EASTERN KENTUCKY UNIVERSITY

REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH UNIFORM GUIDANCE
June 30, 2017

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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, 2017 and 2016, 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 report 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, 2017 and 2016, 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 73, and the Schedule of the University's Contributions on page 74 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, Cost 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 6, 2017 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 6, 2017

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.

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, Game Design, 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 26 of the past 27 years. The institution offers four doctoral programs: Educational Leadership and Policy Studies, Nursing Practice, Occupational Therapy, and Clinical Psychology.

In the fall 2017 semester, the University served approximately 17,000 students, another near-record current enrollment for EKU. A growing number of students are attributable to the University's online program, often ranked among the nation's most affordable. The University's four-year graduation rate has nearly doubled in the last seven years. In addition, student athletes posted an average GPA of 3.09 in 2017, the second-highest spring semester in EKU's history.

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. In addition, *Forbes Magazine* has rated Eastern among "*America's Best Colleges*" for eight consecutive years. The University is home to more than 1,500 military-affiliated students and their dependents, and has been ranked no lower than third nationally five of the past six years in the annual "*Best for Vets*" survey by Military Times *EDGE* magazine.

EKU has also received the Minority Access Diversity Institution Award for six consecutive years, and is the only regional university in Kentucky to receive the 2017 Higher Education Excellence in Diversity (HEED) Award from *Insight into Diversity* magazine. 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 its most successful year in private fund-raising, bringing in $9.2 million in gifts and pledges during Fiscal Year 2017. Eastern Kentucky University is one of only 361 U.S. colleges and universities selected for the 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 was ranked second by the magazine among public universities in Kentucky in its 2017 "Best Bang for the Buck" survey. Additionally, EKU 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 2017 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, 2017, with selected comparative information for the years ended June 30, 2016 and June 30, 2015. The MD&A should be read in conjunction with the accompanying financial statements and notes.

(Continued)

Financial Highlights

At June 30, 2017, Eastern Kentucky University's financial position decreased as reflected in the Statement of Net Position.

- Total assets increased by $115.6 million to $623.0 million at June 30, 2017, compared to $507.4 million at June 30, 2016. The major factors affecting this increase include an increase in net capital assets of $82.7 million and an increase in restricted cash of $32.5 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 $66.6 million to $126.3 million at June 30, 2017, compared to $59.7 million at June 30, 2016.
- Overall liabilities increased by $150.6 million to $726.8 million at June 30, 2017, compared to $576.2 million at June 30, 2016. This increase is primarily the result of a $110.9 million increase in Net Pension Liability.
- Total net position at June 30, 2017 decreased $21.4 million to $(64.2) million under the June 30, 2016 amount of $(42.8) million. The greatest factor affecting this decrease was an increase in net pension liability.

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, 2017 and June 30, 2016, 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 2017 and 2016 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*.

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, 2017, were $623.0 million compared to $507.4 million at June 30, 2016, an increase of $115.6 million.

Cash and Cash Equivalents – Total cash and cash equivalents at June 30, 2017, totaled $101.0 million; $31.1 million more than the June 30, 2016, level of $69.9 million. This increase is attributable primarily to an increase of restricted cash and cash equivalents from bond issues of $46.1 million.

Investments – The Foundation holds and manages investments owned by the University. At June 30, 2017, the market value of investments held by the Foundation on behalf of the University was $19.4 million compared to $16.8 million at June 30, 2016, an increase of $2.6 million.

Capital Assets – The historical cost, less accumulated depreciation, of the University's capitalized assets was $471.3 million as of June 30, 2017, a net increase after depreciation of $82.8 million from the $388.5 million balance at June 30, 2016. The largest contributions to this increase include an $87.9 million increase in capital assets in progress primarily attributable to construction of two new residence halls and Phase II of the Science Building. Depreciation expense for the fiscal year totaled $18.7 million.

Other Asset Categories – The balances in the various other asset categories were essentially unchanged at June 30, 2017, compared to June 30, 2016, with the exception of accounts receivable (net of allowance) which decreased in total by $827 thousand; loans to students, which increased in total by $675 thousand; and prepaid interest, which decreased in total by $450 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, 2017, totaled $126.8 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 $66.3 million over the June 30, 2016 balance of $60.5 million.

Liabilities – Total liabilities at June 30, 2017, were $726.8 million compared to $576.2 million at June 30, 2016. This increase of $150.6 million is primarily attributable to an increase in Net Pension Liability from fiscal year 2016 of $110.8 million.

Bonds Payable and Capital Lease Obligations – In total, bonds payable and capital lease obligations increased by $40.6 million as of June 30, 2017, compared to June 30, 2016. At June 30, 2017, the total bonds payable and capital lease obligations were $141.5 million versus $100.8 million at June 30, 2016. This increase is attributable primarily to the acquisition of the 2017 Series Bonds, offset by the principal payments made on the bonds and capital leases.

Other Liability Categories – At June 30, 2017, the balances in various other liability categories decreased by $865 thousand to $27.9 million compared to $28.8 million at June 30, 2016. 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 2017, 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, 2017, totaled $87.2 million and represent the KTRS and KERS pension, as well as a Service Concession for Housing projects constructed as part of the P3 initiative on campus. Other deferred inflows represent funds spent on the parking garage and Carloftis Gardens. This is an increase of $52.6 million, compared to the June 30, 2016 deferred Inflows balance of $34.6 million.

(Continued)

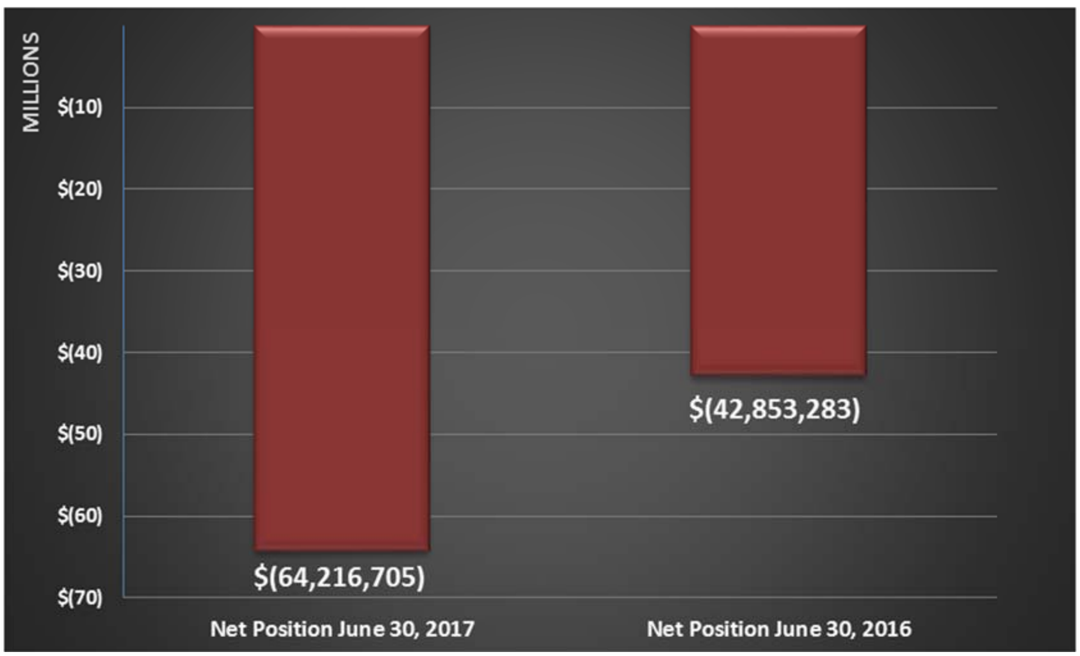
Net Position – Total Net Position at June 30, 2017, was $(64.2) million; a decrease of $21.3 million under the $(42.9) million at June 30, 2016.

Net Investment in Capital Assets – Net position invested in capital assets decreased by $12.5 million as of June 30, 2017, to $254.0 million compared to the June 30, 2016, level of $266.5 million. The primary contributing factor to this decrease was the depreciation of assets.

Restricted Net Position – In total, restricted net position increased by $33.9 million to $79.0 million at June 30, 2017, compared to $45.1 million at June 30, 2016. The net increase is primarily attributable to the increase in restricted expendable for capital projects of $31.9 million.

Unrestricted Net Position – Unrestricted net position decreased by $42.7 million to $(397.2) million at June 30, 2017, compared to the June 30, 2016, unrestricted net position of $(354.5) 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, 2017 and 2016:



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.

	2017	2016	2015
Inventories	$ 267	$ 468	$ 374
Outstanding encumbrances	3,045	6,328	6,908
Departmental commitments	15,440	14,547	14,564
Designated projects and contingency reserves	6,784	4,328	6,290
Health care self-insurance reserve	3,000	3,000	3,000
Auxiliary working capital	6,065	8,315	11,271
University capital projects	10,106	7,906	9,345
KTRS Pension	(275,002)	(252,462)	(247,320)
KERS Pension	(166,919)	(146,900)	(137,125)
Total unrestricted	$ (397,214)	$ (354,470)	$ (332,693)

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

	2017	2016	2015
ASSETS			
Current assets	$ 69,021	$ 71,569	$ 79,756
Capital assets – net	471,326	388,560	336,441
Other noncurrent assets	82,680	47,320	49,432
Total assets	$ 623,027	$ 507,449	$ 465,629
DEFERRED OUTFLOWS			
Unamortized deferred refunding balance	$ 556	$ 748	$ 745
Contributions to KTRS/KERS Pensions	126,261	59,709	16,010
Total deferred outflows	$ 126,817	$ 60,457	$ 16,755
LIABILITIES			
Current liabilities	$ 37,851	$ 36,771	$ 36,609
Noncurrent liabilities	688,968	539,428	481,574
Total liabilities	$ 726,819	$ 576,199	$ 518,183
DEFERRED INFLOWS			
Service Concession - Housing	$ 71,108	$ 21,985	$ -
Other Deferred Inflows	5,318	-	-
KTRS/KERS Pensions	10,816	12,575	19,351
Total deferred inflows	$ 87,242	$ 34,560	$ 19,351
NET POSITION			
Net investment in capital assets	$ 254,001	$ 266,484	$ 244,131
Restricted – expendable	66,663	33,665	21,944
Restricted – nonexpendable	12,333	11,468	11,468
Unrestricted	(397,214)	(354,470)	(332,693)
Total net position	$ (64,217)	$ (42,853)	$ (55,150)

(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 $153.9 million from operations for the fiscal year ended June 30, 2017, prior to consideration of state appropriations and other net nonoperating revenues. This is compared to a loss of $123.8 million from operations for the fiscal year ended June 30, 2016.

Operating Revenues

Below is a summary of operating revenues for fiscal year 2017 as compared to fiscal years 2016 and 2015:

	Year ended June 30,		
	2017	2016	2015
Tuition and fees	$ 155,399	$ 155,597	$ 145,872
Scholarships and discounts	(60,456)	(59,392)	(54,891)
Net tuition and fees	94,943	96,205	90,981
Grants and contracts	50,022	50,867	50,647
Other revenues	20,304	21,753	19,278
Total education and general fund	165,269	168,825	160,906
Auxiliaries	29,209	28,453	26,872
Scholarships and discounts	(10,581)	(10,871)	(11,432)
Net auxiliaries	18,628	17,582	15,440
Total operating revenues	$ 183,897	$ 186,407	$ 176,346

Tuition and Fees – Income from student tuition and fee assessments, shown net of the tuition discount, was $94.9 million for the fiscal year ended June 30, 2017, compared to $96.2 million for the fiscal year ended June 30, 2016. The decrease of $1.3 million in net tuition and fees reflects principally an increase in scholarships during the year ended June 30, 2017.

Grants and Contracts – For the fiscal year ended June 30, 2017, there was $50.0 million recognized revenue from all grants and contracts compared to $50.9 million for the year ended June 30, 2016; a slight decrease of $900 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, $18.6 million is reported for net auxiliary revenues for the year ended June 30, 2017, compared to $17.6 million for the year ended June 30, 2016. The majority of auxiliary revenues for both fiscal years is attributable to student residence hall fees.

