

EASTERN KENTUCKY UNIVERSITY
Richmond, Kentucky

FINANCIAL STATEMENTS
June 30, 2012 and 2011

EASTERN KENTUCKY UNIVERSITY

FINANCIAL STATEMENTS

June 30, 2012 and 2011

CONTENTS

REPORT OF INDEPENDENT AUDITORS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2
FINANCIAL STATEMENTS	
EASTERN KENTUCKY UNIVERSITY STATEMENTS OF NET ASSETS	13
EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. STATEMENTS OF FINANCIAL POSITION	15
EASTERN KENTUCKY UNIVERSITY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	16
EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. STATEMENTS OF ACTIVITIES	17
EASTERN KENTUCKY UNIVERSITY STATEMENTS OF CASH FLOWS	19
EASTERN KENTUCKY UNIVERSITY NOTES TO FINANCIAL STATEMENTS	21
EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. NOTES TO FINANCIAL STATEMENTS	37

REPORT OF INDEPENDENT AUDITORS

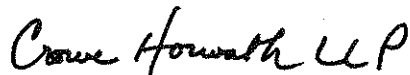
To the Board of Regents
Eastern Kentucky University
Richmond, Kentucky

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Eastern Kentucky University (the "University") as of and for the years ended June 30, 2012 and 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Eastern Kentucky University as of June 30, 2012 and 2011, and the respective changes in net assets and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 12 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Crowe Horwath LLP

Louisville, Kentucky
September 27, 2012

**EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011**

Introduction

The audited financial statements for the fiscal years 2012 and 2011 for Eastern Kentucky University (the "University"), and the statements for the Eastern Kentucky University Foundation, Inc. (the "Foundation"), an affiliated organization and component unit of the University, are included in this report, which includes this section, Management's Discussion and Analysis ("MD&A"). The MD&A is intended to provide an overview of the University's financial position at June 30, 2012 with selected comparative information for the years ended June 30, 2011 and 2010. The MD&A should be read in conjunction with the accompanying financial statements and notes.

Financial Highlights

At June 30, 2012, Eastern Kentucky University's financial position remained strong as reflected in the Statement of Net Assets.

- Total assets increased by \$16.1 million to \$436.5 million at June 30, 2012 from \$420.4 million at June 30, 2011. Of this increase, \$13.5 million was related to capital additions and appropriated cash restricted for capital projects. These capital additions/projects include the completion of a performing arts center and the new science building, and the beginning of construction of a new residence hall.
- Overall liabilities increased by \$16.3 million to \$116.3 million at June 30, 2012 as compared to \$100.0 million at June 30, 2011, primarily the result of a \$17.5 million increase in bonds payable and capital lease obligations.
- Total net assets at June 30, 2012 were \$320.2 million, a decrease of \$200,000 less than the June 30, 2011 level of \$320.4 million. This includes a decrease in investments in capital assets and funds restricted for use in capital projects of \$4.0 million, an increase in unrestricted net assets resulting from operations of \$4.0 million, and a small net decrease of approximately \$200,000 in other restricted net assets.

Using the Annual Report

This annual report consists of a series of financial statements that have been prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis – for Public Colleges and Universities*. The financial statements consist of Statements of Net Assets as of June 30, 2012 and 2011, and the Statements of Revenues, Expenses, and Changes in Net Assets and the Statements of Cash Flows for the fiscal years then ended. These statements reflect both the financial position of the University as of the end of the fiscal years noted, as well as the results of operating and nonoperating activities and cash flows. Also included are the financial statements for the Foundation, which are presented in this report in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14*.

Reporting Entity

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

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EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

Statements of Net Assets

The Statements of Net Assets provides a snapshot of the financial position of the University at the end of the fiscal year. In this statement, assets and liabilities are segregated into their current and noncurrent components with net assets reported as capital, restricted, or unrestricted. Unrestricted net assets are further designated for specific purposes as noted in this discussion and in the notes to the financial statements.

Assets – Total assets at June 30, 2012 were \$436.5 million as compared to \$420.4 million at June 30, 2011, an increase of \$16.1.

Cash and Cash Equivalents – Total cash and cash equivalents at June 30, 2012 totaled \$73.3 million, \$5.3 million more than the June 30, 2011 level of \$68.0 million. While cash and cash equivalents from operations decreased \$160,000, the increase is attributable to the increase of restricted cash and cash equivalents of funds designated primarily for capital project purposes.

Investments – Total University investments at June 30, 2012 had a market value of \$20.3 million as compared to \$20.5 million at June 30, 2011, an overall decrease of \$200,000.

- The Foundation holds and manages investments owned by the University. At June 30, 2012, the market value of investments held by the Foundation on behalf of the University was \$19.3 million as compared to \$19.4 million at June 30, 2011, a \$100,000 decrease.
- At June 30, 2012, \$1.0 million of funds was held on behalf of the University by the University's Bond Trustee. These funds represent required debt service reserves for outstanding bond issues. This amount at June 30, 2011 was \$1.1 million.

Capital Assets – The historical cost, less accumulated depreciation, of the University's capitalized assets was \$311.7 million as of June 30, 2012, or a net increase, after depreciation, of \$8.1 million over the \$303.6 million balance at June 30, 2011. This increase includes a \$114.9 million net increase in capital assets in service and a decrease in construction in progress of \$95.5 million, primarily related to the completion of the Business and Technology Buildings Phase II and the New Science Building that were completed in the fall of 2011. Net depreciation expense for the fiscal year totaled \$11.3 million.

Other Asset Categories – The balances in the various other asset categories, other than accounts and loans receivable, were essentially unchanged at June 30, 2012 as compared to June 30, 2011, or \$2.3 million and \$2.6 million, respectively. However, accounts receivables, net of allowance, increased for the year. The balance at June 30, 2012 was \$23.7 million versus \$20.1 million at June 30, 2011, an increase of \$3.6 million.

Liabilities – Total liabilities at June 30, 2012 were \$116.3 million as compared to \$100.0 million at June 30, 2011. This increase of \$16.3 million is primarily attributable to an increase in revenue bonds payable and capital leases of \$17.5 million as well as an overall decrease in other liabilities of \$1.2 million.

Bonds Payable and Capital Lease Obligations – In total, bonds payable and capital lease obligations increased by \$17.5 million as of June 30, 2012 as compared to June 30, 2011. At June 30, 2012, the total for bonds payable and capital lease obligations was \$90.2 million versus \$72.7 million at June 30, 2011. The increase is attributable to the issuance of new bonds and capital leases in the amount of \$23.8 million less bond and lease principal payments of \$6.3 million.

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EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

Other Liability Categories – The balances in various other liability categories decreased by \$1.2 million as of June 30, 2012 to \$26.1 million as compared to the June 30, 2011 amount of \$27.3 million. The majority of the balances in this category are comprised of accounts payable, interest payable, payroll/benefits liabilities, and deferred revenues associated with tuition and fees billed in June 2012 for July 2012 summer school classes and external contracts and grants.

Net Assets – Total net assets were \$320.2 million at June 30, 2012 a small decrease of \$200,000 over the \$320.4 million balance at June 30, 2011.

Invested in Capital Assets – Net assets invested in capital assets decreased as of June 30, 2012 by \$9.4 million to \$221.5 million over the June 30, 2011 level of \$230.9 million. The decrease is a result of a net increase to capital assets of \$8.1 million and the increase in outstanding debt of \$17.5 million

Restricted Net Assets – In total, restricted net assets increased by \$5.2 million to \$55.1 million at June 30, 2012 as compared to \$49.9 million at June 30, 2011. The net increase is primarily attributable to the increase in restricted cash for capital projects.

Unrestricted Net Assets – Unrestricted net assets increased by \$4.0 million to \$43.5 million at June 30, 2012 as compared to the June 30, 2011 total unrestricted net assets of \$39.5 million. The net increase is primarily the result of operations.

Unrestricted Net Assets

A portion of net assets is considered to be unrestricted. The unrestricted net assets may be designated for certain uses, but do not have formal governmental, donor, or other restrictions. The balances for unrestricted net assets at June 30 are shown below with the respective designations indicated (in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Inventories	\$ 428	\$ 305	\$ 241
Outstanding encumbrances	2,747	968	1,283
Departmental commitments	17,808	18,586	15,778
Designated projects and contingency reserves	10,749	10,118	9,554
Health care self-insurance reserve	2,300	1,899	1,899
Auxiliary working capital	<u>9,533</u>	<u>7,653</u>	<u>8,280</u>
Total unrestricted net assets	<u>\$ 43,565</u>	<u>\$ 39,529</u>	<u>\$ 37,035</u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
ASSETS			
Current assets	\$ 69,442	\$ 67,509	\$ 65,859
Capital assets – net	311,705	303,628	269,741
Other noncurrent assets	<u>55,370</u>	<u>49,231</u>	<u>22,770</u>
Total assets	<u>\$ 436,517</u>	<u>\$ 420,368</u>	<u>\$ 358,370</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>2010</u>
LIABILITIES			
Current liabilities	\$ 33,466	\$ 33,344	\$ 34,020
Noncurrent liabilities	<u>82,794</u>	<u>66,602</u>	<u>71,344</u>
Total liabilities	<u>\$ 116,260</u>	<u>\$ 99,946</u>	<u>\$ 105,364</u>
NET ASSETS			
Investment in capital assets – net of related debt	\$ 221,531	\$ 230,949	\$ 189,676
Restricted – expendable	42,955	37,737	14,088
Restricted – nonexpendable	12,207	12,207	12,207
Unrestricted	<u>43,565</u>	<u>39,529</u>	<u>37,035</u>
Total net assets	<u>\$ 320,258</u>	<u>\$ 320,422</u>	<u>\$ 253,006</u>

Statements of Revenues, Expenses, and Changes in Net Assets

The Statements of Revenues, Expenses, and Changes in Net Assets reflect the operating, nonoperating, and capital revenues and expenses of the University. The small decrease in total net assets is a result of these activities.

Operating Results – As indicated in the Statement of Revenues, Expenses, and Changes in Net Assets, there was a net loss of \$112.2 million from operations for the fiscal year ended June 30, 2012, prior to consideration of state appropriations and other net nonoperating revenues. This is compared to a loss of \$105.1 million from operations for the fiscal year ended June 30, 2011.

