	PON2 736 1400001493 1	93.087	10,159	-
University Training Consortium FY 15	PON2 736 1400001493 1	93.556	2,857	-
University Training Consortium FY 15	PON2 736 1400001493 1	93.558	42,880	-
University Training Consortium FY 15	PON2 736 1400001493 1	93.590	57,616	-
University Training Consortium FY 15	PON2 736 1400001493 1	93.658	128,070	-
University Training Consortium FY 15	PON2 736 1400001493 1	93.667	550	-
University Training Consortium FY 15	PON2 736 1400001493 1	93.669	4,431	-
University Training Consortium FY 15	PON2 736 1400001493 1	93.674	23,408	-
Health Benefits Exchange FY 16	PON2 713 1500001781 1	93.778	85,571	-
			9,472,586	1,305,296

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)				
Pass-Through Programs (Continued) –				
University of Louisville Research Foundation				
Project SAFESPACE FY 15	ULRF-14-0146C-03	93.652	$ 13,177	$ -
Project SAFESPACE FY 16	ULRF-14-0146D-03	93.652	16,898	-
			30,075	-
University of Kentucky				
NIOSH Education Research Center FY 16	3200000109-16-035	93.262	114,007	-
			9,637,847	1,305,296
Total Department of Health and Human Services			12,449,484	1,305,296
DEPARTMENT OF HOMELAND SECURITY				
Direct Programs –				
Office of Domestic Preparedness				
Office of Domestic Preparedness Training Center 10 (233061)		97.005	(500)	-
Pass-Through Programs –				
Center for Rural Development				
Rural Domestic Preparedness Consortium FY 13: Task 1	FY13-K00155-65-I&Q-EKU	97.005	81,363	-
Rural Domestic Preparedness Consortium FY 14: Task 1	EMW-2014-CA-00092-S01	97.005	(278)	-
Rural Domestic Preparedness Consortium FY 14: Task 2	EMW-2014-CA-00092-S01	97.005	(95)	-
Rural Domestic Preparedness Consortium FY 14: Task 3	EMW-2014-CA-00092-S01	97.005	154,745	-
Rural Domestic Preparedness Consortium FY 15: Task 1	FY15-00190-03-EKU	97.005	24,082	-
Rural Domestic Preparedness Consortium FY 15: Task 2	FY15-00190-03-EKU	97.005	202,827	-
			462,644	-
Total Department of Homeland Security			462,144	-
DEPARTMENT AERONAUTICS AND SPACE ADMINISTRATION				
Pass-Through Programs –				
Northern Kentucky University				
Increasing Qualified STEM Educators	40000972-S2	43.008	20,161	-

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
DEPARTMENT AERONAUTICS AND SPACE ADMINISTRATION (Continued)				
Pass-Through Programs (Continued) -				
University of Kentucky Research Foundation				
Messages from the Sky Astronomy Workshop for High School Students	3200000161-16-113	43.001	$ 4,856	$ -
Meeting for Kentucky Professional	3048109993-15-247	43.008	1,951	-
			6,807	-
Total for National Aeronautics and Space Administration			26,968	-
DEPARTMENT OF TRANSPORTATION				
Pass-Through Programs -				
Kentucky Transportation Cabinet				
Sidewalk - Hall Dr. to Kit Carson Dr.	PO2-628-1500002150	20.205	3,138	-
Total Department of Transportation			3,138	-
SMALL BUSINESS TRANSPORTATION				
Pass-Through Programs -				
University of Kentucky				
Small Business Development Center FY 15	3048112328-15-217	59.037	16,586	-
Small Business Development Center FY 15	3200000358-16-169	59.037	44,968	-
Total Small Business Administration			61,554	-
Total Federal Expenditures			$ 148,402,035	$ 1,516,543

See accompanying notes to schedule of expenditures of federal awards.

Grant/Program Title	Federal CFDA	Federal Expenditures
Subtotals of Multiple Awards/CFDA Numbers		
Education	43.008	$ 22,112
Adult Education – Grants to States	84.002	339,252
Migrant Education Program	84.011A	457,273
Special Education - Grants to States	84.027	1,022,606
Career and Technical Education – Grants to States	84.048	118,683
University Training Consortium Program	84.412	842,613
University Training Consortium Program	93.087	222,737
Bluegrass Community Health Center	93.224	2,464,090
Bluegrass Community Health Center	93.527	308,150
University Training Consortium Program	93.556	807,849
University Training Consortium Program	93.558	1,412,073
Child Support	93.563	112,119
University Training Consortium Program	93.590	545,715
University Training Consortium Program	93.658	3,132,503
University Training Consortium Program	93.667	4,093
University Training Consortium Program	93.669	180,249
University Training Consortium Program	93.674	772,420
Medical Assistance Program	93.778	149,484

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Eastern Kentucky University (the "University") under programs of the federal government for the year ended June 30, 2016, and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

NOTE 2 – LOANS

The University disbursed funds under the Federal Direct Loan Programs (including Stafford Loans, Supplemental Loans for Students, and Parents Loans for Undergraduate Students) during the current year.

Eastern Kentucky University had the following loan balances outstanding at June 30, 2016. Loans made during the year are included in federal expenditures presented in the schedule.

Cluster/Program Title	Amount Outstanding
Student Financial Aid – Federal Perkins Loan Program	$ 5,491,950
Nursing Student Loans	6,900
Nurse Faculty Loan Program	1,491

NOTE 3 – INDIRECT COST

Predetermined indirect cost rates have been approved for the period from July 1, 2014 through June 30, 2018. The rate for on-campus activities ranges from 40.0% to 52.5% and the rate for off-campus activities ranges from 22.0% to 26.0% for the approved period. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None Reported
Type of auditors' report issued on compliance for major programs	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		Yes	X	None Reported

Identification of major programs:

CFDA Nunber(s)	Name of Federal Program or Cluster Number
	Total Student Financial Aid Cluster (consisting of):
84.063	Federal Pell Grant Program
84.007	Federal Supplemental Educational Opportunity Grant Program
84.033	Federal Work Study Program
84.038	Federal Perkins Loan Program
84.379	TEACH Grant
84.268	Federal Direct Loan Program
	TRIO Cluster (consisting of):
84.042A	Student Support Services
84.044A	Educational Talent Search
84.047A	Upward Bound
84.217A	Ronald McNair Post Baccalaureate Program
	University Training Consortium Program (consisting of the following Individual programs):
84.412	Race to the Top – Early Learning Challenges
93.603	Adoption and Legal Guardianship Incentive Payments

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as low-risk auditee?	X	Yes		No

PART II – FINANCIAL STATEMENT FINDINGS

None

PART III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

PART IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None