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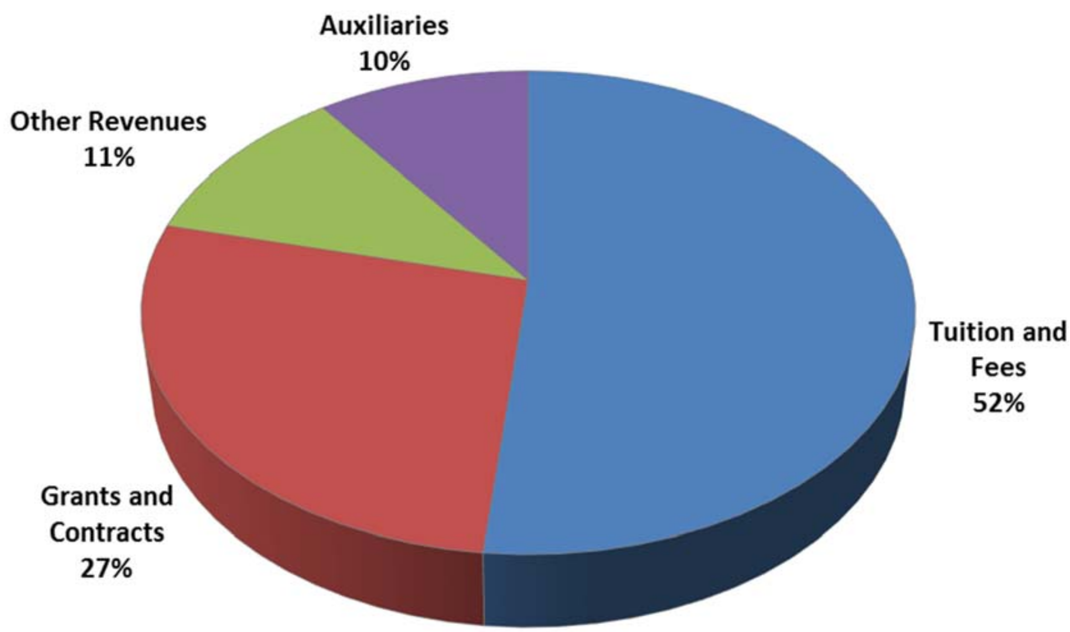
Other Operating Revenues – Revenues in the various categories that make up other operating revenues can vary widely from year to year when unexpected revenues come into the University. For the fiscal year ended June 30, 2017, total other operating revenues were $20.3 million compared to $21.8 million for June 30, 2016, a decrease of $1.5 million.

Source of Operating Revenues – Fiscal Year 2017



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, 2017, educational and general expenditures totaled $271.9 million compared to $268.8 million for the fiscal year ended June 30, 2016; an increase of $3.1 million. This increase in expense for the year ending June 30, 2017, was largely attributable to an increase in operations and maintenance of plant support and an 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, 2017, were $23.4 million, compared to $24.7 million for the year ended June 30, 2016.

Below is a summary of operating expenditures for fiscal year 2017, compared to fiscal years 2016 and 2015:

	Year ended June 30,		
	2017	2016	2015
Instruction, academic support and libraries	$ 119,193	$ 120,290	$ 117,826
Research and public service	44,730	44,933	44,077
Student services	21,334	20,915	19,252
Institutional support and operations and maintenance of plant	50,269	54,051	53,244
Student financial aid	15,865	14,417	11,800
Depreciation	18,706	14,069	13,426
Other operation expenses	1,867	160	291
Total educational and general expenses	271,964	268,835	259,916
Auxiliaries	20,679	24,744	22,715
Pension expense	42,559	16,605	6,493
Total operating expenses	$ 335,202	$ 310,184	$ 289,124

Instruction, Academic Support, and Libraries – The total expenditures of these three areas, which directly relate to teaching, academic, and faculty support, decreased $1.1 million to $119.2 million for the year ended June 30, 2017, compared to $120.3 million for the year ended June 30, 2016.

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, 2017, total expenditures related to research and public service was $44.7 million, compared to $44.9 million for the fiscal year ended June 30, 2016; a decrease of $200 thousand.

Student Services – Expenditures for student services for fiscal year 2017 increased by $419 thousand to $21.3 million compared to $20.9 million in fiscal year 2016. The student services function includes expenditures for many activities contributing to student development outside the instructional setting.

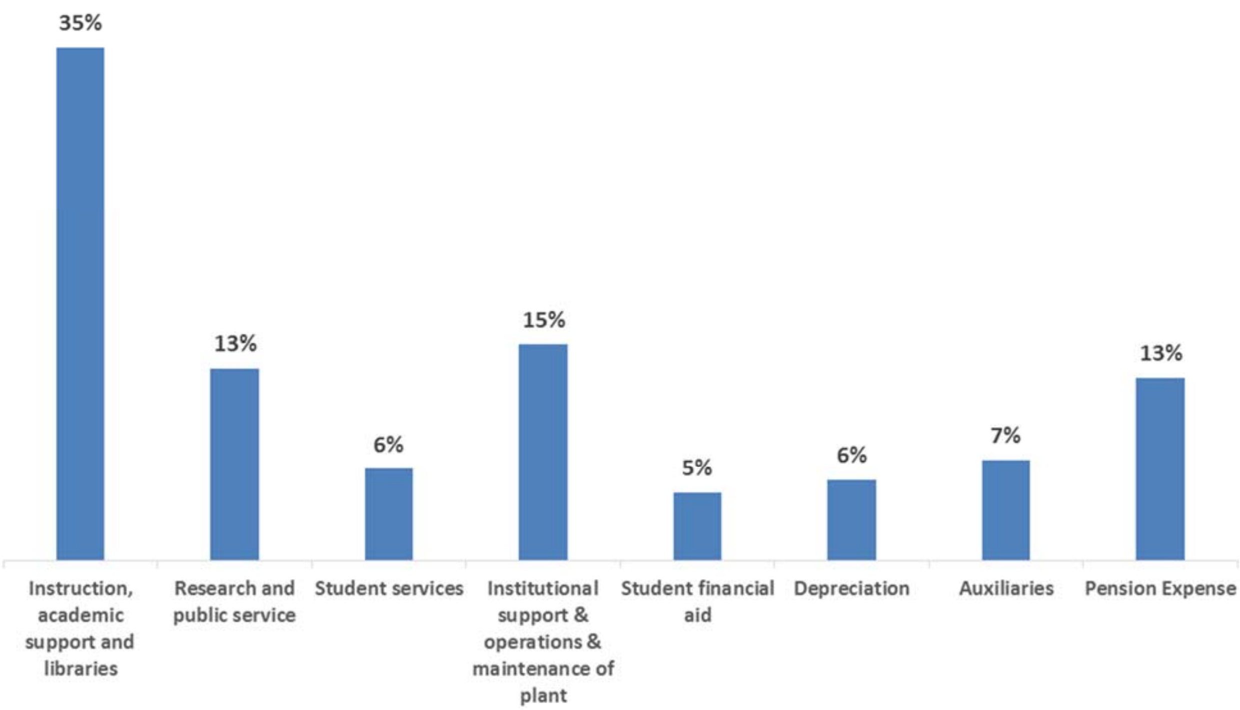
Institutional Support and Operations and Maintenance of Plant – These functions provide physical and administrative support for the University and include administrative offices, physical plant operations, noncapital maintenance expenses, utility expenses, technology support, legal, property and liability insurance, and other similar operational support costs. For the fiscal year ended June 30, 2017, the expenditures for these areas totaled $50.3 million compared to $54.1 million for the year ended June 30, 2016; a decrease of $3.8 million.

Student Financial Aid – Tuition and fees, as well as certain auxiliary revenues, are shown net of financial aid from all sources directly awarded to fund those respective areas. As a result, the financial aid expense shown on the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal years highlighted is relatively low in relationship to the total amounts expended for financial aid both from governmental sources and institutional sources. For fiscal year 2017, the total financial aid expenditure was $86.9 million compared to $84.7 million for fiscal year 2016, an increase of $2.2 million as shown in the table on the following page.

(Continued)

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, 2017, the University recorded $42.6 million of Pension Expense. This is a $26.0 million increase from the fiscal year ending June 30, 2016 Pension Expense of $16.6 million.

Major Areas of Operating Expense – Fiscal Year 2017



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, 2017, was $15.9 million compared to $14.4 million for the year ended June 30, 2016. The increase of $1.5 million in net student financial aid resulted from an increase in scholarships given to students in fiscal year 2017.

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

	Year ended June 30, 2017	2016	2015
Tuition and fee discount	$ 60,456	$ 59,392	$ 54,891
Auxiliary enterprises discount	10,581	10,871	11,432
Student financial aid expense	15,865	14,417	11,800
Student financial aid expense	$ 86,902	$ 84,680	$ 78,123

(Continued)

Non-operating Revenues/Expenses

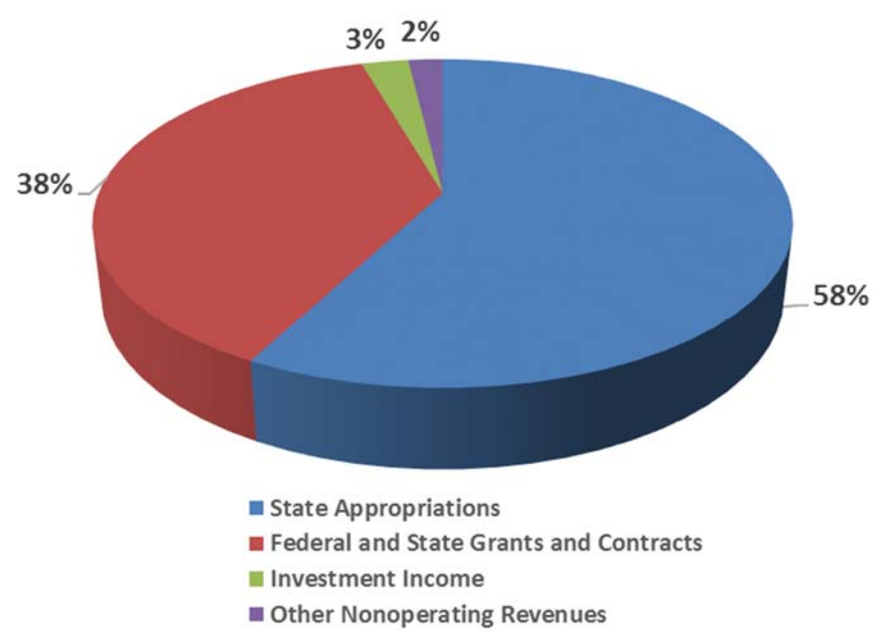
State Appropriations – Funding from state appropriations for operations and debt service for the fiscal year ended June 30, 2017 was $64.9 million. This was a decrease of $3.1 million from the prior year ending June 30, 2016 amount of $68.0 million.

Investment Income – Total investment income for the fiscal years ended June 30, 2017 and 2016, was $2.9 million and $(323) thousand, respectively; an increase of $3.2 million.

Federal and State Grants and Contracts – Total federal and state grant revenue for the fiscal year ended June 30, 2017, was $42.6 million, compared to $43.1 million from fiscal year 2016. This was a decrease from prior year revenue of $560 thousand.

Other Non-Operating Revenues – Other Non-Operating revenues totaled $2.1 million for the year ended June 30, 2017, remaining unchanged from the amount of $2.1 million from the prior year ended June 30, 2016.