Operating Revenues

Below is a summary of operating revenues for fiscal year 2012 as compared to fiscal years 2011 and 2010 (in thousands):

	<u>Year ended June 30,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Tuition and fees	\$ 127,850	\$ 121,986	\$ 111,746
Discounts	<u>(48,311)</u>	<u>(50,749)</u>	<u>(45,320)</u>
Net tuition and fees	79,539	71,237	66,426
Grants and contracts	53,072	59,792	62,135
Other revenues	<u>17,142</u>	<u>16,371</u>	<u>17,060</u>
Total education and general fund	149,753	147,400	145,621
Auxiliaries	20,328	17,665	16,092
Discounts	<u>(6,605)</u>	<u>(6,860)</u>	<u>(6,863)</u>
Net auxiliaries	<u>13,723</u>	<u>10,805</u>	<u>9,229</u>
Total operating revenues	<u>\$ 163,476</u>	<u>\$ 158,205</u>	<u>\$ 154,850</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

Tuition and Fees – Income from student tuition and fee assessments, shown net of the tuition discount, was \$79.5 million for the fiscal year ended June 30, 2012 (\$127.9 million for the fiscal year ended June 30, 2012 less \$48.3 million in related financial aid) and \$71.2 million for the fiscal year ended June 30, 2011. The increase of \$8.3 million in gross tuition and fees reflects the increase in tuition and fee charges for the 2012 fiscal year as well as tuition revenues generated from increased on-line course fees.

Grants and Contracts – For the fiscal year ended June 30, 2012, there was \$53.1 million in recognized revenues from all grants and contracts as compared to \$59.8 million for the year ended June 30, 2011, or a decrease of \$6.7 million. Revenues recognized from external grants and contracts can vary significantly from one fiscal year to the next given variations in new awards, awards ending their grant cycle, and amounts recognized for activities occurring in a given year. For the fiscal years ended June 30, 2012 and June 30, 2011 federal stimulus (ARRA) amounts included as a part of grants and contracts revenues were \$81,000 in FY12 and \$4.8 million in FY11, respectively. The majority of these federal stimulus dollars flowed through the Commonwealth as a substitute for an approximately equal amount of state appropriations.

Sales and Services of Educational Activities – Revenues in this category includes a number of funding sources, all of which relate, directly and indirectly, to educational purposes, such as revenues from athletics, farm operations, and Model Laboratory School. There was only a nominal difference in these revenues between the fiscal years ended June 30, 2012 and June 30, 2011, \$4.4 million as compared to \$4.5 million, respectively.

Auxiliaries – Auxiliary enterprises consist of University functions provided for the academic and physical well-being of students. While these functions are not directly related to providing educational services, they are important for student convenience and support. Like tuition and fees, housing revenues are reported net of scholarships and financial aid that directly offset these costs to students. In the Statements of Revenues, Expenses, and Changes in Net Assets, \$13.9 million is reported for net auxiliary revenues for the year ended June 30, 2012 as compared to \$10.8 million for the year ended June 30, 2011. The majority of auxiliary revenues for both fiscal years is attributable to student residence hall fees. In addition, the revenues from the EKU Center for the Performing Arts (included in the Business and Technology Center Buildings Phase II capital project) which opened in September, 2011, are included in the year ended June 30, 2012.

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, 2012 total other operating revenues were \$12.7 million as compared to \$11.9 million for June 30, 2011, an increase of \$800,000.

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, 2012, total educational and general expenditures totaled \$275.6 million compared to \$263.3 million for the fiscal year ended June 30, 2011, resulting in an increase in educational and general spending of \$12.3 million.

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EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

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, 2012 were \$20.1 million as compared to \$18.6 million for the year ended June 30, 2011.

Below is a summary of operating expenditures for fiscal year 2012 as compared to fiscal years 2011 and 2010 (in thousands):

	Year ended June 30,		
	2012	2011	2010
Instruction, academic support and libraries	\$ 116,670	\$ 110,925	\$ 106,018
Research and public service	45,444	46,633	47,304
Student services	18,245	18,777	17,124
Institutional support and operations and maintenance of plant	47,034	46,648	44,704
Student financial aid	15,171	10,978	15,273
Depreciation	12,690	10,482	9,360
Other operation expenses	<u>244</u>	<u>294</u>	<u>269</u>
Total educational and general expenses	255,498	244,737	240,052
Auxiliaries	<u>20,137</u>	<u>18,567</u>	<u>18,962</u>
Total operating expenses	<u>\$ 275,635</u>	<u>\$ 263,304</u>	<u>\$ 259,014</u>

Instruction, Academic Support, and Libraries – The total expenditures of these three areas, which directly relate to teaching, academic, and faculty support, increased \$5.8 million to \$116.7 million for the year ended June 30, 2012 as compared to \$110.9 million for the fiscal year ended June 30, 2011.

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, 2012 total expenditures related to research and public service, the majority of which relates to external contracts and grants, was \$45.4 million as compared to \$46.6 million for the fiscal year ended June 30, 2011, a decrease of \$1.2 million.

Student Services – Expenditures for student services for fiscal year 2012 were \$18.2 million as compared to \$18.8 million for fiscal year 2011, a decrease of \$600,000. The student service function includes expenditures for many activities contributing to student development outside the instructional setting.

Institutional Support and Operations and Maintenance of Plant – These functions provide physical and administrative support for the University and include administrative offices, physical plant operation, noncapital maintenance costs, utility costs, technology support, legal, property and liability insurance, and other similar operational support costs. For the fiscal year ended June 30, 2012, total expenditures for these areas were \$47.0 million versus \$46.6 million for the fiscal year ended June 30, 2011, an increase of \$400,000.

Student Financial Aid – Tuition and fees, as well as certain auxiliary revenues, are shown net of financial aid from all sources directly awarded to fund those respective areas. As a result, the financial aid expense shown on the Statement of Revenues, Expenses, and Changes in Net Assets for 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 2012, the financial aid expenditure line indicates \$70.1 million as compared to total financial aid expenditures of \$15.2 million as shown in the chart below. For fiscal year 2011, this amount was \$11.0 million.

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EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

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

	Year ended June 30,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Tuition and fee discount	\$ 48,311	\$ 50,749	\$ 45,320
Auxiliary enterprises discount	6,605	6,860	6,863
Student financial aid expense	<u>15,171</u>	<u>10,978</u>	<u>15,273</u>
Student financial aid expense (gross)	<u>\$ 70,087</u>	<u>\$ 68,587</u>	<u>\$ 67,456</u>

Nonoperating Revenue/Expenses

State Appropriations – Funding from state appropriations for operations and debt service for the fiscal year ended June 30, 2012 were \$70.8 million as compared to the fiscal year ended June 30, 2011 at \$70.3 million. Recent reductions in state appropriations have been partially 'back filled' with federal stimulus dollars flowing to the University from the Commonwealth and included in federal grants and contracts revenues. Federal stimulus funds for the year ended June 30, 2012 were \$81,000 and \$4.8 million for the year ended June 30, 2011.

Investment Income – Total investment income for the fiscal years ended June 30, 2012 and 2011 were \$782,000 and \$3.9 million, respectively. For fiscal year 2012, the University experienced a decrease of \$3.1 million in investment income. Investment income for the Regional University Excellence Trust Fund (RUETF) and the Program of Distinction II funds held in the endowment by the Foundation on behalf of the University reported unrealized investment losses of \$102,000 for the fiscal year ended June 30, 2012 as compared to gains of \$3.3 million for the fiscal year ended June 30, 2011. Additionally, investment income for short-term investments and sweep accounts increased \$327,000 to \$884,000 compared to \$557,000 for the year ended June 30, 2011.

Capital Support – For the year ended June 30, 2012, the University did not receive any capital appropriations but did return unspent funds in the amount of \$133,672 from a completed capital project. For the year ended June 30, 2011, capital support was \$58 million which represented funds for the construction of the New Science Building and the Business and Technology Buildings Phase II.

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EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

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

	Year ended June 30,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 163,476	\$ 158,205	\$ 154,850
Operating expenses	<u>275,635</u>	<u>263,304</u>	<u>259,014</u>
Operating loss	(112,159)	(105,099)	(104,164)
Nonoperating revenues – net	<u>112,129</u>	<u>114,454</u>	<u>112,859</u>
Income (loss) before capital appropriations	(30)	9,355	8,695
Capital appropriations	<u>(134)</u>	<u>58,061</u>	<u>26,992</u>
Increase (decrease) in net assets	(164)	67,416	35,687
Net assets – beginning of year	<u>320,422</u>	<u>253,006</u>	<u>217,319</u>
Net assets – end of year	<u>\$ 320,258</u>	<u>\$ 320,422</u>	<u>\$ 253,006</u>

Statements of Cash Flows

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

The following is a condensed representation of the Statements of Cash Flows for the University (in thousands):

	Year ended June 30,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash provided by (used in)			
Operating activities	\$ (100,500)	\$ (89,590)	\$ (92,311)
Noncapital financing activities	110,477	110,196	108,273
Capital and related financing activities	(5,715)	4,114	(43,791)
Investing activities	<u>(4,418)</u>	<u>(20,244)</u>	<u>29,476</u>
Net change in cash and cash equivalents	(156)	4,476	1,647
Cash and cash equivalents – beginning of year	<u>42,468</u>	<u>37,992</u>	<u>36,345</u>
Cash and cash equivalents – end of year	<u>\$ 42,312</u>	<u>\$ 42,468</u>	<u>\$ 37,992</u>

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EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

Capital Asset and Debt Administration

During fiscal years 2012 and 2011, the following were projects completed by the University (in thousands):

	<u>Year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Business and Technology Buildings Phase II	\$ 30,914	\$ -
Business and Technology Buildings Phase II	60,846	-
Intramural Field	2,315	-
Intramural Field Addition	834	-
Walters Hall Renovation	11,980	-
Stratton Building Addition	5,786	-
Other miscellaneous projects	549	-
Ramsey Ash Silo	-	242
Weaver Window/Trip Upgrade	-	320
Center for Renewal and Alternative Fuel Technology	-	828
Library Studio Project	-	2,848
Bluegrass Community Health Center		
Leasehold Improvements	-	432
Brockton Modifications	-	421
Foster Building HVAC	-	2,685
Meadowbrook Farm Barrowing Building	-	135
Other Miscellaneous Projects	-	190
Total	<u>\$ 113,224</u>	<u>\$ 8,101</u>

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

	<u>Total Expenditures Through June 30, 2012</u>	<u>Estimated Cost to Complete at June 30, 2012</u>
Begley Building Prefab Concrete	\$ 6	\$ 430
Leach Driving Range Resurface and Storage Buildings	243	208
Martin Hall Boiler Replacement	17	168
Renovate HVAC Systems	76	1,295
New Student Housing	1,458	19,542
Todd Hall Chiller Replacement	102	28
Begley Locker Room	116	21
Power Factor Correction Project	102	63
Dairy Research and Education Center	25	220
Various other deferred maintenance projects	225	224
Total	<u>\$ 2,370</u>	<u>\$ 22,199</u>

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**EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011**

Long-term debt on June 30, 2012 was \$90.1 million compared to \$72.7 million on June 30, 2011. The \$17.4 million net increase consisted of debt payments of \$6.4 million and \$23.8 million additions to bond and capital lease obligations. During the year ended June 30, 2011, additional debt was issued in the amount of \$1.5 million and reductions were \$8.9 million.