Major Sources of Non-Operating Revenues – Fiscal Year 2017



Capital Support – For the year ended June 30, 2017, the University received funds from the Commonwealth totaling $22.9 million for new capital projects, compared to fiscal year 2016 when the University received funds from the Commonwealth totaling $21.9 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, 2017	2016	2015
Operating revenues	$ 183,897	$ 186,407	$ 176,346
Operating expenses	335,202	310,184	289,125
Operating loss	(151,305)	(123,777)	(112,779)
Nonoperating revenues – net	107,043	114,093	106,907
Loss before capital appropriations	(44,262)	(9,684)	(5,872)
Capital appropriations	22,898	21,982	7,980
Increase (decrease) in net position	(21,364)	12,298	2,108
Net position – beginning of year	(42,853)	(55,151)	(57,259)
Net position – end of year	$ (64,217)	$ (42,853)	$ (55,151)

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, 2017	2016	2015
Cash provided by (used in)			
Operating activities	$ (90,436)	$ (98,144)	$ (88,116)
Noncapital financing activities	107,525	111,147	110,673
Capital and related financing activities	13,817	(28,741)	(7,078)
Investing activities	212	88	1,983
Net change in cash and cash equivalents	31,118	(15,650)	17,462
Cash and cash equivalents – beginning of year	69,937	85,587	68,125
Cash and cash equivalents – end of year	$ 101,055	$ 69,937	$ 85,587

(Continued)

Capital Asset and Debt Administration

During fiscal years 2017, and 2016, the following projects were completed by the University:

	Year ended June 30, 2017	Year ended June 30, 2016
Ramsey Heat Plant Renovation	$ 147	$ -
Model Gym Floor	149	-
Adams Tennis Center Roof	262	-
Sullivan Hall Hot Water Tank	30	-
Elite 100 Colonel Club Stadium Box	31	-
C6E6-Ramsey Heat Plant Renovate HVAC Systems	1,444	-
Sidewalk Project – Grant funded	453	-
Sidewalk Project – EKU funded	117	-
RCF 1556 EMS Renovation (EKU Police Department)	206	-
RCF 1450 Perkins 3rd Flr Fire System	173	-
RCF 1482 Commonwealth Hall 2nd Flr Lobby	53	-
RCF 1700 Vickers Dr Parking Lot	144	-
RCF 1699 Summit St (Madison) Parking Lot	85	-
RCF 1698 Carloftis Garden	210	-
RCF 1116 McGregor Hall Cooling Tower Replacement	120	-
RCF 1117 Walters Hall Boiler Replacement	258	-
RCF 1361 Telford Hall Deaerator	117	-
RCF 1625 McGregor Hall Shower Partitions	256	-
RCF 1515 Sullivan Hall Bathroom Renovations	98	-
RCF 1615 Burnham Sullivan Temp AC Cooling Tower/Chiller	247	-
Carloftis Garden	1,108	-
Renovate HVAC Systems – Steam lines for Org 510662	2,984	-
Ramsey Heat Plant Renovate HVAC Systems	3,001	-
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
Total	$ 11,693	$ 11,366

(Continued)

The following projects were still in process at June 30, 2017:

	Total Expenditures Through June 30, 2017	Estimated Cost to Complete at June 30, 2017
Begley Bldg Sewer Lift Station	$ 30	$ -
Coates Cooling Tower Unit	96	54
Martin Parking Lot	42	88
Swine Gestation Barn Upgrade Electrical – Farm	19	4
NSB Phase 2 AV/IT Infrastructure	395	382
RCF 1452 Barnes Mill/Lancaster Rd Traffic Lights - EKU funded	36	6
RCF 1452 Barnes Mill/Lancaster Rd Traffic Lights - Grant funded	150	-
RCF 1622 Student Rec & Wellness Center	1,861	38,139
RCF 1604 Summit St Parking Lot (tiered)	176	301
RCF 1575 Moberly Lower Gym	1,060	33
RCF 1631 Perkins Bldg Natural Gas Generator	95	283
RCF 1623 Powell Bldg Student Center	213	19,787
RCF 1652 Roy Kidd Statue	30	68
RCF 1669 Lancaster Rd/Hall Dr Crosswalk - EKU Funded 20%	12	45
RCF 1669 Lancaster Rd/Hall Dr Crosswalk - Grant 453208 Funded 80%	45	119
RCF 1711 Bypass Pedway	88	2,412
RCF 1733 Donovan Annex Boiler	15	215
RCF 1791 Softball Hitting/Pitching Facility	580	948
RCF 1791 Baseball Hitting/Pitching Facility	621	949
Arlington Infrastructure	66	33
RCF 1817 Elmwood Estate Renovation	12	-
RCF 1821 Baseball/Softball Dugout Renovation	41	109
RCF 1847 Commonwealth 13th Flr Renovation	12	643
RCF 1868 Keene Hall EKU Logo Sign	11	22
RCF 1606 Telford Hall AC Equipment	3,893	907
RCF 1778 Student Rec Center Site Prep (Raze Dupree & Todd Halls)	171	829
New Hall B Construction	31,424	-
New Martin Hall Construction	39,683	-
RCF 1800 Telford Makeup Air Handling Unit	38	648
Parking Garage	4,210	1,790
Science Complex-(phase II expenses)	1,021	-
Student Athletic Support Facility - Hitting/Pitching	77	500
Renovate/Improve Athletic Facilities – Baseball	3,268	1,018
Renovate/Improve Athletic Facilities – Softball	1,379	430
Renovate/Improve Athletic Facilities – Football	6,797	2,108
Science Building-Phase 2 and 3	51,770	14,570
Ashland Addition	243	-
Design Student Recreation and Wellness Center	184	-
Capitalized bond interest-Series A	805	-
Total	$ 150,669	$ 87,440

Long-term debt at June 30, 2017, was $141.5 million compared to $100.8 million at June 30, 2016. The $40.7 million increase is the result of the 2017 series bond issue in fiscal year 2017, as well as a decrease to bonds payable for payments of principal owed on bonds in fiscal year 2017.

(Continued)

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 Postsecondary Education (CPE) determines a ceiling on annual tuition increases at state universities, which may limit the ability of the University to generate additional tuition revenues. Improving the affordability of a college education for our students remains vitally important to Eastern; with every tuition increase, there must be a corresponding focus and analysis of financial aid available to our students.

- The University feels strongly that ongoing campus facility improvements will enhance student success. The various facility improvement projects are part of a larger Center for Student Life initiative, designed to transform the living and learning experience of our students.

- The Performance Based Funding model has been implemented in Kentucky for 2018, which has placed 5 percent of higher education funding into the model and contingent upon performance. Going forward, the University will be pressed to meet these performance goals without further impacting finances.

- The University committed an additional $3.6 million to its scholarship budget for fall 2017, enhancing its ability to attract more college-ready students from around the Commonwealth and surrounding states.

- The University's top general fund capital construction priorities remain 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 Eastern By-pass connecting campus, and the renovation of the Powell Student Center will bring more student life activity across the entire University campus.

- The addition of two new suite-style residence halls in 2017 has already resulted in an increase in students choosing to live on campus. The opening of a new dining facility in 2018 will be another asset to bring prospective students to EKU. In addition, the Eastern Scholar House for single parents and the addition of a new parking structure will bring growth to our University.

- Make No Little Plans: A Vision for 2020, the University's Strategic Plan, details priorities related to academic excellence, 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 our core educational mission, the University must continue to seek additional revenue from other sources. Other sources include unrestricted annual gifts, the Eastern Kentucky University Foundation, and funds generated through University research activities. The University remains committed to continuing to seek more and better ways to operate as efficiently as possible and continually reduce expenses.

(Continued)

- The Commonwealth's economic health is inextricably linked with the national and international economy. While the current U.S. economic outlook is healthy, because of the state's current pension obligations the forecast for the Commonwealth is more uncertain.

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, 2017 and 2016

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 42,439,980	$ 43,821,930
Accounts receivable – less allowance of $3,697,119 for 2017 and $3,430,557 for 2016	24,736,252	25,562,819
Loans to students – less allowance of $995 for 2017 and $304,429 for 2016	574,296	262,809
Inventories	267,415	467,723
Prepaid expenses	1,003,390	1,453,396
Total current assets	69,021,333	71,568,677
Noncurrent Assets		
Restricted cash and cash equivalents	58,615,308	26,114,735
Investments	19,366,772	16,870,919
Loans to students – less allowance of $8,138 for 2017 and $601,654 for 2016	4,698,164	4,334,288
Capital assets – net of accumulated depreciation of $264,754,338 for 2017 and $254,847,871 for 2016	311,755,861	317,104,965
Capital assets not being depreciated	159,570,057	71,455,366
Total noncurrent assets	554,006,162	435,880,273
Total Assets	623,027,495	507,448,950
Deferred Outflows		
Unamortized deferred refunding loss balance	556,717	748,009
KTRS/KERS pension	126,260,590	59,708,561
Total deferred outflows	126,817,307	60,456,570
Total Assets and Deferred Outflows	$ 749,844,802	$ 567,905,520

(Continued)

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2017 and 2016

	2017	2016
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	$ 7,684,718	$ 7,694,481
Accrued interest	1,145,426	813,292
Accrued salaries and benefits	5,687,582	4,611,760
Accrued compensated absences	3,560,216	5,840,555
Payroll withholding payable	995,830	1,093,899
Refundable deposits	66,100	69,935
Assets held for others	281,207	342,497
Unearned revenue	8,577,607	8,397,440
Bonds payable	8,007,166	6,137,641
Leases payable	1,845,000	1,770,000
Total current liabilities	37,850,852	36,771,500
Noncurrent Liabilities		
Bonds payable, noncurrent portion	101,693,226	61,168,832
Leases payable, noncurrent portion	29,910,000	31,762,560
Net pension liability	557,365,214	446,496,428
Total noncurrent liabilities	688,968,440	539,427,820
Total liabilities	726,819,292	576,199,320
Deferred Inflows		
Service concession – housing	71,107,506	21,984,914
Other deferred Inflows	5,318,265	-
KTRS/KERS pension	10,816,444	12,574,569
Total deferred inflows	87,242,215	34,559,483
Net Position		
Net investment in capital assets	254,001,471	266,484,394
Restricted		
Expendable for capital projects	56,517,744	24,539,988
Expendable for loans to students	4,976,013	5,442,757
Expendable for scholarships	3,614,884	1,299,161
Expendable for institutional support	1,554,800	2,383,283
Unexpendable for permanent endowment	12,332,772	11,467,772
Unrestricted	(397,214,389)	(354,470,638)
Total net position	(64,216,705)	(42,853,283)
Total Liabilities, Deferred Inflows and Net Position	$ 749,844,802	$ 567,905,520

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,475,026	$ 5,239,646
Pledges receivable – net	859,621	504,836
Cash surrender value of life insurance	198,451	204,672
Other assets	48,152	40,528
Total current assets	5,581,250	5,989,682
Noncurrent assets		
Investments	67,237,878	58,818,633
Pledges receivable – net	2,264,098	1,715,515
Property and equipment – net	731,397	745,521
Total noncurrent assets	70,233,373	61,279,669
Total Assets	$ 75,814,623	$ 67,269,351
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 42,509	$ 46,910
Due to University	481,706	638,250
Note payable - current maturities	-	849,428
Total current liabilities	524,215	1,534,588
Noncurrent liabilities		
Deferred gift liabilities	390,446	333,269
Assets held for others	19,366,773	16,849,284
Total noncurrent liabilities	19,757,219	17,182,553
Total Liabilities	20,281,434	18,717,141
Net assets		
Unrestricted		
Board designated endowment	6,761,836	5,735,024
Undesignated	(2,144,996)	(1,617,541)
	4,616,840	4,117,483
Temporarily restricted	21,313,492	16,388,207
Permanently restricted	29,602,857	28,046,520
Total net assets	55,533,189	48,552,210
Total Liabilities and Net Assets	$ 75,814,623	$ 67,269,351

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Tuition and fees – net	$ 94,942,980	$ 96,205,325
Federal grants and contracts	21,787,959	22,594,632
State grants and contracts	23,926,919	25,255,299
Nongovernmental grants, contracts, and gifts	4,307,127	3,017,660
Sales and services of educational activities	6,389,770	6,134,257
Auxiliary enterprises – housing	13,129,217	13,051,098
Auxiliary enterprises – other	5,498,462	4,530,240
Other operating revenues	13,914,672	15,618,630
Total operating revenues	183,897,106	186,407,141
OPERATING EXPENSES		
Educational and general		
Instruction	94,275,794	94,619,751
Research	937,655	850,676
Public service	43,792,886	44,082,183
Libraries	4,260,972	4,368,699
Academic support	20,655,863	21,301,922
Student services	21,334,050	20,914,604
Institutional support	25,541,001	31,959,358
Operations and maintenance of plant	24,727,894	22,091,352
Depreciation	15,282,222	14,068,622
Student financial aid	15,864,974	14,417,205
Auxiliary enterprises		
Housing and other auxiliaries	20,678,886	21,833,139
Depreciation	3,423,372	2,911,462
Pension expense	42,558,632	16,605,061
Other operating expenses	1,867,698	160,185
Total operating expenses	335,201,899	310,184,219
Operating loss	(151,304,793)	(123,777,078)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	64,972,300	68,033,800
Federal and state grants and contracts	42,552,728	43,112,844
Nongovernmental grants, contracts, and gifts	-	6,978,608
Investment income	2,908,112	(322,740)
Interest expense	(4,773,181)	(4,515,151)
Other nonoperating revenues	2,141,931	2,140,450
Other nonoperating expenses	(758,838)	(1,334,760)
Net nonoperating revenues	107,043,052	114,093,051
Loss before capital appropriations	(44,261,741)	(9,684,027)
Capital appropriations	22,898,319	21,981,500
Change in net position	(21,363,422)	12,297,473
Net position – beginning of year	(42,853,283)	(55,150,756)
Net position – end of year	$ (64,216,705)	$ (42,853,283)