Economic and Other Factors Impacting Future Periods

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

- The University continues to execute its plan to modernize and expand its complement of older teaching facilities with new construction. The University requested \$65 million from the Commonwealth of Kentucky in the 2012-14 biennial budget to construct Phase II-New Science Building. State funds of \$52 million were previously approved during the 2006-08 biennial budget which allowed for construction of Phase I, and ultimately the ability to house many of the science departments in one building. The Phase II request will include the remaining science departments and is merited for a number of reasons, including the fact that existing science facilities have not been modernized to keep pace with the technological world.

Budget constraints in the Commonwealth have continued to delay funding of construction projects. Phase II-New Science Building will continue to be the University's top capital project request for future bienniums.

- A major factor in the University's future will continue to be its relationship with the Commonwealth of Kentucky. There is a direct relationship between the decrease in state appropriations and the University's ability to enhance its core academic programs. As state appropriations continue to decrease, the University will look to increase other sources of revenue, including: 1) Foundation support; 2) entrepreneurial ventures and 3) tuition. Increasing tuition revenue as an offset to state reductions will continue to be a focus at the University and at the state level, with an emphasis on developing a long-term pricing policy.

Over the past several years, the Council on Post-Secondary Education (CPE) has placed a cap on the annual tuition increase, which has limited the ability of the University to generate new funds. With every increase in tuition, the University has a corresponding focus on improving affordability for students. This past year the University implemented a new financial aid model that matched student need with students' ability to pay. In addition, the University continues its efforts to diversify revenue sources, contain costs, and redirect resources to core mission priorities.

- The University began construction on a \$21.5 million residential student housing during the summer of 2012. The entire residential housing stock in the University's inventory is in excess of 34 years old. Current residential rooms offer few amenities and are lacking in storage space, room for electronic items, limited power supply for electronic items, adequate lighting, temperature control, etc. Studies have shown that there is a direct correlation between student success and living in campus housing. New and modernized student housing in the form of garden-style apartments will attract students to campus and is scheduled to be completed for the 2013-14 academic year.

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

- The University refinanced the outstanding balance of two debt obligations in July 2012. 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) and a master lease (September 25, 2008 for an energy savings performance contract) were the two debt obligations refinanced. The Eastern Kentucky University General Receipts Refunding Bonds, 2012 Series A bonds, in the amount of \$27.7 million, bear a true interest rate of 2.2%. This total reflects the outstanding balances of the original debts and projects an estimated savings of \$2.5 million over the life of the bonds.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 42,312,167	\$ 42,467,964
Investments	565,000	1,835,000
Accrued interest receivable	363,502	369,498
Accounts receivable – less allowance of \$1,988,185 for 2012 and \$2,529,055 for 2011	23,703,572	20,074,985
Loans to students – less allowance of \$81,804 for 2012 and \$81,374 for 2011	514,642	525,275
Inventories	428,314	304,650
Prepaid expenses	1,555,102	1,931,558
Total current assets	<u>69,442,299</u>	<u>67,508,930</u>
Noncurrent assets		
Restricted cash and cash equivalents	30,948,360	25,531,754
Investments	19,722,892	18,663,043
Loans to students – less allowance of \$824,279 for 2012 and \$824,709 for 2011	4,698,546	5,035,636
Capital assets – net of accumulated depreciation of \$203,350,250 for 2012 and \$192,400,281 for 2011	311,705,497	303,628,198
Total noncurrent assets	<u>367,075,295</u>	<u>352,858,631</u>
Total Assets	<u><u>\$ 436,517,594</u></u>	<u><u>\$ 420,367,561</u></u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

	<u>2012</u>	<u>2,011</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 7,396,453	\$ 7,732,185
Accrued interest	706,251	614,196
Accrued salaries and benefits	4,297,632	3,450,196
Accrued compensated absences	5,668,664	5,555,772
Payroll withholding payable	1,220,414	1,127,838
Refundable deposits	454,645	495,748
Assets held for others	337,542	329,983
Deferred revenue	6,003,721	7,961,312
Bonds payable	2,715,000	1,835,000
Capital lease obligations	4,666,149	4,241,994
Total current liabilities	<u>33,466,471</u>	<u>33,344,224</u>
Noncurrent liabilities		
Bonds payable	47,950,000	29,185,000
Capital lease obligations	34,843,579	37,417,026
Total noncurrent liabilities	<u>82,793,579</u>	<u>66,602,026</u>
Total liabilities	<u>\$ 116,260,050</u>	<u>\$ 99,946,250</u>
Net assets		
Invested in capital assets – net of related debt	221,530,769	230,949,178
Restricted		
Expendable for capital projects	30,340,427	24,935,034
Expendable for debt service	653,709	763,975
Expendable for loans to students	6,625,081	6,643,770
Expendable for scholarships	2,931,695	2,965,625
Expendable for institutional support	2,403,920	2,427,955
Unexpendable for permanent endowment	12,206,805	12,206,805
Unrestricted	43,565,138	39,528,969
Total net assets	<u>\$ 320,257,544</u>	<u>\$ 320,421,311</u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,538,429	\$ 1,934,353
Pledges receivable – net of allowance of \$10,000 for 2012 and \$65,000 for 2011	254,865	693,862
Accounts and notes receivable – net	52,739	55,413
Due from related parties	409,737	397,921
Prepaid expenses	833	1,000
Total current assets	<u>2,256,603</u>	<u>3,082,549</u>
Noncurrent assets		
Due from related parties	-	400,000
Investments	47,852,189	47,951,608
Pledges receivable – net of allowance of \$90,000 for 2012 and \$10,000 for 2011	471,849	82,900
Property and equipment – net	6,152,312	5,498,979
Total noncurrent assets	<u>54,476,350</u>	<u>53,933,487</u>
Total Assets	<u><u>\$ 56,732,953</u></u>	<u><u>\$ 57,016,036</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 34,892	\$ 27,727
Due to related parties	928,421	219,552
Fair value adjustment in interest rate swap	109,015	103,142
Bonds payable, current maturities	165,000	155,000
Total current liabilities	<u>1,237,328</u>	<u>505,421</u>
Noncurrent liabilities		
Assets held for others	19,286,339	19,387,879
Bonds payable	1,155,000	1,320,000
Annuity payments and deferred giving liability	388,754	397,236
Total liabilities	<u>22,067,421</u>	<u>21,610,536</u>
Net assets		
Unrestricted	3,883,214	5,215,508
Temporarily restricted	6,148,733	6,157,824
Permanently restricted	24,633,585	24,032,168
Total net assets	<u>34,665,532</u>	<u>35,405,500</u>
Total Liabilities and Net Assets	<u><u>\$ 56,732,953</u></u>	<u><u>\$ 57,016,036</u></u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Tuition and fees – net	\$ 79,538,917	\$ 71,236,894
Federal grants and contracts	33,575,604	40,198,971
State grants and contracts	16,700,587	15,957,943
Nongovernmental grants, contracts, and gifts	2,796,011	3,634,847
Sales and services of educational activities	4,448,420	4,489,459
Auxiliary enterprises – housing	9,654,581	8,902,772
Auxiliary enterprises – other	4,068,689	1,902,606
Other operating revenues	12,693,214	11,881,234
Total operating revenues	<u>163,476,023</u>	<u>158,204,726</u>
OPERATING EXPENSES		
Educational and general		
Instruction	94,147,807	88,273,307
Research	2,378,911	2,982,504
Public service	43,065,330	43,650,923
Libraries	3,726,117	3,767,546
Academic support	18,795,817	18,884,128
Student services	18,245,354	18,777,212
Institutional support	27,046,379	29,904,718
Operations and maintenance of plant	19,987,141	16,743,398
Depreciation	12,689,726	10,482,011
Student financial aid	15,170,965	10,977,993
Auxiliary enterprises		
Housing and other auxiliaries	16,890,183	16,172,556
Depreciation	3,246,652	2,394,384
Other operating expenses	244,369	293,721
Total operating expenses	<u>275,634,751</u>	<u>263,304,401</u>
Operating loss	<u>(112,158,728)</u>	<u>(105,099,675)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	70,823,000	70,262,600
Federal and state grants and contracts	39,654,011	39,933,217
Investment income	782,000	3,893,048
Interest expense	(1,948,868)	(1,731,159)
Other nonoperating revenues	2,807,771	2,224,673
Other nonoperating expenses	10,719	(128,174)
Net nonoperating revenues	<u>112,128,633</u>	<u>114,454,205</u>
(Loss) income before capital appropriations	(30,095)	9,354,530
Capital appropriations	<u>(133,672)</u>	<u>58,060,691</u>
(Decrease) increase in net assets	(163,767)	67,415,221
Net assets – beginning of year	<u>320,421,311</u>	<u>253,006,090</u>
Net assets – end of year	<u><u>\$ 320,257,544</u></u>	<u><u>\$ 320,421,311</u></u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND GAINS				
Contributions	\$ 769,357	\$ 1,178,110	\$ 601,417	\$ 2,548,884
Investment returns – net of investment expenses of \$223,547	119,307	828,032	-	947,339
Net realized and unrealized losses on investments	(154,547)	(837,908)	-	(992,455)
Other income – net	673,175	-	-	673,175
Net assets released from restrictions – satisfaction of program and time restrictions	<u>1,177,325</u>	<u>(1,177,325)</u>	<u>-</u>	<u>-</u>
Total revenues and gains	<u>2,584,617</u>	<u>(9,091)</u>	<u>601,417</u>	<u>3,176,943</u>
EXPENSES				
Payments and support for the University	<u>3,916,911</u>	<u>-</u>	<u>-</u>	<u>3,916,911</u>
Change in net assets	(1,332,294)	(9,091)	601,417	(739,968)
Net assets – Beginning of year	<u>5,215,508</u>	<u>6,157,824</u>	<u>24,032,168</u>	<u>35,405,500</u>
Net assets – end of year	<u>\$ 3,883,214</u>	<u>\$ 6,148,733</u>	<u>\$ 24,633,585</u>	<u>\$ 34,665,532</u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND GAINS				
Contributions	\$ 385,136	\$ 422,595	\$ 2,377,342	\$ 3,185,073
Investment returns – net of investment expenses of \$102,217	119,186	639,948	-	759,134
Other income – net	665,192	-	-	665,192
Net realized and unrealized gains on investments	798,176	3,460,224	-	4,258,400
Net assets released from restrictions – satisfaction of program and time restrictions	<u>1,441,475</u>	<u>(1,441,475)</u>	<u>-</u>	<u>-</u>
Total revenues and gains	3,409,165	3,081,292	2,377,342	8,867,799
EXPENSES				
Payments and support for the University	<u>4,014,002</u>	<u>-</u>	<u>-</u>	<u>4,014,002</u>
Changes in net assets before effect of adoption of UPMIFA	(604,837)	3,081,292	2,377,342	4,853,797
NON-OPERATING INCOME				
Reclassification of net assets upon adoption of UPMIFA	<u>(1,452,632)</u>	<u>(210,366)</u>	<u>1,662,998</u>	<u>-</u>
Change in net assets	(2,057,469)	2,870,926	4,040,340	4,853,797
Net assets – Beginning of year	<u>7,272,977</u>	<u>3,286,898</u>	<u>19,991,828</u>	<u>30,551,703</u>
Net assets – end of year	<u>\$ 5,215,508</u>	<u>\$ 6,157,824</u>	<u>\$ 24,032,168</u>	<u>\$ 35,405,500</u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	2012	2011
OPERATING ACTIVITIES		
Tuition and fees	\$ 76,933,284	\$ 70,326,918
Grants, contracts, and gifts	50,833,916	60,718,487
Payments to suppliers	(63,632,390)	(59,583,097)
Payments for utilities	(7,877,804)	(7,419,294)
Payments to employees	(132,144,515)	(129,776,020)
Payments for benefits	(43,589,402)	(41,933,800)
Payments to students	(11,451,721)	(10,079,874)
Loans issued to students and employees	(589,836)	(643,858)
Collections of loans to students and employees	937,557	919,480
Auxiliary enterprise charges		
Residence halls	9,659,688	8,658,934
Other	4,068,689	1,902,606
Sales and services of educational activities	4,448,420	4,489,459
Other receipts	11,904,344	12,830,299
Net cash used in operating activities	(100,499,770)	(89,589,760)
NONCAPITAL FINANCING ACTIVITIES		
State appropriations	70,823,000	70,262,600
Other nonoperating revenues – grants and contracts	39,654,011	39,933,217
Net cash provided by noncapital financing activities	110,477,011	110,195,817
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(21,737,853)	(45,548,355)
Proceeds from issuance of bonds payable	21,480,000	-
Principal paid on bonds payable and capital leases	(6,329,010)	(8,884,376)
Interest paid on bonds payable and capital leases	(1,856,813)	(1,786,773)
State reimbursement of capital lease payments	2,807,771	2,224,673
Proceeds from sale of capital assets	54,998	48,344
Capital appropriations	(133,672)	58,060,691
Net cash (used in) provided by capital and related financing activities	(5,714,579)	4,114,204
INVESTING ACTIVITIES		
Change in restricted cash	(5,416,606)	(23,574,648)
Proceeds from sales and maturities of investments	4,414,671	7,084,269
Interest on investments	764,867	756,767
Purchase of investments	(4,181,391)	(4,510,964)
Net cash used in investing activities	(4,418,459)	(20,244,576)
(Decrease) increase in cash and cash equivalents	(155,797)	4,475,685
Cash and cash equivalents – beginning of year	42,467,964	37,992,279
Cash and cash equivalents – end of year	\$ 42,312,167	\$ 42,467,964

(Continued)

EASTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (112,158,728)	\$ (105,099,675)
Depreciation expense	15,936,378	12,876,395
Changes in operating assets and liabilities		
Accounts receivable – net	(3,628,587)	893,620
Loans to students – net	347,723	275,622
Inventories	(123,664)	(63,688)
Prepaid expenses	376,456	(602,605)
Accounts payable	(311,117)	1,849,959
Accrued liabilities	1,052,904	464,966
Refundable deposits	(41,103)	25,149
Assets held for others	7,559	(12,711)
Deferred revenue	(1,957,591)	(196,792)
Net cash flows used in operating activities	<u><u>\$ (100,499,770)</u></u>	<u><u>\$ (89,589,760)</u></u>

See accompanying notes to financial statements.

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

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

Reporting Entity – The University is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth. The University’s financial statements, as defined by Statement No. 14 and amended by Statement No. 39 of the Governmental Accounting Standards Board (“GASB”), include the financial operations and financial position of Eastern Kentucky University Foundation, Inc. (the “Foundation”), which is a corporation formed for educational, charitable and public purposes in accordance with the provisions of KRS 273.010 and a component unit of the University. Specifically, it was founded to cooperate with the University and with the Board of Regents of the University (the “Board”) in the promotion of the educational, civic, and charitable purpose of the University and Board in any lawful manner deemed appropriate by the Board. This purpose includes the encouragement of scholarship and research, the promotion of the prestige, expansion, and development of the University, including the development of its physical plant, its faculty and the assistance of its students and alumni. Certain officers of the Foundation are also officers of the University.

Basis of Accounting and Presentation – The financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in the preparation of the financial statements. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Investment income and interest expense from government-mandated nonexchange transactions that are not program specific (such as state appropriations) are included in nonoperating revenues and expenses.

The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of GASB. Pursuant to GASB Statement No. 20, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (“FASB”) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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

Cash Equivalents – The University considers all liquid investments with original maturities of three months or less to be cash equivalents. Funds held by the Commonwealth are considered cash equivalents.

Restricted Cash and Cash Equivalents – Restricted cash is restricted for the purchase of capital assets.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

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

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

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

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

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

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

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

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

Costs incurred during the construction of capital assets are recorded as *construction in progress* and are not depreciated until placed into service. The University capitalizes interest as a component of capital assets constructed for its own use. Total interest incurred and capitalized for the years ended June 30, 2012 and 2011, was \$1,676,261 and \$1,812,312, respectively.

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

(Continued)

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

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

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

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

Invested in Capital Assets – Net of Related Debt: The University's investment in capital assets, net of outstanding debt obligations related to the acquisition, construction, or improvement of those assets.

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

Restricted Net Assets – Unexpendable: Resources the University is legally or contractually obligated to retain in perpetuity.

Unrestricted Net Assets: Net assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board.

Release of Restricted Net Assets – When an expense or outlay is incurred for which both restricted and unrestricted net assets are available, the University's policy is to allow each departmental unit the flexibility to determine whether to first apply restricted or unrestricted resources based on the most advantageous application of resources in the particular circumstances.

Scholarship Discounts and Allowances – Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statements of Revenues, Expenses, and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain government grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. The scholarship allowances on tuition and fees and on housing for the year ended June 30, 2012, were \$48,310,730 and \$6,605,055, respectively. The scholarship allowances on tuition and fees and on housing for the year ended June 30, 2011, were \$50,748,948 and \$6,859,906, respectively. Payments made directly to students are presented as student financial aid expenses in the Statements of Revenues, Expenses, and Changes in Net Assets.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

Cash Flow Statement – Significant noncash transactions excluded from the June 30, 2012 Statement of Cash Flows are comprised of 1) unrealized loss of \$57,965 on the Regional University Excellence Trust Fund investment, 2) unrealized loss of \$43,575 on Programs of Distinction investments, 3) unrealized loss of \$4,109 on the remaining investments, 4) capital assets acquired by obtaining capital leases of \$2,344,718, and 6) gain on disposal of fixed assets of \$10,719.

Significant noncash transactions excluded from the June 30, 2011 Statement of Cash Flows are comprised of 1) unrealized gain of \$3,072,537 on the Regional University Excellence Trust Fund investment, 2) unrealized gain of \$204,690 on Programs of Distinction investments, 3) unrealized loss of \$140,882 on the remaining investments, 4) accrued capital asset purchases of \$24,615, 5) capital assets acquired by obtaining capital leases of \$1,498,748, and 6) loss on disposal of fixed assets of \$128,174.

Adoption of New Accounting Pronouncements – GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53*, issued June 2011. This Statement is intended to improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. Adoption of this Statement did not have a material impact on the University's financial position or results of operations.

Recent Accounting Pronouncements - As of June 30, 2012, the GASB has issued the following statements not yet implemented by the University.

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*, issued November 2010. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership into which state and local governments are increasingly entering. Adoption of this statement will not have a material impact on the University's financial position or results of operations.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, issued November 2010. The provisions of this Statement are effective for periods beginning after June 15, 2012. This Statement is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. Adoption of this statement will not have a material impact on the University's financial position or results of operations.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued December 2010. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board and American Institute of Certified Public Accountants ("AICPA") pronouncements. Adoption of this statement will not have a material impact on the University's financial position or results of operations.