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS, (LOSSES), AND OTHER SUPPORT				
Contributions	$ 150,955	$ 3,154,942	$ 1,556,337	$ 4,862,234
Investment returns – net of investment expenses of $205,214	163,461	1,137,506	-	1,300,967
Net realized and unrealized gains on investments	860,954	4,049,115	-	4,140,069
Other income – net	63,858	93,615	-	157,473
	1,239,228	8,435,178	1,556,337	11,230,743
Net assets released from restrictions	3,509,893	(3,509,893)	-	-
Total revenues, gains and other support	4,749,121	4,925,285	1,556,337	11,230,743
EXPENSES				
Support for the University	4,064,321	-	-	4,064,321
Management and general	169,366	-	-	169,366
Interest	1,953	-	-	1,953
Depreciation	14,124	-	-	14,124
Total expenses	4,249,764	-	-	4,249,764
Change in net assets	499,357	4,925,285	1,556,337	6,980,979
Net assets – beginning of year	4,117,483	16,388,207	28,046,520	48,552,210
Net assets – end of year	$ 4,616,840	$ 21,313,492	$ 29,602,857	$ 55,533,189

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	1,542,724	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)	1,542,724	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
STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

	2017	2016
OPERATING ACTIVITIES		
Tuition and fees	$ 95,792,081	$ 93,711,020
Grants, contracts and gifts	50,817,443	45,798,094
Payments to suppliers	(63,736,702)	(64,787,701)
Payments for utilities	(7,645,564)	(8,112,244)
Payments to employees	(136,053,392)	(138,026,602)
Payments for benefits	(53,871,634)	(53,269,254)
Payments to students	(13,353,706)	(12,035,399)
Loans issued to students and employees	(773,278)	(575,406)
Collections of loans to students and employees	97,915	1,074,972
Auxiliary enterprise charges		
Residence halls	12,983,117	12,318,594
Other	5,498,462	4,530,240
Sales and services of educational activities	6,389,770	6,134,257
Other receipts	13,419,132	15,095,702
Net cash used in operating activities	(90,436,356)	(98,143,727)
NONCAPITAL FINANCING ACTIVITIES		
State appropriations	64,972,300	68,033,800
Other nonoperating revenues – grants and contracts	42,552,728	43,112,844
Net cash provided by noncapital financing activities	107,525,028	111,146,644
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(46,880,207)	(40,226,640)
Principal paid on bonds payable and capital leases	(7,380,000)	(7,145,767)
Interest paid on bonds payable and capital leases	(5,565,679)	(5,491,336)
Proceeds on issuance of bonds payable	48,602,810	-
State reimbursement of capital lease payments	2,141,931	2,140,450
Capital appropriations	22,898,319	21,981,500
Net cash provided by (used in) capital and related financing activities	13,817,174	(28,741,793)
INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	687,154	8,096,540
Interest on investments	390,623	549,274
Purchase of investments	(865,000)	(8,557,651)
Net cash provided by investing activities	212,777	88,163
Increase (decrease) in cash and cash equivalents	31,118,623	(15,650,713)
Cash and cash equivalents – beginning of year	69,936,665	85,587,378
Cash and cash equivalents – end of year	$ 101,055,288	$ 69,936,665

(Continued)

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (151,304,793)	$ (123,777,078)
Depreciation expense	18,705,594	16,980,084
Changes in operating assets and liabilities		
Accounts receivable – net	826,567	(7,316,173)
Loans to students – net	(675,363)	499,566
Inventories	200,308	(93,766)
Prepaid expenses	450,006	757,085
Accounts payable	(9,763)	387,525
Accrued liabilities	(1,302,586)	(704,134)
Refundable deposits	(3,835)	(547,266)
Assets held for others	(61,290)	21,163
Unearned revenue	180,167	732,645
Deferred outflows – KTRS/KERS pension	(66,552,029)	(43,698,921)
Deferred inflows – KTRS/KERS pension	(1,758,125)	(6,776,377)
Net pension liability	110,868,786	65,391,920
Net cash flows used in operating activities	$ (90,436,356)	$ (98,143,727)
Supplemental cash flows information		
Capital assets acquired through capital lease	$ -	$ 13,326
Capital assets acquired through service concession arrangement	54,643,761	21,984,914
Donated capital assets	-	6,978,608
Capital asset acquisitions in accounts payable	720,872	233,745

See 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, 2017 and 2016 was $717,124 and $923,528, 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 as well as amounts related to service concession arrangements.

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.

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, 2017 were $60,455,632 and $9,127,533, respectively. 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. 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 2017, the University adopted the following accounting pronouncements:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, issued June 2015. 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. 77, Tax Abatement Disclosures, issued August 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.

(Continued)

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

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, issued December, 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. 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. 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.

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, 2017, the GASB has issued the following statements not yet implemented by the University.

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.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2016. The provisions of this Statement are effective for reporting periods beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

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

GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued November 2016. The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

GASB Statement No. 84, *Fiduciary Activities*, issued January 2017. The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

GASB Statement No. 85, *Omnibus 2017*, issued March 2017. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

GASB Statement No. 87, *Leases*, issued June 2017. The provisions of this Statement are effective for periods beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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.

(Continued)

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

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.

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:

	2017	2016
Depository accounts		
Local bank deposits – collateral held as a pledge in the University's name	$ 28,754,046	$ 17,407,914
Cash on hand	19,536	11,749
State investment pool – uninsured and uncollateralized	72,281,706	52,517,002
Total deposits	$ 101,055,288	$ 69,936,665

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

	2017	2016
Cash and cash equivalents	$ 42,439,980	43,821,930
Restricted cash and cash equivalents	58,615,308	26,114,735
Total deposits	$ 101,055,288	$ 69,936,665

Investments at June 30 consisted of:

	2017	2016
Money market funds	$ -	$ 21,635
Restricted assets held by the Foundation	19,366,772	16,849,284
Total investments	$ 19,366,772	$ 16,870,919

(Continued)

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

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

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

	2017	2016
Percentage of pool invested in:		
Cash equivalents – trustee	1%	1%
Registered investment companies equity funds	72	71
Registered investment companies fixed income funds	24	23
Alternative investments	3	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, 2017 and 2016 is as follows:

		Fair Value Measurements at June 30, 2017 Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Eastern Kentucky University Foundation, Inc. Investment fund at net asset value per share	$ 19,366,772	$ -	$ -	$ -
Total investments	$ 19,366,772	$ -	$ -	$ -

(Continued)

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

		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	$ 21,635	$ -	$ -

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 year ended June 30, 2017 was $2,908,112, compared to ($322,740) at June 30, 2016, consisting primarily of an unrealized gains and loss of investments.

NOTE 3 – ACCOUNTS RECEIVABLE

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

	2017	2016
Student tuition and fees	$ 9,601,226	$ 10,065,988
Auxiliary enterprises	1,066,100	920,000
Federal, state and private grants and contracts	15,374,088	15,685,676
Other state agencies	28,198	28,198
Other	2,363,759	2,293,514
Total	28,433,371	28,993,376
Less allowance for uncollectible accounts	(3,697,119)	(3,430,557)
Accounts receivable – net	$ 24,736,252	$ 25,562,819

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017, is as follows:

	Balance - June 30, 2016	Additions	Reductions	Transfers	Balance – June 30, 2017
Capital assets not being depreciated					
Land	$ 8,088,328	$ 98,000	$ -	$ -	$ 8,186,328
Works of art	183,117	-	-	-	183,117
Livestock for educational purposes	450,975	80,325	-	-	531,300
Construction in progress	62,732,946	99,665,970	-	(11,729,604)	150,669,312
Total capital assets not being depreciated	71,455,366	99,844,295	-	(11,729,604)	159,570,057
Other capital assets					
Land improvements	59,006,397	-	-	2,117,089	61,123,486
Buildings	440,953,597	287,807	(9,625,541)	9,612,515	441,228,378
Leasehold improvements	556,987	-	-	-	556,987
Equipment	27,089,307	1,224,941	(385,131)	-	27,929,117
Library books	44,346,548	1,402,373	(76,690)	-	45,672,231
Total other capital assets	571,952,836	2,915,121	(10,087,362)	11,729,604	576,510,199
Less accumulated depreciation for					
Land improvements	(27,381,924)	(3,518,717)	-	-	(30,900,641)
Buildings	(169,788,537)	(12,044,438)	8,351,076	-	(173,481,899)
Leasehold improvements	(415,460)	(68,649)	-	-	(484,109)
Equipment	(19,463,115)	(1,762,082)	371,361	-	(20,853,836)
Library books	(37,798,835)	(1,311,708)	76,690	-	(39,033,853)
Total accumulated depreciation	(254,847,871)	(18,705,594)	8,799,127	-	(264,754,338)
Capital assets – net	$ 388,560,331	$ 84,053,822	$ (1,288,235)	$ -	$ 471,325,918

(Continued)

NOTE 4 – CAPITAL ASSETS (Continued)

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

NOTE 5 – UNEARNED REVENUE

Unearned revenue as of June 30 is as follows:

	2017	2016
Unearned summer school revenue and activity fees	$ 3,381,972	$ 3,433,395
Unearned grants and contracts revenue	4,981,214	4,497,364
Other	214,421	466,681
Total	$ 8,577,607	$ 8,397,440

(Continued)

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS

Long-term liabilities as of June 30, 2017, and long-term activity for the year ended June 30, 2017, are summarized as follows:

	Balance - July 1, 2016	Additions	Reductions	Refunding	Balance - June 30, 2017	Balance Due Within One Year
Revenue bonds payable	$ 41,140,000	$ 46,140,000	$ (2,920,000)	$ -	$ 84,360,000	$ 4,165,000
General receipts refunding bonds	23,640,000	-	(2,690,000)	-	20,950,000	3,180,000
Capitalized lease obligations	33,532,560	-	(1,777,560)	-	31,755,000	1,845,000
Unamortized bond premium	2,526,473	2,462,810	(598,891)	-	4,390,392	662,166
	$ 100,839,033	$ 48,602,810	$ (7,986,451)	$ -	$ 141,455,392	$ 9,852,166

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

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 2017 and 2016, $840,000 and $815,000 of principal and $60,952 and $213,489 of interest was paid on the bonds. Total outstanding principal at June 30, 2017 and 2016 was $630,000 and $1,470,000, 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 2017 and 2016, $685,000 and $660,000 of principal and $304,944 and $326,064 of interest were paid on the bonds. Total outstanding principal at June 30, 2017 and 2016 was $7,135,000 and $7,820,000, 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 2017 and 2016, $890,000 and $870,000 of principal and $612,025 and $629,625 of interest were paid on the bonds. Total outstanding principal at June 30, 2017 and 2016 was $17,205,000 and $18,095,000, 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 2017 and 2016, $2,615,000 and $2,510,000 of principal and $894,000 and $673,558 of interest were paid on the bonds. The outstanding principal at June 30, 2017 and 2016 is $15,265,000 and $17,880,000.

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 2017, $505,000 of principal and $518,394 of interest were 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, 2017 and 2016 was $13,250,000 and $13,755,000, 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).

(Continued)

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 $438,507. As of June 30, 2017, the refinanced bonds had been defeased. 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 2017, $75,000 of principal and $123,088 of interest were paid on the bonds. Total outstanding principal at June 30, 2017 was $5,685,000.

On April 5, 2017, the University sold $46,140,000 of Eastern Kentucky University General Receipt Bonds, Series 2017A, at an adjusted true interest cost of 3.43%. The proceeds of this bond issue provided funding for construction of the new student recreation center. The bonds mature in varying amounts through April 1, 2037. During fiscal year 2017, no principal or interest payments were made on the bonds. Total outstanding principal at June 30, 2017 was $46,140,000.

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 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 2017 and 2016, $1,770,000 and $1,695,000 of principal and $3,052,276 and $3,172,296 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,			
2018	$ 9,852,166	$ 7,172,414	$ 17,024,580
2019	10,095,882	6,889,128	16,985,010
2020	10,209,679	6,536,289	16,745,968
2021	8,634,180	6,169,578	14,803,758
2022	6,794,023	5,876,203	12,670,226
2023-2027	27,142,216	26,702,159	53,844,375
2028-2032	25,076,382	23,101,031	48,177,413
2033-2037	21,255,555	17,992,383	39,247,938
2038-2042	7,434,530	13,706,926	21,141,456
2043-2047	14,034,968	9,306,906	23,341,874
2048	925,811	306,154	1,231,965
	$ 141,455,392	$ 123,759,171	$ 265,214,563

Assets under capital leases at original cost totaled $39,890,000, with accumulated depreciation of $14,503,055 and $13,048,416 at June 30, 2017 and 2016, 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, 2017, the building is under construction and included as a capital asset not being depreciated and a deferred inflow of resources in the amount of $71,107,506 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, 2017.

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:

	2017	2016
Inventories	$ 267,416	$ 467,723
Outstanding encumbrances	3,045,223	6,328,465
Departmental commitments	15,440,103	14,546,944
Designated projects and contingency reserves	6,783,668	4,327,732
Health care self-insurance reserve	3,000,000	3,000,000
Auxiliary working capital	6,064,664	8,315,198
University capital projects	10,105,604	7,905,735
KTRS Pension	(275,001,708)	(252,462,844)
KERS Pension	(166,919,359)	(146,899,591)
Total	$ (397,214,389)	$ (354,470,638)

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, 2017 and 2016 was $19,366,772 and $16,849,284.

The portion of the RUETF endowment representing the value of the funding received from the Kentucky General Assembly, plus unexpended earnings thereon, was $17,502,456 and $15,150,216 as of June 30, 2017 and 2016, 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, 2017 and 2016 was $1,864,317 and $1,699,068, 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.

	2017	2016
Funds disbursed by the University on behalf of the Foundation:		
For employee salaries and benefits	$ 332,823	$ 201,760
For scholarships	1,106,348	878,701
Funds held by the Foundation on behalf of or for the benefit of the University as of June 30	19,366,772	16,849,284
Funds due to the University by the Foundation	481,706	631,513

NOTE 11 – PENSION PLANS

Kentucky Teachers' Retirement System

Plan Description – 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 cost sharing - multiple employer public employee retirement system. KTRS is a defined benefit plan providing for retirement, disability, death benefits and health insurance. Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service.

KTRS issues a publicly available financial report that includes financial statements, required supplementary information, and detailed information about the pension plan's fiduciary net position. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky, 40601, by calling (502) 573-3266, or visiting the website at http://ktrs.ky.gov.

(Continued)

NOTE 11 – PENSION PLANS (Continued)

Benefits Provided

	Tier 1 Participation Prior to July 1, 2008	**Tier 2** Participation on or After July 1, 2008
Covered Employees:	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service	
Final Compensation:	Average of the highest 5 annual salaries reduced 5% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is $440 multiplied by credited service.	Average of the highest 5 annual salaries reduced 6% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is $440 multiplied by credited service.
Benefit Factor:	Non-University members: 2.00% for service prior to 7/1/1983; 2.50% for service after 7/1/1983; 2.00% if participation after 7/1/2002 and less than 10 years; 2.50% if participation after 7/1/2002 and more than 10 years; 3.00% if retire after 7/1/2004 with more than 30 years. University members: 2.0% for each year of service.	Non-University members: 1.70% if less than 10 years; 2.00% if greater than 10 years, but no more than 20 years; 2.30% if greater than 20 years, but no more than 26 years; 2.50% if greater than 26 years, but no more than 30 years; 3.00% for service greater than 30 years. University members: 1.50% if less than 10 years; 1.70% if greater than 10 years, but less than 20 years; 1.85% if greater than 20 years, but less than 27 years; 2.00% if greater than 27 years.
Cost of Living Adjustment (COLA):	1.5% annually additional ad hoc increases must be authorized by the General Assembly.	
Unreduced Retirement Benefit:	Any age with 27 years of Kentucky service. Age 55 with 5 years of Kentucky service.	Any age with 27 years of Kentucky service. Age 60 with 5 years of Kentucky service. Age 55 with 10 years of Kentucky service.
Reduced Retirement Benefit:	Must be retired for service or disability to be eligible. Retired members are given a supplement based upon a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.	

(Continued)

NOTE 11 – PENSION PLANS (Continued)

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 years ended June 30, 2017 and 2016, University employees were required to contribute 7.625 percent of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.87 percent and 15.36 percent of covered payroll for the fiscal years ended June 30, 2017 and 2016, respectively. 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, 2017 and 2016 were $8,813,559 and $8,843,107, 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 $847,798 and $899,615 for the years ending June 30, 2017 and 2016.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2017 and 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:

	2017	2016
University's proportionate share of the net pension liability	$ 349,600,340	$ 274,716,842
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	32,949,104	27,936,152
	$ 382,549,444	$ 302,652,994

The net pension liability was measured as of June 30, 2016 and 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 and 2014 and update procedures were used to roll forward the total pension liability to the measurement date. The University's proportion of the net pension liability was based on actual contributions to the pension plan during the measurement period. At June 30, 2017, 2016 and 2015, the University's proportion was 1.13 percent, 1.12 percent and 1.10 percent, respectively, and the Commonwealth of Kentucky's proportion associated with the University was 0.11 percent, 0.11 percent and 0.12 percent, respectively.

(Continued)

NOTE 11 – PENSION PLANS (Continued)

For the year ended June 30, 2017 and 2016, the University recognized pension expense of $33,943,956 and $15,596,654 and revenue of $2,591,533 and $1,365,177. At June 30, 2017 and 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2017		
Net difference between projected and actual earnings on investments	$ 10,801,861	$ -
Change in assumptions	51,425,867	2,021,060
Differences between expected an actual experience	-	8,795,384
Changes in proportionate share of contributions	14,526,081	-
	76,753,809	10,816,444
Contributions subsequent to the measurement date	8,813,559	-
	$ 85,567,368	$ 10,816,444
2016		
Net difference between projected and actual earnings on investments	$ -	$ 6,923,206
Change in assumptions	16,863,653	2,652,058
Differences between expected an actual experience	-	2,999,305
Changes in proportionate share of contributions	9,121,805	-
	25,985,458	12,574,569
Contributions subsequent to the measurement date	8,843,107	-
	$ 34,828,565	$ 12,574,569

At June 30, 2017 and 2016, the University reported $8,813,659 and $8,843,107 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 following fiscal year. Deferred outflows and deferred inflows of resources at June 30, 2017, related to pensions will be recognized in pension expense as follows:

2018	$ 14,640,282
2019	14,640,282
2020	18,643,938
2021	13,648,241
2022	4,364,622
	$ 65,937,365

NOTE 11 – PENSION PLANS (Continued)

Actuarial assumptions - The total pension liability was determined by actuarial valuations as of June 30, 2015 and 2014 and update procedures were used to roll forward the total pension liability to the measurement date, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increases	4.00% - 8.20%, including inflation
Investment Rate of Return	7.50%, net pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table for Males and Females, as appropriate with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a set back of 1 year for females.

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, 2005 - June 30, 2010 adopted by the Board on September 19, 2011. The results of the experience study for the period July 1, 2010-June 30, 2015 will be reflected in the June 30, 2016 valuation.

The long-term expected return on plan was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target 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 Nominal Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0	6.5
Fixed Income	24.0	1.6
High Yield Bonds	4.0	3.1
Real estate	4.0	5.8
Alternatives	4.0	6.8
Cash	2.0	1.5
Total	100%	

Changes in Assumptions and Benefit Terms Since Prior Measurement Date - The total pension liability as of June 30, 2016 reflects that the assumed municipal bond index rate decreased from 3.82% to 3.01%, resulting in a change in the Single Equivalent Interest Rate (SEIR) from 4.88% to 4.20%. The total pension liability as of June 30, 2015 reflects 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.

Changes Since Measurement Date - There were no changes between the measurement date of the collective net pension liability and the University reporting date that are expected to have a significant effect on the University's proportionate share of the collective net pension liability.

(Continued)

NOTE 11 – PENSION PLANS (Continued)

Discount rate - The discount rate used to measure the total pension liability at June 30, 2016 was 4.20%. 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 the Employer contributions will be made at statutorily required rates. Based on those assumptions, 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 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. The SEIR that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The discount rate used to measure the total pension liability at June 30, 2015 was 4.88%. 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 the Employer contributions will be made at statutorily required rates. Based on those assumptions, 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. The SEIR that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The total pension liability as of June 30, 2016 reflects that the assumed municipal bond index rate decreased from 3.82% to 3.01%, resulting in a change in the SEIR from 4.88% to 4.20%. The impact of this change in the discount rate is a change in assumptions that is added to the expected total pension liability to determine the final total pension liability as of June 30, 2016.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The following table presents the net pension liability of the University as of June 30, 2017, calculated using the discount rate of 4.20%, as well as what the University’s net pension liability (in thousands) would be if it were calculated using a discount rate that is 1-percentage-point lower (3.20%) or 1-percentage-point higher (5.20%) than the current rate:

	1% Decrease (3.20)	Current Discount Rate (4.20%)	1% Increase (5.20%)
Proportionate share of the Collective Net Pension Liability *(in thousands)*	$ 428,885	$ 349,600	$ 284,530

The following presents the University's proportionate share of the net pension liability (in thousands) calculated using a discount rate 1% higher and 1% lower than the current rate as of June 30, 2016:

	1% Decrease (3.88)	Current Discount Rate (4.88%)	1% Increase (5.88%)
Proportionate share of the Collective Net Pension Liability *(in thousands)*	$ 341,915	$ 274,717	$ 219,109

(Continued)

NOTE 11 – PENSION PLANS (Continued)

Kentucky Employees Retirement System

Plan Description - The University contributes to 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 ("KRS 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 rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630.

KRS issues a publicly available financial report that includes audited financial statements and audited required supplementary information for 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

Non-Hazardous

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 9/1/2008 through 12/31/13	Tier 3 Participation 1/1/2014
Benefit Formula	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor	1.97% or 2.0% for those retiring with service for all months between 1/1998 and 1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA)	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit	Any age with 27 years of service. Age 65 with 48 months of service. Money purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No month purchased calculations.	
Reduced Retirement Benefit	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

(Continued)

NOTE 11 – PENSION PLANS (Continued)

Hazardous

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 9/1/2008 through 12/31/13	Tier 3 Participation 1/1/2014
Benefit Formula	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation	Highest 3 fiscal years (must contain at least 24 months). Includes lump-sum compensation payments (before and at retirement).	3 highest salaries; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor	2.49%	10 years or less = 1.30%. Greater than 10 years, but no more than 20 years = 1.50%. Greater than 20 years, but no more than 26 years = 2.25%. Greater than 25 years = 2.50%.	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA)	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit	Any age with 20 years of service. Age 55 with 60 months of service.	Any age with 25 years of service. Age 60 with 60 months of service.	Any age with 25 years of service. Age 60 with 60 months of service.
Reduced Retirement Benefit	Age 50 with 15 years of service.	Age 50 with 15 years of service.	No reduced retirement benefit.

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS Board. For the fiscal year ended June 30, 2017, University non-hazardous and hazardous employees were required to contribute 5 percent and 8 percent, respectively, of their annual covered salary for retirement benefits for the years ended June 30, 2017 and 2016. Non-hazardous and hazardous employees with a participation date after 9/1/2008 were required to contribute an additional 1 percent of their covered salary for retiree healthcare benefits. The University was contractually required to contribute 38.77 percent of annual covered payroll for non-hazardous pay and 26.34 percent for hazardous pay for both of the years ended June 30, 2017, 2016 and 2015. Actuarially determined as an amount that, 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 KERS for the years ended June 30, 2017 and 2016 were $10,861,638 and $9,072,547, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2017 and 2016, the University reported a liability of $207,489,499 and $171,779,621 for its proportionate share of the non-hazardous net pension liability. The University was new to the hazardous plan in 2017 and reported a net pension liability of $275,410. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The University's proportion of the net pension liability was based on actual contributions to the pension plan during the measurement period. At June 30, 2017, 2016 and 2015, the University's proportion was 1.82 percent, 1.71 percent and 1.61 percent for non-hazardous, respectively. The University's proportion of the net pension liability related to the hazardous plan was 0.0703 percent at June 30, 2017, which was the first year that the University had a proportionate share.

NOTE 11 – PENSION PLANS (Continued)

For the years ended June 30, 2017 and 2016, the University recognized non-hazardous pension expense of $30,764,610 and $18,924,062 and $116,796 and $0 for hazardous. At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Non-hazardous:		
Difference between expected and actual experience	$ 216,723	$ -
Net difference between projected and actual earnings on investments	3,185,803	-
Changes of assumptions	15,716,949	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,972,215	-
	30,091,690	-
University contributions subsequent to measurement date	10,658,212	-
	40,749,902	-
Hazardous:		
Difference between expected and actual experience	1,665	-
Net difference between projected and actual earnings on investments	26,298	-
Changes of assumptions	14,316	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	133,043	-
	175,322	-
University contributions subsequent to measurement date	203,426	-
	378,748	-
	$ 41,128,650	$ -

2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Non-hazardous:		
Difference between expected and actual experience	$ 366,992	$ -
Net difference between projected and actual earnings on investments	489,263	-
Changes of assumptions	8,234,128	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,717,066	-
	15,807,449	-
University contributions subsequent to measurement date	9,072,547	-
	$ 24,879,996	$ -

(Continued)

NOTE 11 – PENSION PLANS (Continued)

At June 30, 2017 and 2016, the University reported $10,861,638 and $9,072,547 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, 2018. Deferred outflows and deferred inflows of resources at June 30, 2017, related to pensions will be recognized in pension expense as follows:

	Hazardous	Non-Hazardous	Total
2018	$ 71,719	$ 16,828,477	$ 16,900,196
2019	34,443	10,342,388	10,376,831
2020	44,532	1,872,396	1,916,928
2021	24,628	1,048,429	1,073,057
	$ 175,322	$ 30,091,690	$ 30,267,012

Actuarial assumptions - The total pension liability was determined by actuarial valuations as of June 30, 2016 and 2015, using the following actuarial assumptions, applied to all periods included in the measurement.