(Continued)

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

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. Adoption of this statement will not have a material impact on the University's financial position or results of operations.
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The University's management has not yet determined the effect these statements will have on the University's financial statements.
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement is intended to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, *Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*, and *No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The University's management has not yet determined the effect these statements will have on the University's financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement is intended to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The University's management has not yet determined the effect these statements will have on the University's financial statements.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2014. This Statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. 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)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 – DEPOSITS, INVESTMENTS AND INVESTMENT RETURN

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

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

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

Deposits as of June 30 consisted of:

	<u>2012</u>	<u>2011</u>
Depository accounts		
Local bank deposits – collateral held as a pledge in the University's name	\$ 26,465,629	\$ 29,157,465
Cash on hand	16,447	8,612
State investment pool – uninsured and uncollateralized	<u>46,778,452</u>	<u>38,833,641</u>
Total deposits	<u>\$ 73,260,528</u>	<u>\$ 67,999,718</u>

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

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 42,312,167	\$ 42,467,964
Restricted cash and cash equivalents	<u>30,948,360</u>	<u>25,531,754</u>
Total deposits	<u>\$ 73,260,527</u>	<u>\$ 67,999,718</u>

Investments at June 30 consisted of:

	<u>2012</u>	<u>2011</u>
Money market funds	\$ 1,001,553	\$ 123,570
Fixed income government securities	-	986,594
Subtotal – restricted for debt service	<u>1,001,553</u>	<u>1,110,164</u>
Restricted assets held by the Foundation	<u>19,286,339</u>	<u>19,387,879</u>
Total investments	<u>\$ 20,287,892</u>	<u>\$ 20,498,043</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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 8). Assets held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

The assets in the Foundation investment pool at June 30 are invested as follows:

	<u>2012</u>	<u>2011</u>
Percentage of pool invested in:		
Cash equivalents – trustee	3%	5%
Registered investment companies equity funds	80	76
Registered investment companies fixed income funds	<u>17</u>	<u>19</u>
Total	<u>100%</u>	<u>100%</u>

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

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

The credit quality of the University's investments as of June 30, 2012, is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Not Rated</u>	<u>AAA/Aaa</u>	<u>AA, A, and BBB</u>
Cash equivalents – trustee	\$ 1,579,205	\$ 1,579,205	\$ -	\$ -
Investments with Foundation	<u>18,708,687</u>	<u>15,927,713</u>	<u>1,611,696</u>	<u>1,169,278</u>
Total investments	<u>\$ 20,287,892</u>	<u>\$ 17,506,918</u>	<u>\$ 1,611,696</u>	<u>\$ 1,169,278</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

The credit quality of the University's investments as of June 30, 2011, is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Not Rated</u>	<u>AAA/Aaa</u>	<u>AA, A, and BBB</u>
Cash equivalents – trustee	\$ 2,054,146	\$ 2,054,146	\$ -	\$ -
Investments with Foundation	<u>18,443,897</u>	<u>15,113,573</u>	<u>2,081,988</u>	<u>1,248,336</u>
Total investments	<u>\$ 20,498,043</u>	<u>\$ 17,167,719</u>	<u>\$ 2,081,988</u>	<u>\$ 1,248,336</u>

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 totaling \$782,000 and \$3,893,048 for the years ended June 30, 2012 and 2011, respectively, consisted primarily of interest income and unrealized gain (loss) on investments.

NOTE 3 – ACCOUNTS RECEIVABLE

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

	<u>2012</u>	<u>2011</u>
Student tuition and fees	\$ 7,968,535	\$ 7,463,009
Auxiliary enterprises	590,123	609,585
Federal, state and private grants and contracts	15,118,775	13,310,486
Other state agencies	28,198	28,798
Other	<u>1,986,126</u>	<u>1,192,162</u>
Total	25,691,757	22,604,040
Less allowance for uncollectible accounts	<u>(1,988,185)</u>	<u>(2,529,055)</u>
Accounts receivable – net	<u>\$ 23,703,572</u>	<u>\$ 20,074,985</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012, is as follows:

	Balance - June 30, 2011	Additions	Reductions	Transfers	Balance - June 30, 2012
Capital assets not being depreciated					
Land	\$ 5,581,504	\$ 56,449	\$ -	\$ -	\$ 5,637,953
Works of art	18,000	-	-	-	18,000
Livestock for educational purposes	203,100	243,800	-	-	446,900
Construction in progress	<u>126,927,699</u>	<u>17,799,731</u>	<u>-</u>	<u>(113,260,142)</u>	<u>31,467,288</u>
Total capital assets not being depreciated	132,730,303	18,099,980	-	(113,260,142)	37,570,141
Other capital assets					
Land improvements	21,972,053	-	-	2,551,986	24,524,039
Buildings	268,890,822	579,587	(892,093)	110,708,156	379,286,472
Leasehold improvements	431,410	52,448	-	-	483,858
Equipment	31,378,972	3,729,993	(3,612,972)	-	31,495,993
Library books	39,690,429	1,115,948	(525,623)	-	40,280,754
Capitalized bond costs	<u>934,490</u>	<u>480,000</u>	<u>-</u>	<u>-</u>	<u>1,414,490</u>
Total other capital assets	363,298,176	5,957,976	(5,030,688)	113,260,142	477,485,606
Less accumulated depreciation for					
Land improvements	(14,421,119)	(1,331,142)	-	-	(15,752,261)
Buildings	(123,204,105)	(10,021,355)	890,431	-	(132,335,029)
Leasehold improvements	(43,146)	(72,948)	-	-	(116,094)
Equipment	(21,350,010)	(3,185,095)	3,570,355	-	(20,964,750)
Library books	(33,175,838)	(1,263,613)	525,623	-	(33,913,828)
Amortization - capitalized bond costs	<u>(206,063)</u>	<u>(62,225)</u>	<u>-</u>	<u>-</u>	<u>(268,288)</u>
Total accumulated depreciation	<u>(192,400,281)</u>	<u>(15,936,378)</u>	<u>4,986,409</u>	<u>-</u>	<u>(203,350,250)</u>
Capital assets - net	<u>\$ 303,628,198</u>	<u>\$ 8,121,578</u>	<u>\$ (44,279)</u>	<u>\$ -</u>	<u>\$ 311,705,497</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 4 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2011, is as follows:

	Balance - June 30, 2010	Additions	Reductions	Transfers	Balance - June 30, 2011
Capital assets not being depreciated					
Land	\$ 5,581,504	\$ -	\$ -	\$ -	\$ 5,581,504
Works of art	-	18,000	-	-	18,000
Livestock for educational purposes	191,300	11,800	-	-	203,100
Construction in progress	93,806,694	41,221,696	-	(8,100,691)	126,927,699
Total capital assets not being depreciated	99,579,498	41,251,496	-	(8,100,691)	132,730,303
Other capital assets					
Land improvements	21,903,718	-	-	68,335	21,972,053
Buildings	260,937,406	433,290	-	7,520,126	268,890,822
Leasehold improvements	-	-	-	431,410	431,410
Equipment	29,196,447	3,971,161	(1,869,456)	80,820	31,378,972
Library books	38,948,806	1,284,165	(542,542)	-	39,690,429
Capitalized bond costs	934,490	-	-	-	934,490
Total other capital assets	351,920,867	5,688,616	(2,411,998)	8,100,691	363,298,176
Less accumulated depreciation for					
Land improvements	(13,539,394)	(881,725)	-	-	(14,421,119)
Buildings	(116,178,946)	(7,025,159)	-	-	(123,204,105)
Leasehold improvements	-	(43,146)	-	-	(43,146)
Equipment	(19,436,935)	(3,606,013)	1,692,938	-	(21,350,010)
Library books	(32,446,250)	(1,272,130)	542,542	-	(33,175,838)
Amortization - capitalized bond costs	(157,841)	(48,222)	-	-	(206,063)
Total accumulated depreciation	(181,759,366)	(12,876,395)	2,235,480	-	(192,400,281)
Capital assets - net	\$ 269,740,999	\$ 34,063,717	\$ (176,518)	\$ -	\$ 303,628,198

NOTE 5 - DEFERRED REVENUE

Deferred revenue as of June 30 is as follows:

	2012	2011
Unearned summer school revenue and activity fees	\$ 1,879,754	\$ 3,438,591
Unearned grants and contracts revenue	3,906,263	4,336,260
Other	217,704	186,461
Total	\$ 6,003,721	\$ 7,961,312

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS

Long-term liabilities as of June 30, 2012, and long-term activity for the year ended June 30, 2012, are summarized as follows:

	Balance - June 30, 2011	Additions	Reductions	Balance - June 30, 2012	Amounts Due Within One Year
Revenue bonds payable	\$ 31,020,000	\$ 21,480,000	\$ (1,835,000)	\$ 50,665,000	\$ 2,715,000
Capital lease obligations	<u>41,659,020</u>	<u>2,344,718</u>	<u>(4,494,010)</u>	<u>39,509,728</u>	<u>4,666,149</u>
Total bonds payable and capital lease obligations	<u>\$ 72,679,020</u>	<u>\$ 23,824,718</u>	<u>\$ (6,329,010)</u>	<u>\$ 90,174,728</u>	<u>\$ 7,381,149</u>

Long-term liabilities as of June 30, 2011, and long-term activity for the year ended June 30, 2011, are summarized as follows:

	Balance - June 30, 2010	Additions	Reductions	Balance - June 30, 2011	Amounts Due Within One Year
Revenue bonds payable	\$ 35,395,000	\$ -	\$ (4,375,000)	\$ 31,020,000	\$ 1,835,000
Capital lease obligations	<u>44,669,648</u>	<u>1,498,748</u>	<u>(4,509,376)</u>	<u>41,659,020</u>	<u>4,241,994</u>
Total bonds payable and capital lease obligations	<u>\$ 80,064,648</u>	<u>\$ 1,498,748</u>	<u>\$ (8,884,376)</u>	<u>\$ 72,679,020</u>	<u>\$ 6,076,994</u>

Consolidated Education Buildings Revenue Bonds – Consolidated Education Buildings Revenue Bonds were sold to construct or renovate certain academic and services buildings on campus or to refinance prior issues. The bonds, originally issued in the amount of \$38,340,000 from January 1998 through June 2004, mature in varying amounts through May 1, 2024, with interest payable at rates ranging from 3.0% to 5.0%. Student registration fees are pledged for debt service on these bonds. During fiscal years 2012 and 2011, \$545,000 and \$4,375,000 of principal and \$437,489 and \$549,190 of interest were paid on the bonds, respectively. In addition to the annual payments of principal and interest, there are reserve requirements equal to 25% of annual requirements for principal and interest until the maximum annual requirement remaining for all series is accumulated with the trustee. At June 30, 2012 and 2011, the required debt service reserve of \$988,236 and \$988,236 were on deposit with a trustee and is included in short-term investments on the Statements of Net Assets. Total principal outstanding at June 30, 2012 and 2011, was \$8,790,000 and \$9,335,000, respectively.

General Receipts Revenue Bonds – On August 2, 2007, the University sold \$12,920,000 of Eastern Kentucky University General Receipts and Refunding Bonds, Series 2007A, with 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 2012 and 2011, \$695,000 and \$665,000 of principal and \$446,592 and \$473,392 of interest were paid on the bonds. Total outstanding principal at June 30, 2012 and 2011, was \$10,035,000 and \$10,730,000, respectively.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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 2012 and 2011, \$595,000 and \$585,000 of principal and \$389,330 and \$401,064 of interest was paid on the bonds. Total outstanding principal at June 30, 2012 and 2011 was \$10,360,000 and \$10,955,000, 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 year 2012, \$329,556 of interest was paid on the bonds. Total outstanding principal at June 30, 2012 is \$21,480,000.