	Non-Hazardous		Hazardous	
	2016	2015	2016	2015
Inflation	3.25%	3.25%	3.25%	3.25%
Salary increases, average including inflation	4.00%	4.00%	4.00%	4.00%
Investment rate of return, net of expense, including inflation	6.75%	7.50%	7.50%	7.50%

For the June 30, 2016 and 2015 actuarial valuation, the rates of mortality for both non-hazardous and hazardous, for the period before retirement are according to the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females) for all healthy retired members and beneficiaries. 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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. 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, 2005 - June 30, 2008.

Discount Rate Assumptions:

(a) Discount rate: The discount rate used to measure the total pension liability was 6.75% for non-hazardous and 7.50% for hazardous.

(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 27 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.

NOTE 11 – PENSION PLANS (Continued)

(c) Long term rate of return: The long term rate of return assumption on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis is dated December 5, 2015. 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 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.

(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.

(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 tables:

2016

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Non-hazardous		
Combined equity	50%	5.30%
Intermediation duration fixed income	11	1.00
Custom KRS fixed income	11	3.33
Core real estate	5	4.25
Diversified hedge funds	10	4.00
Private equity	2	8.00
Diversified inflation strategies	8	3.15
Cash equivalent	3	(0.25)
Total	100%	

NOTE 11 – PENSION PLANS (Continued)

2016

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Hazardous		
Combined equity	44%	5.40%
Intermediation duration fixed income	19	1.50
Real return (diversified inflation strategies)	10	3.50
Real estate	5	4.50
Absolute return (diversified hedge funds)	10	4.25
Private equity	10	8.50
Cash	2	(0.25)
Total	100%	

2015

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Non-Hazardous		
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%	
Hazardous		
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified (inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute returns diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash	2%	(0.25%)
Total	100%	

(Continued)

NOTE 11 – PENSION PLANS (Continued)

Discount rate - The discount rate used to measure the total pension liability was 6.75% (Non-Hazardous) and 7.50% (Hazardous) for the June 30, 2016 actuarial valuation and 7.50% (Non-Hazardous and Hazardous) for the June 30, 2015 actuarial valuations. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. Projected inflows from investment earnings were calculated using the long–term assumed investment return of 6.75% (Non-Hazardous) and 7.50% (Hazardous) for the June 30, 2016 actuarial valuation and 7.50% (Non-Hazardous and Hazardous) for the June 30, 2015 actuarial valuations. The long–term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The University's proportionate share of the net pension liability has been calculated using a discount rate of 6.75% (Non-Hazardous) and 7.50% (Hazardous) for the June 30, 2016 actuarial valuation and 7.50% (Non-Hazardous and Hazardous) for the June 30, 2015 actuarial valuation. The following presents the University's proportionate share of the net pension liability (in thousands) calculated using a discount rate 1% higher and 1% lower than the current rate as of June 30, 2017:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Non-Hazardous			
Proportionate share of the Collective Net Pension Liability	$ 233,752	$ 207,490	$ 131,377

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Hazardous			
Proportionate share of the Collective Net Pension Liability	$ 346	$ 275	$ 216

The following presents the University's proportionate share of the net pension liability (in thousands) calculated using a discount rate 1% higher and 1% lower than the current rate as of June 30, 2016:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Non-Hazardous			
Proportionate share of the Collective Net Pension Liability	$ 193,495	$ 171,780	$ 153,409

(Continued)

NOTE 11 – PENSION PLANS (Continued)

Changes in assumptions and benefit terms since prior measurement date - The following change in the Plan's assumptions and benefit terms were reflected in the valuation performed as of June 30, 2016 and 2015:

2016:

- The assumed investment rate of return, and discount rate, were decreased from 7.50% to 6.75% (non-hazardous).

2015

- The assumed investment rate of return was decreased from7.75% to 7.50%. The assumed rate of inflation was reduced from 3.505 to 3.25%. The assumed wage inflation was reduced from 1.00% to 0.75%. Payroll growth assumption was reduced from 4.50% to 4.00%.

Changes Since Measurement Date - The following changes in the Plan's assumptions and benefit terms will be comprehended at the next measurement date of June 30, 2017. The impact on the University's financial statements from this change is not known.

- The assumed investment rate of return was decreased from 6.75% to 5.25% (non-hazardous) and from 7.50% to 6.25% (hazardous)
- The salary increase assumption was decreased from 4.00% to 0.00% (non-hazardous and hazardous)
- The inflation assumption was decreased from 3.25% to 2.3% (non-hazardous and hazardous)

Summary Pension Plan Information:

Summary Pension Plan Information as of June 30, 2017:

	KERS	KTRS	Total
Net pension liability	$ 207,764,875	$ 349,600,339	$ 557,365,214
Deferred outflows of resources	41,128,650	85,567,368	126,696,018
Deferred inflows of resources	-	10,816,444	10,816,444
Pension expense	30,881,406	33,943,956	64,825,362

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

(Continued)

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, 2017 and 2016 totaled $15,167,289 and $15,576,439, respectively. Administrative fees incurred for the year ended June 30, 2017 and 2016 were $921,899 and $1,037,459, respectively.

Changes in the liability for self-insurance at June 30, 2017 and 2016 are as follows:

	2017	2016
Liability – beginning of year	$ 1,837,455	$ 1,826,491
Accruals for current year claims and changes in estimate	16,422,499	17,056,994
Claims paid	(15,167,289)	(15,576,440)
Other costs	(784,242)	(1,469,590)
Liability – end of year	$ 2,308,423	$ 1,837,455

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Construction Commitments – The estimated cost to complete construction projects under contract at June 30, 2017, is approximately $87.4 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.

(Continued)

NOTE 14 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

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

	2017	2016
Salaries and wages	$ 136,198,458	$ 137,439,883
Employee benefits	52,423,982	53,151,839
Supplies and other services	58,352,361	58,753,324
Travel	5,100,494	5,325,826
Depreciation	18,705,594	16,980,084
Student scholarships and financial aid	13,353,706	12,035,399
Utilities	7,645,564	8,112,244
Pension expense	42,558,632	16,605,061
Other operating expenses	863,108	1,780,559
Total	$ 335,201,899	$ 310,184,219

(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 (U.S. GAAP). 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 - With the exception of short-term debt instruments which have been designated for investment purposes, the Foundation considers all highly liquid instruments 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 $2,188,000 and $2,639,000 as of June 30, 2017 and 2016, respectively.

The Foundation invests endowment matching funds for the Regional University Endowment Trust Fund (see Note I) on behalf of the University. In addition, the Foundation also invests Programs of Distinction (see Note I) related endowment funds on behalf of the University. 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 as follows: 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/or 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, 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, 2017 and 2016.

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.

(Continued)

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 1.43% to 2.53%). 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.

U.S. GAAP 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, 2017 (nor does it expect this to change in the next 12 months) and 2016.

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, 2017 and 2016.

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. equities investments with a fair value totaling approximately $15,600,000 and $17,500,000 as of June 30, 2017 and 2016, 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)

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.

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, 2017. Management has performed its analysis through the date of the Independent Auditor's Report, the date the financial statements were available to be issued.

B. FAIR VALUE OF FINANCIAL INSTRUMENTS

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs that may be used to measure fair value are described below:

- Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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, 2017 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	$ 692,518	$ 692,518	$ -	$ -
Banker's acceptances	1,342,488	-	1,342,488	-
Equities	46,930,956	46,817,836	-	113,120
Fixed income	16,084,396	16,084,396	-	-
Alternatives:				
Limited partnerships	2,187,520	-	-	2,187,520
	$ 67,237,878	$ 63,594,750	$ 1,342,488	$ 2,300,640

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 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.

At June 30, 2017, the Foundation is also invested in banker's acceptances which have been valued using a yield curve matrix derived from quoted prices for similar assets in active markets. The fair value of this investment has been classified as a Level 2 financial instrument. The maturity dates of the banker's acceptances generally range from approximately 60 to 180 days. Each of the respective banker's acceptances may however be redeemed by the Foundation at a discount upon demand.

(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, 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 U.S. GAAP; in certain instances, secondary investments require reporting other than U.S. GAAP such as International Financial Reporting Standards or Tax Basis accounting, in which case the investment managers adjust values to more accurately comply with U.S. GAAP. The managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. For holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values. Holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, appraisals, and/or the income approach. Pursuant to U.S. GAAP, management has considered redemption restrictions to assess classification of fair value inputs. For alternative investments with redemption periods of 90 days or less, the assets are considered a Level 2 fair value measurement. Investments that are redeemable in greater than 90 days are considered 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 consist of limited partnerships. Additional disclosure relative to the underlying strategies for these types of investments is as follows. The following 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."

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.

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

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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).

The following table provides additional information as of June 30, 2017 relative to alternative investments:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partnerships	$ 2,187,520	$ 724,321	Funds Dissolved	N/A

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.

(Continued)

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

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The year ended June 30, 2017 and 2016 activity with respect to the investments reflected as Level 3 is as follows:

	2017	2016
Beginning of year	$ 2,751,789	$ 3,115,316
Net realized and unrealized gains (losses) on investments included in the change in net assets	833	33,021
Net purchases (sales) of investments	(451,982)	(396,548)
End of year	$ 2,300,640	$ 2,751,789

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

C. ENDOWMENT

The Foundation's endowment consists of approximately 420 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 U.S. GAAP, 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.

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.

(Continued)

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

C. ENDOWMENT (Continued)

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 U.S. GAAP, deficiencies of this nature are to be reported in unrestricted net assets. As of June 30, 2017 and 2016, funds with deficiencies total $20,910 and $37,669, respectively.

At June 30, 2017, endowment net assets consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 6,761,836	$ -	$ -	$ 6,761,836
Donor restricted	(20,910)	15,202,853	28,289,180	43,471,123
	$ 6,740,926	$ 15,202,853	$ 28,289,180	$ 50,232,959

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 5,697,355	$ 11,425,971	$ 26,979,340	$ 44,102,666
Contributions	61,903	78,798	1,309,840	1,450,541
Investment return				
Net investment income	162,449	1,123,330	-	1,285,779
Net unrealized and realized depreciation	860,954	3,978,679	-	4,839,633
Appropriation of endowment assets for expenditure	(41,735)	(1,403,925)	-	(1,445,660)
End of year	$ 6,740,926	$ 15,202,853	$ 28,289,180	$ 50,232,959

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

C. ENDOWMENT (Continued)

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

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

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.

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

C. ENDOWMENT (Continued)

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.

D. PLEDGES RECEIVABLE

At June 30, 2017, 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	$ 473,371	$ 387,250	$ 880,621
Less allowance	-	(7,000)	(14,000)	(21,000)
	20,000	466,371	373,250	859,621
Long-term pledges receivable:				
Estimated to be collected in one to five years	80,000	1,047,859	1,013,427	2,141,286
Estimated to be collected thereafter	-	311,812	-	311,812
Less allowance	-	(20,000)	(36,000)	(56,000)
Less discounts to net present value	(4,000)	(92,000)	(37,000)	(133,000)
	76,000	1,247,671	940,427	2,264,098
	$ 96,000	$ 1,714,042	$ 1,313,677	$ 3,123,719

(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

E. PROPERTY AND EQUIPMENT

At June 30, 2017 and 2016, net property and equipment consists of the following:

	2017	2016
Land	$ 250,000	$ 250,000
Buildings and building improvements	600,000	600,000
	850,000	850,000
Less accumulated depreciation	(118,603)	(104,479)
	$ 731,397	$ 745,521

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 J). Such property and equipment had a net book value totaling approximately $3,774,000 as of the transfer/contribution effective December 31, 2015.

Depreciation expense for the years ended June 30, 2017 and 2016 totals $14,124 and $99,140, respectively.

(Continued)

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

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, 2017 and 2016:

	2017	2016
Purposes restrictions satisfied/time restrictions expired:		
Capital projects	$ 1,077,840	$ 1,064,191
Scholarships program	440,136	824,599
Academic programs	132,203	539,841
Other support for the University	1,859,714	1,749,042
	$ 3,509,893	$ 4,177,673

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 bore interest at fixed rate of 2.97% and was payable in monthly principal and interest payments totaling $24,665, with a final balloon payment due at maturity. In July 2016, the Foundation paid in full the bank note payable (see also Note J). The outstanding principal balance at June 30, 2016 was $849,428.

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, 2017 and 2016 totaling $390,446 and $333,269, 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 B).

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

H. DEFERRED GIFT LIABILITIES (Continued)

The years ended June 30, 2017 and 2016 activity with respect to deferred gift liabilities is as follows:

	2017	2016
Beginning of year	$ 333,269	$ 348,495
New deferred gifts	98,918	-
Payment obligations	(58,703)	(44,425)
Net actuarial (gain) loss	16,962	29,199
End of year	$ 390,446	$ 333,269

At June 30, 2017 and 2016, investments relative to such deferred gift liabilities total $812,433 and $589,356, respectively.

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, 2017 and 2016, assets held for others consist of the following:

	2017	2016
Regional University Endowment Trust Fund	$ 17,502,456	$ 15,150,216
Programs of Distinction	1,864,317	1,699,068
	$ 19,366,773	$ 16,849,284

J. RELATED PARTY TRANSACTIONS

Eastern Kentucky University - The University provides various administrative services to the Foundation. In addition, during the year ended June 30, 2017, the University expended $1,106,348 and $332,823 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, 2016, the University expended $878,701 and $201,760 on behalf of the Foundation with respect to scholarships and employee salaries/related benefits, respectively. At June 30, 2017 and 2016, the amount due to the University on the accompanying statements of financial position totals $481,706 and $638,250, respectively.

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, Arlington owed the Foundation $1,554,474 with respect to unpaid lease payments.

(Continued)

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

J. RELATED PARTY TRANSACTIONS (Continued)

Additionally, at December 31, 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, 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.

At December 31, 2015, the gross amount of the various amounts due from Arlington totaled $2,503,064. Based upon management's review of the financial condition of Arlington and its operating activity, an allowance totaling $2,355,074 had been provided 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 December 31, 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 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, 2017 and 2016, 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 $1,223,395 and $897,365, respectively. Such gross pledges receivable amounts are included in the amounts reflected in Note D.

At June 30, 2017, the cash surrender value of life insurance includes $1,365 with respect to a policy under which the insured is a member of the Foundation's Board of Directors.

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, 2017, 2016 and 2015

KERS – Non-Hazardous	2017	2016	2015
University's proportion of the net pension liability	1.82%	1.71%	1.61%
University's proportionate share of the net pension liability	$ 207,489	$ 171,780	$ 144,048
University's covered payroll	$ 29,378	$ 27,312	$ 27,301
University's proportionate share of the net pension liability as a percentage of its covered payroll	706.27%	628.95%	527.63%
Plan fiduciary net position as a percentage of the total pension liability	14.80%	22.32%	22.32%
KERS – Hazardous			
University's proportion of the net pension liability	.0703%	-%	-%
University's proportionate share of the net pension liability	$ 275	$ -	$ -
University's covered payroll	$ -	$ -	$ -
University's proportionate share of the net pension liability as a percentage of its covered payroll	-%	-%	-%
Plan fiduciary net position as a percentage of the total pension liability	57.41%	-%	-%
KTRS			
University's proportion of the net pension liability	1.13%	1.12%	1.10%
University's proportionate share of the net pension liability	$ 349,600	$ 274,717	$ 237,056
State's proportionate share of the net pension liability associated with the University	32,949	27,936	26,899
Total	$ 382,549	$ 302,653	$ 263,955
University's covered payroll	$ 89,598	$ 87,589	$ 83,276
University's proportionate share of the net pension liability as a percentage of its covered payroll	390.19%	313.64%	284.66%
Plan fiduciary net position as a percentage of the total pension liability	35.22%	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, 2017, 2016 and 2015

	2017	2016	2015
KERS – Non-Hazardous			
Contractually required contribution	$ 10,658	$ 9,072	$ 8,774
Contributions in relation to the contractually required contribution	(10,658)	(9,072)	(8,774)
Contribution deficiency (excess)	$ -	$ -	$ -
University's covered payroll	$ 26,630	$ 29,378	$ 27,312
Contributions as a percentage of covered payroll	40.02%	30.88%	32.13%
KERS – Hazardous			
Contractually required contribution	$ 159	$ -	$ -
Contributions in relation to the contractually required contribution	(159)	-	-
Contribution deficiency (excess)	$ -	$ -	$ -
University's covered payroll	$ 518	$ -	$ -
Contributions as a percentage of covered payroll	30.69%	-	-
KTRS			
Contractually required contribution	$ 8,814	$ 8,843	$ 7,235
Contributions in relation to the contractually required contribution	(8,814)	(8,843)	(7,235)
Contribution deficiency (excess)	$ -	$ -	$ -
University's covered payroll	$ 89,975	$ 89,598	$ 87,589
Contributions as a percentage of covered payroll	9.80%	9.87%	8.26%

* 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:

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.

2016: The assumed investment rate of return was decreased from 7.50% to 6.75%.

KTRS

2015: *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 contributions.

2016: Since the previous valuation, various economic and demographic assumptions have been revised to reflect the results of the experience investigation for the five-year period ending June 30, 2015. The changes adopted by the Board on September 19, 2016, include various demographic and economic assumptions summarized below:

- Price inflation changed assumed rate from 3.50% to 3.00%
- Wage inflation changed assumed rate from 4.00% to 3.50%
- Assumed salary scale adjusted to reflect a decrease of 0.25% in merit and promotion for all ages, and
- Assumed rates of withdrawal, disability, retirement, and mortality have been adjusted to more closely reflect experience.
- The discount rate was changed from 4.88% to 4.20%.

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, 2017, 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 6, 2017. 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 6, 2017

Crowe Horwath.

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, 2017. 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, 2017.

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 6, 2017

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Direct Programs –				
Student Financial Aid Cluster				
Federal Pell Grant Program		84.063	$ 24,499,866	$ -
Federal Supplemental Educational Opportunity Grant		84.007	619,063	-
Federal Work Study Program		84.033	667,434	-
Federal Work Study Service Tutors		84.033	20,698	-
Federal Work Study Job Location/ Development		84.033	47,018	-
Federal Perkins Loan Program		84.038	6,252,920	-
Teach Grant		84.379	35,789	-
Federal Direct Student Loan - PLUS		84.268	12,673,279	-
Federal Direct Student Loan		84.268	77,784,655	-
Total Student Financial Aid Cluster			122,600,722	-
TRIO Cluster				
NOVA Student Support Services FY 16		84.042	59,057	-
NOVA Student Support Services FY 17		84.042	296,617	-
Educational Talent Search FY 16		84.044	55,724	-
Educational Talent Search FY 17		84.044	300,783	-
Upward Bound 2016		84.047	21,707	-
Upward Bound 2017		84.047	441,079	-
Upward Bound 2018		84.047	86,778	-
Ronald McNair Post Baccalaureate Program FY 15		84.217	11,483	-
Ronald McNair Post Baccalaureate Program FY 16		84.217	79,648	-
Ronald McNair Post Baccalaureate Program FY 17		84.217A	147,204	-
Total TRIO Cluster			1,500,080	-
PREPaRE FY 14		84.325	220,288	87,474
			124,321,090	87,474
Pass-Through Programs –				
Kentucky Cabinet for Health and Family Services				
University Training Consortium FY 16	PON2 736 1500001287 1	84.412	2,369	-
University Training Consortium FY 17	PON2 736 1600001294 2	84.412A	323,920	-
			326,289	-
Kentucky Department for Technical Education				
PD for Teacher Educators	PON2 540 1600002669 1	84.048A	16,211	-
Field Based Teacher Education FY 17	PON2 1600002669 1	84.048A	61,819	-
Perkins FY 17 – Grant Management FY 17	PON2 540 1500002521 1	84.048A	64,760	-
Tech & Engineering and Technical Curriculum Development	PON2 540 1600002669 2	84.048A	9,706	-
			152,496	-

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) –				
Kentucky Department of Education				
Migrant Education Regional Center FY 16	PON2 540 1500002652 1	84.011A	$ 224,445	$ 123,197
21st Century Community Learning FY 16	PON2 540 1400002257 1	84.287	16,985	-
21st Century Community Learning FY 16	PON2 540 1600003239 1	84.287	328,809	-
Migrant Regional Center Recruiter FY16	PON2 540 1400002781 1	84.011	10,411	-
Southern Migrant Education Regional Center Recruit	PON2 540 1600002675 1	84.011	47,129	-
Southern Migrant Education Regional Center	PON2 540 1600003023 1	84.011	285,546	18,369
			913,325	141,566
Kentucky Department of Vocational Rehabilitation				
Vocational Rehabilitation Interpreting Services FY 15-16	PON2 531 1400002441 1	84.126	(13)	-
Vocational Rehabilitation Interpreting Services FY 17-18	PON2 531 1600003515 1	84.126	368,247	-
			368,234	-
Kentucky Council on PostSecondary Education				
Madison County Adult Education FY 17	PO2 415 1700001424	84.002A	92,561	-
Madison County Adult Education	PO2 415 1700001424	84.002	30,434	-
Clay County Adult Education FY 17	PO2 415 1700001424	84.002A	78,008	-
Clay County Adult Education FY 17	PO2 415 1700001424	84.002	13,579	-
Garrad County Adult Education FY 17	PO2 415 1700001424	84.002A	30,416	-
Garrad County Adult Education FY 17	PO2 415 1700001424	84.002	11,126	-
Path 2 Promise Clay County FY 17	PO2 415 1700001424	84.002A	42,733	-
Gear Up Statewide eMentoring Legacy	PO2 415 1200006940 1	84.334S	63,594	-
			362,451	-
Special Education Cluster				
Kentucky Department of Education				
Special Education Grants to States	PON2 540 1600002922 1	84.027	638,431	-
Special Education Grants to States	PON2 540 1600002792 1	84.027A	446,519	-
			1,084,950	-

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) –				
Special Education Cluster (continued)				
Madison County Board of Education				
Special Education Grants to States	3810002-16	84.027	$ 87,277	$
Total Special Education Cluster			1,172,227	-
Office of the Governor of Kentucky				
Early Childhood Train Stand FY 15/16	PON2 135 1500001583 1	84.412	(36)	-
Early Childhood Training Standards FY 17	PON2 135 1600002551 1	84.412	878	-
			842	-
			3,295,864	
Total U.S. Department of Education			127,616,954	229,040
RESEARCH AND DEVELOPMENT				
Direct Programs –				
Department of Agriculture				
Wetland and Forest Monitoring in the Daniel Boone National Forest		10.U01	12,568	-
Proposed Synthesis of Ergovaline		10.U02	2,697	-
			15,265	-
Department of the Interior				
Distribution, Movement KY Arrow Darter		15.650	1,724	-
Long-Term Evaluation of the Interacting Effect of Fire and White-Nose Syndrome on Endangered Bats		15.232	51,202	5,955
			52,926	5,955
National Science Foundation				
Enhancing Research Capacity: LCW		47.074	1,050	-
REU: Disturbance Ecology in Ctrl Appal		47.074	39,180	-
Efficient Mathematical Framework		47.049	14,161	-
RET Supplement Disturbance		47.074	18,506	-
Building and Sustaining a Research Database for a Global Biodiversity Hotspot		47.074	3,021	-
			75,918	-
			144,109	5,955
Pass-Through Programs –				
Department of Interior				
Kentucky Waterways Alliance				
eDNA Survey – Kentucky Cave Shrimp	MOA 10/19/2012	15.625	9,918	-
Kentucky Arrow Darter	MOA 01/17/2013	15.650	488	-
Population Dynamics of Buck Darter	F15AC00372	15.U01	25,694	-
			36,100	-