Subsequent to year end, the University issued bonds to refinance old debt. In July 2012, the University sold \$27,700,000 of Eastern Kentucky University General Receipts Refunding Bonds, 2012 Series A bonds to 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) and a master lease (September 25, 2008 for an energy savings performance contract). The interest rate on the bonds is 2.2%.

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

During the fiscal year 2009, the University entered into a master lease agreement with SunTrust Equipment Finance & Leasing Corporation in the amount of \$25,364,000 to finance a campus-wide energy management project. During fiscal years 2012 and 2011, \$4,494,010 and \$4,509,377 of principal and \$2,022,162 and \$2,119,859 of interest were paid on the capital leases, respectively. The principal maturities and interest repayment requirements on bonds and capital leases are as follows:

Years ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 7,381,149	\$ 3,817,051	\$ 11,198,200
2014	7,348,392	3,494,146	10,842,538
2015	7,149,066	3,165,591	10,314,657
2016	6,965,399	2,864,627	9,830,026
2017	7,141,939	2,571,791	9,713,730
2018-2022	33,888,784	7,993,973	41,882,757
2023-2027	12,764,999	2,882,640	15,647,639
2028-2029	<u>7,535,000</u>	<u>732,350</u>	<u>8,267,350</u>
	<u>\$ 90,174,728</u>	<u>\$ 27,522,169</u>	<u>\$ 117,696,897</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

Assets under capital leases totaled \$31,470,613, net of accumulated depreciation of \$11,713,593 at June 30, 2012.

NOTE 7 – DESIGNATIONS OF UNRESTRICTED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Inventories	\$ 428,315	\$ 304,650
Outstanding encumbrances	2,747,309	968,343
Departmental commitments	17,807,791	18,586,159
Designated projects and contingency reserves	10,748,745	10,117,897
Health care self-insurance reserve	2,300,000	1,899,125
Auxiliary working capital	<u>9,532,976</u>	<u>7,652,795</u>
Total	<u>\$ 43,565,136</u>	<u>\$ 39,528,969</u>

NOTE 8 – ASSETS HELD BY OTHERS

The Regional University Excellence Trust Fund ("RUETF") was created by the Kentucky General Assembly with the passage of the Postsecondary Education Improvement Act of 1997 ("House Bill 1"). The RUETF Endowment Match Program, also known as "Bucks for Brains," provides state funds on a dollar-for-dollar match basis. Funds are endowed for the purposes of supporting endowed chairs and professorships. House Bill 1 also established two Eastern Kentucky University endowments for the support of nationally recognized Programs of Distinction ("PODs") for the College of Justice and Safety and for potential future additional Programs of Distinction. The College of Justice and Safety POD was liquidated in 2010 to fund an addition to the Stratton Building.

The total fair market value of the Eastern Kentucky University RUETF and POD endowment as of June 30, 2012 and 2011 was \$19,286,339 and \$19,387,879, respectively.

The portion of the RUETF endowment representing the value of the funding received from the Kentucky General Assembly, plus unexpended earnings thereon, was \$17,542,419 and \$17,600,384 as of June 30, 2012 and 2011, respectively, and is included in restricted assets held by the Foundation (see Note 2).

The fair market value of the Eastern Kentucky University POD endowments as of June 30, 2012 and 2011 was \$1,743,920 and \$1,787,495, respectively, and is included in restricted assets held by the Foundation (see Note 2).

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 9 – RELATED-PARTY TRANSACTIONS

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

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

	<u>2012</u>	<u>2011</u>
Funds disbursed by the University on behalf of the Foundation:		
For employee salaries and benefits	\$ 376,753	\$ 671,006
For scholarships	366,667	462,718
Funds held by the Foundation on behalf of or for the benefit of the University as of June 30	19,286,339	19,387,879
Funds due to the University by the Foundation	928,421	164,822

NOTE 10 – PENSION PLANS

All full-time University faculty members and certain other staff occupying a position requiring certification or graduation from a four-year college or university as a condition of employment are covered by the Kentucky Teacher's Retirement System ("KTRS"), a defined benefit plan. KTRS, a cost sharing, multiple-employer, public employment retirement system, provides retirement benefits based on an employee's highest three or five year average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age 60 or has less than 27 years of participation in the plan. The plan also provides for disability, death and survivor benefits, and medical insurance. Under the plan, members hired prior to July 1, 2008 contribute 6.50% of their annual salary and the University contributes 14.18%. Employees participating in KTRS hired after June 1, 2008 contribute 7.16% and the University contributes 14.84%.

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

The KTRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, KY 40601, or by calling (502) 573-3266.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 10 – PENSION PLANS (Continued)

Substantially all other full-time University employees are required by law to participate in the Kentucky Employee's Retirement System ("KERS"), a cost sharing multiple-employer, public employee retirement system. KERS provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age 65 or has less than 27 years of service. The plan also provides for disability, death and survivor benefits, and medical insurance. Employees in nonhazardous positions contribute 5% of salary. Employers contribute at the rate determined by the KERS Board of Trustees to be necessary for the actuarial soundness of the systems as required by KRS 61.565. The employer rate is reviewed annually following valuation of the plan. Effective July 1, 2011 the University contribution rate to KERS is 19.82%. Employees hired prior to September 1, 2008 contribute 5% of their annual salary, employees hired after September 1, 2008, contribute 6%.

The KERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Kentucky Employees Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601, or by calling (502) 564-4646.

Currently, there are no University employees occupying positions that would be considered hazardous under KERS regulations.

The total pension cost for all retirement plans for the years ended June 30, 2012, 2011 and 2010 was \$17,944,000, \$16,715,000 and \$14,797,000, respectively. Employees contributed approximately \$6,993,000, \$6,775,000 and \$6,590,000, in fiscal years 2012, 2011 and 2010, respectively. The University's total payroll costs were approximately \$132,269,000, \$129,795,000 and \$128,439,000, respectively for the years ended June 30, 2012, 2011 and 2010. The payroll for employees covered by the retirement plan was approximately \$115,417,000, \$111,721,000 and \$112,168,000, for the years ended June 30, 2012, 2011 and 2010, respectively.

NOTE 11 – RISK MANAGEMENT

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

The University maintains a self-insurance program for employee's health insurance. Under this plan, the University pays premiums based on estimated claims. The University pays approximately 75% of the expenses of the plan for permanent full-time employees and their families. Expenses incurred to cover claims paid by the University under the plan for years ended June 30, 2012 and 2011, totaled \$15,838,333 and \$13,932,709, respectively. Administrative fees incurred for the years ended June 30, 2012 and 2011, were \$1,216,996 and \$967,545, respectively.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 11 – RISK MANAGEMENT (Continued)

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

	<u>2012</u>	<u>2011</u>
Liability – beginning of year	\$ 1,274,668	\$ 1,233,696
Accruals for current year claims and changes in estimate	16,959,314	14,941,226
Claims paid	(15,838,333)	(13,932,709)
Other costs	<u>(1,216,996)</u>	<u>(967,545)</u>
Liability – end of year	<u>\$ 1,178,653</u>	<u>\$ 1,274,668</u>

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Construction Commitments – The estimated cost to complete construction projects under contract at June 30, 2012, is approximately \$22.2 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 position. Upon notification of final approval by the granting department or agency, the grants are considered closed.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 13 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

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

	<u>2012</u>	<u>2011</u>
Salaries and wages	\$ 132,269,290	\$ 129,794,797
Employee benefits	44,517,531	42,379,989
Supplies and other services	55,978,107	54,148,908
Travel	5,725,488	5,482,953
Depreciation	15,936,378	12,876,395
Student scholarships and financial aid	11,451,721	10,079,874
Utilities	7,877,804	7,419,294
Other operating expenses	<u>1,878,432</u>	<u>1,122,191</u>
Total	<u>\$ 275,634,751</u>	<u>\$ 263,304,401</u>

NOTE 14 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

(Continued)

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

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

Cash and Cash Equivalents – The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents, which are stated at cost which approximates fair value. Periodically throughout the year, the Foundation's cash balance exceeds the amount insured by the Federal Deposit Insurance Corporation, including at year-end.

Investments – Investments in equity securities having a readily determinable market value and all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income and realized and unrealized gains and losses on investments reported at fair value. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Alternative investments, consisting of hedge funds and limited partnerships, are carried at estimated fair value provided by the management of the alternative investment funds as of June 30, 2012 and 2011. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. The Foundation's total alternative investments were approximately \$7,479,000 and \$7,085,000 as of June 30, 2012 and 2011, respectively.

As noted in Note D, the Foundation adopted The *Uniform Prudent Management of Institutional Funds Act* ("UPMIFA") in fiscal year 2011. Under UPMIFA, net appreciation on endowment fund investments, whose income is otherwise unrestricted as to use, is reported as temporarily restricted net assets until appropriated for expenditure by the Foundation, unless the donor has permanently restricted such net appreciation. In cases where the donor has placed temporary restrictions on the use of the income from endowed gifts, related net appreciation is subject to those restrictions and is reported as a part of temporarily restricted net assets until the restriction has been met. Prior to adoption, the Foundation followed the *Uniform Management of Institutional Funds Act* ("UMIFA"). Also, UPMIFA permits the classification of Board Designated amounts to be presented as permanently restricted net assets with proper Board resolutions. In conjunction with the adoption of UPMIFA, a \$1,662,998 reclassification to permanently restricted net assets was recorded during the year ended June 30, 2011 to reflect donor intent.

Property and Equipment – Property and equipment are stated at cost and are depreciated on the straight-line method over the estimated useful lives of the assets; generally 50 years for buildings, 15–20 years for land improvements, and 5–15 years for equipment. The Foundation's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expenses are incurred.

(Continued)

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

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

The Foundation reviews for the impairment of long-lived assets subject to depreciation and amortization, including property and equipment, whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable in accordance with ASC 350 and ASC 360. If this review were to result in the conclusion that the carrying value of long-lived assets would not be recoverable, then a write down of the assets would be recorded through a charge to earnings equal to the difference in the fair market value of the assets and their carrying value. No such impairment losses were recognized for the years ended June 30, 2012 and 2011.

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

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

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

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

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

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

(Continued)

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

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

Accounting principles generally accepted in the United States of America ("U.S. GAAP") prescribe recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits or liabilities will be recognized only if the tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit or liability that is greater than 50% likely being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit or liability will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2012 and 2011 and does not expect this to change in the next 12 months.