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
RESEARCH AND DEVELOPMENT				
Pass-Through Programs –				
Kentucky Department of Fish & Wildlife Resources				
Population Dynamics of Buck	PON2 660 170001277 1	15.615	$ 4,334	$ -
Department of Interior				
Arkansas Game and Fish Commission				
DNA Barcode Reference Library eDNA	Letter of Agreement	15.634	8,904	-
Department of Defense				
Kentucky Department of Military Affairs				
Biological Assess EKY Training Site – ARRA	PON2 095 1500001763 1	12.401	13,637	-
Development of Habitat Models	PON2 095 1500001763 1	12.401	26,903	-
			40,540	-
Bluegrass Army Depot				
Running Buffalo Clover 2017-2018	W22G1F-17-P-0046	12.U01	9,984	-
Department of Health and Human Services				
University of Louisville				
KBRIN Lead Faculty Award FY 17	ULRF-13-1493B-01	93.389	25,115	-
KBRIN Lead Faculty Award FY 18	ULRF-13-1493C-04	93.959	7,622	-
Platinum-LHRH	ULRF-13-1493B-01	93.389	135,380	-
Effect of p75NTR on Oxidative Stress	ULRF-13-1493C-04	93.959	7,589	-
			175,706	-
University of Kentucky				
KBRIN Faculty Startup FY 17	5P20GM103436-16	93.859	21,300	-
Environmental Protection Agency				
Kentucky Division of Water				
Survey of Kentucky Wetlands: NWCAFY17	PON2 129 1600002408 1	66.461	160,366	-
University of Louisville Research Foundation, Inc.				
Assessment of Hydrologic Functions in Combined Stream and Floodplain Restoration	ULRF-13-1246-01	66.461	15,614	-

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				
University of Kentucky Research Foundation, Inc.				
Gluthatione as a Protectant Against Oxidation	3200000271-16-038	47.083	$ 96,970	$ -
Satellite Data Fusion	NNX15AR69H	43.008	10,780	-
Control Cu Doping in Zns	OIA-1355438	47.083	15,692	-
			123,442	-
Murray State University				
Size Structure on Trophic Cascades	DEB-1354787	47.074	17,435	-
			613,725	-
Total Research and Development			757,834	5,955
DEPARTMENT OF DEFENSE				
Direct Programs –				
Defense Intelligence Agency				
Bluegrass State Intelligence FY15		12.598	81,346	-
Bluegrass State Intelligence FY16		12.598	227,911	37,414
Total Department of Defense			309,257	37,414
DEPARTMENT OF AGRICULTURE				
Pass-Through Programs –				
USDA Forest Service				
Daniel Boone National Forest Visitor Use Monitor	16-PA-11080200-010	10.U03	17,332	-
Forest Inventory and Monitoring DBNF	17-PA-11080200-005	10.U04	211	-
US Forestry Service London Ranger District Student Internship	17-PA-11080200-008	10.U05	532	-
			18,075	-
Kentucky Department of Education				
Upward Bound Summer Food Program 2016	Letter of Agreement	10.559	12,120	-
Kentucky Cabinet for Health and Family Services				
University Training Consortium FY 16	PON2 736 150000 1287 1	10.561	4,590	945
University Training Consortium FY 17	PON2 736 160000 1294 2	10.561	541,691	19,783
			546,281	20,728
Total Department of Agriculture			576,476	20,728

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
ENVIRONMENTAL PROTECTION AGENCY				
Pass-Through Programs –				
Earth Force, Inc.				
Earth Force Green Schools Connect		66.951	$ 3,620	$ -
Kentucky Association of Environmental Education				
Addressing Climate Statewide	Letter of Agreement	66.951	4,066	-
Total Environmental Protection Agency			7,686	-
FEDERAL COMMUNICATION COMMISSION				
Direct Programs -				
Federal Communication Commissions				
Deablind Equipment Dist. Program		32.U01	97,243	-
Deablind Equipment Dist. Program		32.U01	(39)	-
Total Federal Communication Commission			97,204	-
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs –				
Health Resources and Service Administration				
Health Centers Cluster:				
BCHC FY 17		93.224	1,859,488	-
BCHC FY 18		93.224	748,224	-
BCHC – Quality Improvement FY 17		93.527	24,269	-
Substance Abuse Service Expansion		93.527	330,969	-
Total Health Center Cluster			2,962,950	-
EKU Safe FY 17		93.243	62,945	-
			3,025,895	-
Pass-Through Programs –				
Kentucky Cabinet for Health and Family Services				
Health Benefits Exchange FY 16	PON2 713 1500001781 1	93.767	(1)	-
Medicaid Cluster				
Medical Assistance Program	PON2 746 1400001181 1	93.778	(18)	-
Medical Assistance Program	PON2 713 1500001781 1	93.778	(13)	-
Medical Assistance Program	PO2 746 1600005311 1	93.778	35,111	-
Medical Assistance Program	PO2 746 1500004917 1	93.778	(18)	-
Total Medicaid Cluster			35,062	24,501

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) –				
DBHDID FY 17	PON2 729 1600001704 1	93.243	$ 217,292	$ -
DBHDID FY 17	PON2 729 1600001704 1	93.829	116,165	-
DBHDID FY 17	PON2 729 1600001704 1	93.958	306,278	-
DBHDID FY 17	PON2 729 1600001704 1	93.959	442,214	-
University Training Consortium FY 16	PON2 736 1500001287 1	93.087	8,484	5,436
University Training Consortium FY 16		93.556	11,844	11,771
University Training Consortium FY 16	PON2 736 1500001287 1	93.590	66,253	-
University Training Consortium FY 16	PON2 736 1500001287 1	93.603	32,263	22,682
University Training Consortium FY 16	PON2 736 1500001287 1	93.658	150,506	97,510
University Training Consortium FY 16	PON2 736 1500001287 1	93.669	19,567	18,611
University Training Consortium FY 16	PON2 736 1500001287 1	93.674	23,590	22,434
University Training Consortium FY 17	PON2 736 1400001294 2	93.087	119,674	34,149
University Training Consortium FY 17	PON2 736 1400001294 2	93.556	243,514	16,789
University Training Consortium FY 17	PON2 736 1400001294 2	93.575	34,995	-
University Training Consortium FY 17	PON2 736 1400001294 2	93.590	164,195	-
University Training Consortium FY 17	PON2 736 1400001294 2	93.603	544,845	179,475
University Training Consortium FY 17	PON2 736 1400001294 2	93.658	5,273,352	1,454,327
University Training Consortium FY 17	PON2 736 1400001294 2	93.667	10,838	-
University Training Consortium FY 17	PON2 736 1600001294 2	93.669	103,226	21,907
University Training Consortium FY 17	PON2 736 1600001294 2	93.674	507,046	27,880
Family Planning FY 17/18	PO2 728 1600005324 1	93.217	21,426	-
			8,417,567	1,912,971
University of Louisville Research Foundation				
Project SAFESPACE FY 16	ULRF-14-0146D-03	93.652	9,189	-
University of Kentucky				
Bridging the GAP	3200000656-13-130	93.859	263,755	-
Central App Reg Ed FY 17	5T42OH010278-05	93.262	98,192	-
			361,947	-
477 Cluster				
University Training Consortium FY 16	PON2 736 1500001287 1	93.558	2,501	-
University Training Consortium FY 16		93.558	179,323	20,441
Education Pays Center FY 17/18	PO2 736 1600004581 1	93.558	320,094	4,060
Total 477 Cluster			501,918	24,501
			9,325,682	-
Total Department of Health and Human Services			12,351,577	1,937,472

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 HOMELAND SECURITY				
Pass-Through Programs –				
Center for Rural Development				
Rural Domestic Preparedness Consortium FY 13: Task 1	FY13-K00155-65-I&Q-EKU	97.005	$ 3,917	$ -
Rural Domestic Preparedness Consortium FY 14: Task 1	FY14-00092-03-EKU	97.005	31,413	-
Rural Domestic Preparedness Consortium FY 14: Task 1 & 2	FY14-00092-03-EKU	97.005	1	-
Rural Domestic Preparedness Consortium FY 15: Task 1	FY15-00190-03-EKU	97.005	6,371	-
Rural Domestic Preparedness Consortium FY 15: Task 2	FY15-00190-03-EKU	97.005	123,769	-
Rural Domestic Preparednes Consortium FY 16: Task 1	EMW-2016-CA-0097-SO1	97.005	33,960	-
Rural Domestic Preparedness Consortium FY 16: Task 2	EMW-2016-CA-0097-S01	97.005	173,509	-
Total Department of Homeland Security			372,940	-
DEPARTMENT AERONAUTICS AND SPACE ADMINISTRATION				
Pass-Through Programs –				
Northern Kentucky University				
Increasing Qualified STEM Educators	40000972-S2	43.008	4,166	-
Northern Kentucky University				
University of Kentucky Research Foundation				
Out-of-This-World Thursdays	3200000161-17-91	43.008	772	-
Total National Aeronautics and Space Administration			4,938	-
NATIONAL ENDOWMENT FOR THE ARTS				
Pass-Through Programs –				
SouthArts				
Aquila Theatre	Grant #5062	45.024	3,884	-
Total National Endowment for the Arts			3,884	-
NATIONAL ENDOWMENT FOR THE HUMANITIES				
Direct Programs –				
EKU Libraries Digital Preservation		45.149	5,031	-
Total National Endowment for the Humanities			5,031	-

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
NATIONAL SCIENCE FOUNDATION				
Pass-Through Programs –				
Edlap Group Foundation				
Science Adventures	Letter of Agreement	47.076	$ 120	$ -
Total National Science Foundation			120	-
DEPARTMENT OF TRANSPORTATION				
Pass-Through Programs –				
Kentucky Transportation Cabinet				
Sidewalk - Hall Dr. to Kit Carson Dr.	PO2-628-15000002150	20.205	411,569	-
Lancaster Avenue Lighting	1600003905	20.205	44,663	-
			456,232	-
Total Department of Transportation			456,232	-
APPALACHIAN REGIONAL COMMISION				
Pass-Through Programs –				
Berea College				
Promise Zone Profiles	Memorandum of Agreement	23.002	1,804	-
Total Appalachian Regional Commission			1,804	-
SMALL BUSINESS TRANSPORTATION				
Pass-Through Programs -				
University of Kentucky				
Small Business Development Center FY 16	3200000358-16-169	59.037	35,582	-
Small Business Development Center FY 17	3200001037-17-137	59.037	64,652	-
			100,234	-
Total Small Business Administration			100,234	-
SMITHSONIAN INSTITUTE				
Direct Programs –				
Teacher InResidence –				
Smithsonian Mus.		85.601	105,438	-
Total Smithsonian Institute			105,438	-
CORPORATION FOR NATIONAL COMMUNITY SERVICE				
Pass-Through Programs –				
Kentucky Commision of Community Volunteerism & Service				
Kentucky READY Corps FY 17	PON2 730 1700000376 1	94.006	11,659	-
Total Corporation for National Community Service			11,659	-
Total Federal Expenditures			$ 142,779,268	$ 2,230,609

See accompanying notes to schedule of expenditures of federal awards.

Grant/Program Title	Federal CFDA	Federal Expenditures
Subtotals of Multiple Awards/CFDA Numbers		
Kentucky Arrow Darter	15.650	$ 2,212
Education	43.008	15,718
Biological Sciences	47.074	79,192
Office of Integrative Activities	47.083	112,662
Regional Wetland Program Development	66,461	175,980
Adult Education – Grants to States	84.002	298,857
Migrant Education Program	84.011	567,531
Special Education Grants to States	84.027	1,172,227
Federal Work Study Program	84.033	735,150
Trio Student Support Services	84.042	355,674
Trio Talent Search	84.044	356,507
Trio Upward Bound	84.047	549,564
Trio McNair Post-Baccalaureate Achievement	84.217	238,335
Federal Direct Student Loans	84.268	90,457,934
21st Century Community Learning	84.287	345,794
University Training Consortium Program	84.412	326,289
University Training Consortium Program	93.087	128,158
Bluegrass Community Health Center	93.224	2,607,712
Substance Abuse and Mental Health	93.243	280,237
Bluegrass Community Health Center	93.527	355,238
University Training Consortium Program	93.556	255,358
University Training Consortium Program	93.558	501,918
University Training Consortium Program	93.590	230,448
University Training Consortium Program	93.603	577,108
University Training Consortium Program	93.658	5,423,858
University Training Consortium Program	93.669	122,793
University Training Consortium Program	93.674	530,636
Medical Assistance Program	93.778	35,062
Biomedical Research and Research Training	93.859	285,055
Prevention and Treatment of Substance Abuse	93.959	457,425
National Center for Research Resources	93.389	160,495

See accompanying notes to schedule of expenditures of federal awards.

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, 2017, 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. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 2 – LOANS

The University disbursed funds under the Federal Direct Loan Programs (including Direct Loans, Direct Unsubsidized Loans, Direct Plus Loans and Direct Consolidation Loans) during the current year.

Eastern Kentucky University had the following loan balances outstanding at June 30, 2017. 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	$ 5,246,948
Nursing Student Loans	6,900

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 Number(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
	Health Centers Cluster (consisting of):
93.224	Consolidated Health Centers
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program

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