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, 2012 and 2011. The Foundation is no longer subject to examination by taxing authorities for the years before June 30, 2008.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The Foundation's exposure to foreign currency risk derives from pooled non-U.S. equity fund investments, with a fair value of \$15,055,248 and \$13,361,008 at June 30, 2012 and 2011, respectively. The Foundation's endowment investment policy allows managers to invest a portion of funds in non-U.S. securities in accordance with the guidelines established in the investment policy.

Subsequent Events – Management has performed an analysis of the activities and transactions subsequent to June 30, 2012 to determine the need for any adjustments to and/or discussions within the audited financial statements for the year ended June 30, 2012. Management has performed their analysis through September 27, 2012 which is the date that financial statements were issued.

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported changes in net assets or total net assets.

B. INVESTMENTS AND INVESTMENT RETURNS

Investments held at June 30, 2012 and 2011, by the Foundation were as follows:

	<u>2012</u>	<u>2011</u>
Money market funds	\$ 2,003,036	\$ 2,805,097
Common stock	345,184	346,953
Fixed income funds	7,008,837	8,335,741
Equity funds	31,015,810	29,379,140
Alternatives	<u>7,479,322</u>	<u>7,084,677</u>
Total investments	<u>\$ 47,852,189</u>	<u>\$ 47,951,608</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

B. INVESTMENTS AND INVESTMENT RETURNS (Continued)

The Foundation invests the endowment matching funds for the Regional University Endowment Trust Fund on behalf of the University, which is reflected for both the years ended June 30, 2012 and 2011. Interest and dividend income and unrealized and realized gains and losses on investments were allocated between the Foundation and the University based on the percentage of investments owned.

C. FAIR VALUE OF FINANCIAL INSTRUMENTS

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

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

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

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

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

The fair value of financial instruments as of June 30, 2012 is as follows:

	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 2,003,036	\$ 2,003,036	\$ -	\$ -
Common stock, primarily of financial institutions	345,184	345,184	-	-
Fixed income funds	7,008,837	7,008,837	-	-
Equity funds	31,015,810	31,015,810	-	-
Alternatives:				
Hedge funds	4,342,999	-	4,342,999	-
Limited partnerships	<u>3,136,323</u>	<u>-</u>	<u>-</u>	<u>3,136,323</u>
Total investments	<u>\$ 47,852,189</u>	<u>\$ 40,372,867</u>	<u>\$ 4,342,999</u>	<u>\$ 3,136,323</u>
Interest rate swap	\$ 109,015	\$ -	\$ 109,015	\$ -

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The fair value of financial instruments as of June 30, 2011 is as follows:

	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 2,805,097	\$ 2,805,097	\$ -	\$ -
Common stock, primarily of financial institutions	346,953	346,953	-	-
Fixed income funds	8,335,741	8,335,741	-	-
Equity funds	29,379,140	29,379,140	-	-
Alternatives:				
Hedge funds	4,436,658	-	4,436,658	-
Limited partnerships	<u>2,648,019</u>	<u>-</u>	<u>-</u>	<u>2,648,019</u>
Total investments	<u>\$ 47,951,608</u>	<u>\$ 40,866,931</u>	<u>\$ 4,436,658</u>	<u>\$ 2,648,019</u>
Interest rate swap	\$ 103,142	\$ -	\$ 103,142	\$ -

The fair values of money market funds, common stock, fixed income funds, and equity funds are determined using quoted market prices and are classified as Level 1 financial instruments. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

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

(Continued)

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

Description of Alternative Investments Strategy and Liquidity:

As of June 30, 2012, the Foundation's alternative investments consist of hedge funds and limited partnerships. Additional disclosure relative to the underlying strategies for these types of investments is as follows:

- **Hedge funds** – As of June 30, 2012, the Foundation invests in various hedge funds which employ the following investment strategies. The categories represent the variety of investment strategies used rather than a description of each hedge fund.
 - 1) Multi-strategy – The objective of these funds is to strategically allocate capital to various hedge fund strategies based on their perceived risk and return profiles.
 - 2) Fixed income arbitrage – The strategy of these funds is to take long positions in fixed income securities and hedge those positions by selling short the underlying common stock.
 - 3) Convertible arbitrage – The strategy of these funds is to take long positions in convertible securities and hedge those positions by selling short the underlying common stock.
 - 4) Capital structure arbitrage – This investment strategy typically involves taking long and short positions in different financial instruments and asset classes within the capital structure of the same company (equity and debt classes primarily).
 - 5) Equity hedged – The strategy of these funds is to take long positions in equities that are perceived to be undervalued and go short on equities that are perceived to be overvalued.
 - 6) Event driven – This strategy invests in debt securities created by significant transactional events, such as spin-offs, mergers and acquisitions, bankruptcy reorganizations and recapitalizations.
 - 7) Macro – The strategy of these funds is to invest by making leveraged bets on anticipated price movements of stock markets, interest rates, foreign exchange and physical commodities.

(Continued)

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

- 8) Long/Short – This strategy consists of a core holding of long equities hedged at all times with short sales of stocks and/or stock index options.
- 9) Volatility arbitrage – This strategy undertakes the buying and selling of volatility, primarily using options across various markets, to take advantage of dislocations in volatility created by directional investors.
- **Limited partnerships** – As of June 30, 2012, the Foundation invests in various limited partnerships which employ the following investment strategies. The categories represent the variety of strategies used rather than a description of each limited partnership.
 - 1) Buyout funds – These funds invest in more established companies that are in need of some repair or growth to boost returns. Generally, interests are purchased through some combination of preferred shares and debt. There are various investment opportunities in buyout, such as “buy and build”, “spinoffs”, “ownership transitions”, and “recapitalizations.” In addition to needing an equity infusion, some companies need to change their capital structure to facilitate growth.
 - 2) Venture Capital Funds – These funds invest in young companies with varying degrees of infrastructure, revenues, and profits. Investments are typically made in cash through the purchase of preferred shares in the Company. If the investment is in a concept alone, it is called “see stage”. Depending on the degree to which the product line is complete, management positions are 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 attract interest from a strategic buyer soon).
 - 3) Real Estate Funds – These funds provide capital to meet a number of different needs including new construction, renovation, or a change in property ownership or management. These investments may involve equity or debt. The major sub-sectors that comprise equity investments include the purchase of land (including timberland and farmland), the purchase of fully-or partially-leased commercial properties, and the purchase of renovation properties (buying existing properties and upgrading them), as well as investments in new construction (called “development”). There are also investments that can be made on the debt side, including first mortgage lending, mezzanine lending, distressed lending (senior lending to troubled assets), and the purchase of real estate bank loans (pools of loans sold off by banks that want to lower the level of reserve capital that must be held against such loans).
 - 4) Funds of funds (“FOFs”) – These funds invest in several partnerships within private equity (venture, buyout, debt, and real estate). FOFs that commit capital to many partnerships in one sector (such as biotech, software, or telecom) or one sub-class (for example all venture funds or all debt funds) are called “concentrating” funds. FOFs that invest across sectors and sub-classes are “diversifying” funds. There are also FOFs that mix investments in limited partnerships with direct investments in underlying platforms, and these are called “hybrid” funds. Finally, FOFs that buy existing partnerships that are for resale by LPs are called “secondaries” funds.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

A summary of the alternative investment restrictions on redemption and liquidity as of June 30, 2012, is presented as follows:

	<u>Balance at June 30, 2012</u>	<u>Unfunded Commitments</u>	<u>Redemption Notice</u>	<u>Redemption Frequency</u>
Hedge fund	\$ 4,342,999	\$ -	60 days	Quarterly
Limited partnerships	\$ 3,136,323	\$ -	N/A	Fund Dissolved

The limited partnerships (the "Funds") have incorporation dates ranging from 2005 to 2008. Each of the limited partnerships has 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 liquidations of the Fund's investments. In addition, for each of the limited partnerships, the Fund Manager may, in its sole discretion, elect to terminate the Fund prior to the end of such term or any extension period.

The following is the Level 3 investment activity for the years ending June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 2,648,019	\$ 677,836
Total gains or losses (realized/unrealized) included in earnings (or changes in net assets)	27,754	91,358
Purchases, issuances and settlements, net	-	1,878,825
Purchases	<u>460,550</u>	<u>-</u>
Balance, end of year	<u>\$ 3,136,323</u>	<u>\$ 2,648,019</u>

The amount of total gains or losses for the years ended June 30, 2012 and 2011 relating to Level 3 assets still held at June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Limited partnerships	\$ 27,754	\$ 91,358

(Continued)

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

D. ENDOWMENT

The Foundation's endowment consists of 372 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (board-designated endowment funds). As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – Prior to 2011, the Foundation's Board of Directors interpreted the Uniform Management of Institutional Funds Act ("UMIFA"), adopted in Kentucky in 1976 as requiring preservation of the "historic dollar value" of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as unrestricted or temporarily restricted net assets, depending on donor stipulations.

Effective in July 2010, the *Uniform Prudent Management of Institutional Funds Act* ("UPMIFA") was adopted by the Commonwealth of Kentucky. The Foundation interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In addition, UPMIFA provides for allowing certain Board restricted net assets to be classified as permanently restricted. As discussed in Note 1, this change in law caused the Foundation to reclassify net assets from unrestricted and temporarily restricted to permanently restricted.

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

- (1) The duration and preservation of the fund
- (2) The purposes of the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the foundation

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

D. Endowment (Continued)

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the “historic dollar value” level the Foundation is required to preserve as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are to be reported in unrestricted net assets were \$72,105 and \$69,640 as of June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of permanently restricted contributions.

Endowment net asset composition by type of fund as of June 30, 2012 and 2011 is as follows:

<u>2012</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (72,105)	\$ 8,565,278	\$ 36,199,216	\$ 44,692,389
Board-designated endowment funds	<u>5,440,634</u>	<u>-</u>	<u>-</u>	<u>5,440,634</u>
Total	5,368,529	8,565,278	36,199,216	50,133,023
Less endowment held for others	<u>(1,743,920)</u>	<u>(5,335,614)</u>	<u>(12,206,805)</u>	<u>(19,286,339)</u>
Total endowment net assets	<u>\$ 3,624,609</u>	<u>\$ 3,229,664</u>	<u>\$ 23,992,411</u>	<u>\$ 30,846,684</u>
 <u>2011</u>	 <u>Unrestricted</u>	 <u>Temporarily Restricted</u>	 <u>Permanently Restricted</u>	 <u>Total</u>
Donor-restricted endowment funds	\$ (69,640)	\$ 8,393,368	\$ 35,554,568	\$ 43,878,296
Board-designated endowment funds	<u>5,610,429</u>	<u>-</u>	<u>-</u>	<u>5,610,429</u>
Total	5,540,789	8,393,368	35,554,568	49,488,725
Less endowment held for others	<u>(1,787,495)</u>	<u>(5,393,579)</u>	<u>(12,206,805)</u>	<u>(19,387,879)</u>
Total endowment net assets	<u>\$ 3,753,294</u>	<u>\$ 2,999,789</u>	<u>\$ 23,347,763</u>	<u>\$ 30,100,846</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

D. Endowment (Continued)

Changes in endowment net assets for the years ended June 30, 2012 and 2011 are as follows:

<u>2012</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 5,540,789</u>	<u>\$ 8,393,368</u>	<u>\$ 35,554,568</u>	<u>\$ 49,488,725</u>
Investment returns – net of fees	119,307	828,032	-	947,339
Net change in unrealized appreciation (depreciation) on investments	<u>(154,547)</u>	<u>(837,908)</u>	<u>-</u>	<u>(992,455)</u>
Total revenues and gains (losses)	<u>(35,240)</u>	<u>(9,876)</u>	<u>-</u>	<u>(45,116)</u>
Contributions	44,455	1,184,585	644,648	1,873,688
Appropriation of endowment net assets for expenditures	<u>(181,475)</u>	<u>(1,002,799)</u>	<u>-</u>	<u>(1,184,274)</u>
Changes in endowment net assets	<u>(172,260)</u>	<u>171,910</u>	<u>644,648</u>	<u>644,298</u>
Endowment net assets at end of year	5,368,529	8,565,278	36,199,216	50,133,023
Changes in assets held for others	<u>(43,575)</u>	<u>(57,965)</u>	<u>-</u>	<u>(101,540)</u>
Changes in endowment net assets during year	<u>(128,685)</u>	<u>229,875</u>	<u>644,648</u>	<u>745,838</u>
Endowment net assets – beginning of year	<u>3,753,294</u>	<u>2,999,789</u>	<u>23,347,763</u>	<u>30,100,846</u>
Endowment net assets – end of year	<u>\$ 3,624,609</u>	<u>\$ 3,229,664</u>	<u>\$ 23,992,411</u>	<u>\$ 30,846,684</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

D. Endowment (Continued)

<u>2011</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,450,363	\$ 2,924,561	\$ 32,198,633	\$ 39,573,557
Investment returns – net of fees	104,178	545,074	-	649,252
Net change in unrealized appreciation (depreciation) on investments	<u>791,198</u>	<u>6,799,044</u>	<u>-</u>	<u>7,590,242</u>
Total revenues and gains	895,376	7,344,118	-	8,239,494
Contributions	195,050	422,595	1,692,937	2,310,582
Reclassification of endowed assets upon adoption of UPMIFA	-	(1,662,998)	1,662,998	-
Appropriation of endowment net assets for expenditures	<u>-</u>	<u>(634,908)</u>	<u>-</u>	<u>(634,908)</u>
Changes in endowment net assets	<u>1,090,426</u>	<u>5,468,807</u>	<u>3,355,935</u>	<u>9,915,168</u>
Endowment net assets at end of year	5,540,789	8,393,368	35,554,568	49,488,725
Changes in assets held for others	<u>264,690</u>	<u>3,071,537</u>	<u>-</u>	<u>3,336,227</u>
Changes in endowment net assets during year	825,736	2,397,270	3,355,935	6,578,941
Endowment net assets – beginning of year	<u>2,927,558</u>	<u>602,519</u>	<u>19,991,828</u>	<u>23,521,905</u>
Endowment net assets – end of year	<u>\$ 3,753,294</u>	<u>\$ 2,999,789</u>	<u>\$ 23,347,763</u>	<u>\$ 30,100,846</u>

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

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

D. Endowment (Continued)

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The Foundation has outsourced its Investment Office to a Pennsylvania-based firm serving as Chief Investment Officer, to manage the Foundation's endowment assets under the guidance of the Foundation's Investment Policy and in consultation with the Investment Committee of the Board of Directors. The endowment assets of the Foundation are invested in a broad range of equities and debt securities, thereby limiting the market risk exposure in any single investment manager or individual investment.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Foundation has a policy of appropriating for distribution each year up to 5% of a three year rolling average of the fund's value. Likewise, it is the policy of the Foundation that, annually, up to 1.5% of a three year rolling average of the fund's value be designated for unrestricted use by the Foundation in furtherance of its singular mission to provide support for the advancement of the University. The policies are monitored by the Executive Committee of the Foundation's Board of Directors and may be amended in accordance with market conditions. Earnings above the annually designated portions are reinvested in the corpus to insure long-term growth and stability.

E. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2012 and 2011, consisted of the following unconditional promises to give:

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Current pledges receivable:					
Due within one year	\$ 347	\$ 32,894	\$ 231,624	\$ 264,865	\$ 758,862
Allowance	-	-	(10,000)	(10,000)	(65,000)
Total current pledges receivable	<u>347</u>	<u>32,894</u>	<u>221,624</u>	<u>254,865</u>	<u>693,862</u>
Long-term pledges receivable:					
Due after one year to five years	1,029	31,500	13,061	45,590	59,929
Due after five years	-	20,000	497,340	517,340	33,208
Allowance	-	-	(90,000)	(90,000)	(10,000)
Discount to NPV	(3)	(227)	(851)	(1,081)	(237)
Total long-term pledges receivable	<u>1,026</u>	<u>51,273</u>	<u>419,550</u>	<u>471,849</u>	<u>82,900</u>
Net pledges receivable	<u>\$ 1,373</u>	<u>\$ 84,167</u>	<u>\$ 641,174</u>	<u>\$ 726,714</u>	<u>\$ 776,762</u>

Outstanding pledges receivable due from related parties of the Foundation were \$645,064 and \$661,134 as of June 30, 2012 and 2011, respectively.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

F. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2012 and 2011, consisted of:

	<u>2012</u>	<u>2011</u>
Land	\$ 2,450,373	\$ 2,450,373
Land improvements	523,225	523,225
Buildings and improvements	3,435,082	2,585,083
Machinery and equipment	145,171	152,884
Capitalized bonds costs	<u>61,422</u>	<u>61,422</u>
	6,615,273	5,772,987
Less accumulated depreciation	<u>462,961</u>	<u>274,008</u>
Property and equipment – net	<u>\$ 6,152,312</u>	<u>\$ 5,498,979</u>

G. NET ASSETS

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

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

Net Assets Released From Restrictions – Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restrictions consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Purpose restrictions accomplished/time restrictions expired:		
Scholarship program expenses	\$ 366,667	\$ 464,718
Other educational program areas and support	<u>810,658</u>	<u>976,757</u>
	<u>\$ 1,177,325</u>	<u>\$ 1,441,475</u>

(Continued)

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

H. RELATED-PARTY TRANSACTIONS

Arlington Golf Course and Facilities – The Foundation has leased for a nominal amount the Arlington Golf Course and facilities (a golf course built and owned by the Foundation on Foundation land) to the Arlington Association, Inc. (“Arlington”) for its use for a term of one year with automatic renewal for each successive year. The lease can be terminated by either party with notice. As consideration for this lease, various departments of the University are permitted to use the golf course and related facilities for instructional purposes. Arlington bears all expenses for operation and maintenance of the golf course facility and, in return, receives all fees related to its operation. Arlington owes the Foundation \$572,925 and \$297,921 at June 30, 2012 and 2011, respectively, for unpaid lease payments. During fiscal year 2011, the Foundation extended a \$100,000 line of credit to Arlington to be used for ongoing capital improvements to buildings and property owned by the Foundation. This line of credit was increased to \$270,000 during 2012. Based upon a review of the financial condition of Arlington and its operating activity, an allowance of \$433,188 has been established as of June 30, 2012 as an estimate of the ultimate collectability of these receivables.

Eastern Kentucky University – The University provides various administrative services to the Foundation. As a result of these related-party services and other transactions, the Foundation has recorded a payable to the University of \$928,421 and \$164,822 as of June 30, 2012 and 2011, respectively.

The University disbursed \$376,753 and \$671,006 on behalf of the Foundation for employee salaries and benefits during the years ended June 30, 2012 and 2011, respectively. The University disbursed \$366,667 and \$464,718 on behalf of the Foundation for scholarships during the years ended June 30, 2012 and 2011, respectively. These disbursements are not reimbursed by the Foundation.

I. BONDS PAYABLE

The Foundation issued Variable Rate Demand Economic Development Revenue Bonds, Series 2008, in the amount of \$1,770,000 through Fifth Third Bank to help finance the Arlington renovation project (see Note 8). The bonds mature in 2017 and have a variable interest rate that is based on the USD – SIFMA Municipal Swap Index. To protect the Foundation against a potential interest rate increase, the Foundation entered into an interest rate swap agreement, thereby locking into a fixed interest rate of 3.4% for the duration of the loan term. At June 30, 2012 and 2011, the interest rate swap had a total notional amount of \$1,320,000 and \$1,475,000, respectively. The fair value of the swap agreement reflects an obligation of the Foundation of \$109,015 and \$103,142 at June 30, 2012 and 2011, respectively. This change in value is recognized as a decrease in net assets and is included in net unrealized gains (losses) on the statement of activities. In addition to the unrealized loss noted above, the net settlements from the interest rate swap agreements are included within interest expense which is included in payments and support for the University. For the years ended June 30, 2012 and 2011, the net settlements resulted in an increase to interest expense in the amounts of \$43,887 and \$46,990, respectively. The swap agreement expires in 2017.

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

I. BONDS PAYABLE (Continued)

Scheduled principal repayment requirements are as follows:

Year ending June 30	
2013	\$ 165,000
2014	170,000
2015	180,000
2016	190,000
2017	195,000
Thereafter	<u>420,000</u>
Total	<u>\$ 1,320,000</u>

J. ASSETS HELD FOR OTHERS

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

	<u>2012</u>	<u>2011</u>
Eastern Kentucky University – investments held for Regional University Endowment Trust Fund Programs of Distinction	\$ 17,542,419 <u>1,743,920</u>	\$ 17,600,384 <u>1,787,495</u>
Total	<u>\$ 19,286,339</u>	<u>\$ 19,387,879</u>

K. ANNUITIES AND TRUSTS PAYABLE

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The Foundation has recorded a liability at June 30, 2012 and 2011 of \$388,754 and \$397,236, respectively, which represents the present value of the future annuity obligations which was determined by using discount rates ranging from 5.5% to 8.4%.