

**MOREHEAD STATE UNIVERSITY**

**Single Audit Reports Under OMB Circular A-133**

*As of and for the Years Ended June 30, 2014 and 2013  
with Report of Independent Auditors*

## CONTENTS

Management’s Discussion and Analysis.....	1
Report of Independent Auditors.....	12
Financial Statements	
Morehead State University Statements of Net Position.....	15
Morehead State University Foundation, Inc. Statements of Financial Position .....	16
Morehead State University Statements of Revenues, Expenses and Changes in Net Position.....	17
Morehead State University Foundation, Inc. Statements of Activities .....	19
Morehead State University Statements of Cash Flows .....	21
Morehead State University Notes to the Financial Statements.....	23
Morehead State University Foundation, Inc. Notes to the Financial Statements.....	40
Supplemental Information	
Morehead State University	
Schedule of Bonds, Notes and Capital Lease Obligations.....	55
Schedule of Expenditures of Federal Awards.....	57
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	65
Report on Compliance For Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133 .....	67
Schedule of Findings and Responses .....	69

# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis



### MANAGEMENT'S DISCUSSION AND ANALYSIS

Morehead State University's (the University) Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial performance of the University for the year ended June 30, 2014. Management has prepared this discussion, along with the financial statements and related footnotes, to provide summary financial information. MD&A should be read in conjunction with the accompanying financial statements and footnotes.

#### Financial Highlights

- The financial statements indicate that the University's financial position remained strong at June 30, 2014, as reflected in the Statement of Net Position.
- Financial operations were conducted in accordance with the approved budget plan, which continues to demonstrate the University's commitment to advance the University's mission by focusing on the goals and objectives as defined in the *ASPIRE 2010-2014 Strategic Plan*.
- Total assets were \$266 million versus \$264 million at June 30, 2013. The increase is primarily related to an increase in net capital assets of \$2.4 million, as a result of the ongoing renovation of housing facilities as identified in the Comprehensive Housing Master Plan and as a result of expenditures related to the Guaranteed Energy Savings performance contract.



## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis

- Total liabilities increased \$7 million to \$88 million versus \$81 million at June 30, 2013. The increase is primarily related to the issuance of \$9.5 million in General Receipts bonds to fund renovations of housing facilities as part of the Comprehensive Housing Master Plan. This increase was offset by \$4.9 million in debt service payments.
- Total net position was \$178 million at June 30, 2014 and \$184 million at June 30, 2013. The decrease is primarily the result of increases in operating expenses, which included increases in fixed costs such as utilities, scholarship commitments, employee retirement benefits, and investments in employees with the implementation of the new employee compensation model.

### Using the Annual Report

This annual report consists of a series of financial statements, 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*. These financial statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

One of the most important questions asked about University finances is whether the University is better off as a result of the year's activities. The information needed to answer this question can be found in:

- Statement of Net Position,
- the Statement of Revenues, Expenses and Changes in Net Position and
- the Statement of Cash Flows.

These statements present financial information of the University in a format similar to that used by corporations and present a long-term view of the University's finances. To get a full understanding of the



University's financial condition these statements should be reviewed as a whole and not individually. Further important information can be found in the Notes to the Financial Statements, beginning on page 23 of the Financial



# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis

Statements. The Notes to the Financial Statements contain policies, explanations and schedules that should be reviewed before, during and after reviewing the Financial Statements in order to get a complete understanding.

### **The Statement of Net Position**

This statement includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The University's net position (the difference between assets and liabilities) are one indicator of the University's financial health. Over time, increases or decreases in net position can indicate improvement or erosion of the University's financial health. Changes in net position should be considered in conjunction with non-financial factors such as enrollment levels and conditions of facilities.

### **The Statement of Revenues, Expenses and Changes in Net Position**

This statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. GASB 35 requires state appropriations and gifts to be classified as non-operating revenues. Accordingly, the University will generate a net operating loss prior to the addition of non-operating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

### **The Statement of Cash Flows**

This statement presents information related to cash inflows and outflows, summarized by operating, non-capital financing, capital financing and investing activities. An important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they mature.

### **Reporting Entity**

Morehead State University is a component unit of the Commonwealth of Kentucky.



MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis

Condensed Financial Information  
Statement of Net Position (in thousands)

	<u>2014</u>	<u>2013</u>
<b><u>Assets</u></b>		
Current assets	\$ 45,602	\$ 46,452
Capital assets	202,974	200,575
Other noncurrent assets	<u>17,581</u>	<u>17,255</u>
Total assets	<u>266,157</u>	<u>264,282</u>
<b><u>Liabilities</u></b>		
Current liabilities	18,565	16,499
Noncurrent liabilities	<u>69,336</u>	<u>64,144</u>
Total liabilities	<u>87,901</u>	<u>80,643</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	132,585	135,758
Restricted, expendable	6,452	6,887
Restricted, nonexpendable	12,873	12,744
Unrestricted	<u>26,346</u>	<u>28,250</u>
Total net position	<u>\$ 178,256</u>	<u>\$ 183,639</u>

**Assets**

As of June 30, 2014, the University's total assets were approximately \$266 million versus \$264 million at June 30, 2013. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$203 million compared to \$201 million at June 30, 2013. Cash and investments, totaling \$47 million at June 30, 2014 and \$45 million at June 30, 2013, were the University's next largest asset. Total assets increased by \$2 million during the year ended June 30, 2014. The principal areas of change were:

- Cash and cash equivalents increased approximately \$1.6 million.
- Accounts, grants and loans receivable, net decreased approximately \$2.3 million.
- Capital assets, net of accumulated depreciation, increased approximately \$2.4 million.

# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis

### Liabilities

At June 30, 2014, the University's liabilities were approximately \$88 million versus \$81 million in the previous year. Bonds, notes payable and capital lease obligations for capital assets represented \$70 million versus \$65 million at June 30, 2013. Total liabilities increased by \$7.3 million during the year ended June 30, 2014. This increase was primarily due to the following:

- Accounts payable and accrued liabilities increased \$2.2 million due to increases in accrued salaries, retirement and payroll tax contributions, and accrued sick leave.
- Bonds, notes and capital lease obligations increased \$5.5 million due to the issuance of \$9.5 million in General Receipts bonds to fund renovations of housing facilities as part of the Comprehensive Housing Master Plan and due to an increase of \$875k in capital lease obligations. This increase was offset by \$4.9 million in debt service payments.

### Net Position

Net position at June 30, 2014 totaled approximately \$178 million compared to \$184 million at June 30, 2013. Net investment in capital assets, totaled \$133 million versus \$136 million at June 30, 2013. Restricted net position totaled \$19 million compared to \$20 million at June 30, 2013. Unrestricted net position totaled \$26 million versus \$28 million at June 30, 2013. Total net position decreased by \$5 million during the year ended June 30, 2014. This decrease was primarily due to budgeted increases in operating expenses for strategic investments in employees, facility renovations, and scholarship commitments.

### Net Investment in Capital Assets

Net investment in capital assets includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net investment in capital assets decreased by \$3 million. This decrease is related to the amount of unspent bond proceeds at June 30, 2014.

### Restricted Net Position

Restricted net position is subject to stipulations made by entities external to the University that govern the use of these funds. Restricted net position decreased by \$306 thousand. Restricted net position was increased by the issuance of the 2013 Series A bonds, but was decreased by expenditures related to various construction projects.



## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis

#### Unrestricted Net Position

Unrestricted net position decreased by \$1.9 million from the previous year to \$26 million. Unrestricted net position is not subject to externally imposed restrictions. However, substantially all of the unrestricted net position balance has been allocated for the support of academic programs and other initiatives, the completion of capital projects, or working capital requirements. The allocation of unrestricted net position as of June 30, 2014 is as follows:

#### *Allocation of Unrestricted Net Position (in thousands)*

	<u>2014</u>	<u>2013</u>
Working capital	\$ 5,104	\$ 7,578
Allocated project funds	1,925	1,215
Capital construction	6,255	1,825
Operating budgets	5,593	5,871
Accreditations	56	32
Internal reserves	<u>7,413</u>	<u>11,729</u>
Unrestricted net assets	<u>\$ 26,346</u>	<u>\$ 28,250</u>

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis

Statement of Revenues, Expenses and Changes in Net Position (in thousands)

	<u>2014</u>	<u>2013</u>
<b><u>Operating Revenues</u></b>		
Student tuition and fees, net	\$ 38,075	\$ 40,517
Federal grants and contracts	12,299	12,484
State and local grants and contracts	1,283	1,393
Nongovernmental grants and contracts	660	636
Sales and services of educational activities	2,150	2,458
Auxiliary enterprises	19,297	17,646
Other operating revenues	<u>4,474</u>	<u>4,589</u>
Total operating revenues	<u>78,238</u>	<u>79,723</u>
<b><u>Operating Expenses</u></b>		
Educational and general	126,308	119,576
Auxiliary enterprises	14,058	12,526
Depreciation	9,789	9,646
Other operating loss (gain)	<u>391</u>	<u>(628)</u>
Total operating expenses	<u>150,546</u>	<u>141,120</u>
<b>Operating loss</b>	<u>(72,308)</u>	<u>(61,397)</u>
<b><u>Nonoperating Revenues (Expenses)</u></b>		
Grants and contracts	25,493	23,441
State appropriations	42,124	42,162
Investment income, net	199	69
Interest on capital assets – debt related	<u>(3,433)</u>	<u>(2,654)</u>
Net nonoperating revenues	<u>64,383</u>	<u>63,018</u>
<b>(Loss) income before capital appropriations</b>	(7,925)	1,621
Capital appropriations	<u>2,542</u>	<u>3,410</u>
<b>(Decrease) increase in net position</b>	(5,383)	5,031
Net position, beginning of year	<u>183,639</u>	<u>178,608</u>
<b>Net position, end of year</b>	<u>\$ 178,256</u>	<u>\$ 183,639</u>

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis

#### Revenues

Total operating revenues were approximately \$78 million for the year ended June 30, 2014 and approximately \$80 million for the year ended June 30, 2013. The most significant sources of operating revenue for the University are net student tuition and fees \$38 million, federal grants and contracts \$12 million, and auxiliary enterprises revenue \$19 million. The \$2 million decrease in operating revenues is the result of the following:

- Net student tuition and fees decreased \$2.4 million. This was primarily due to the increase in financial aid scholarship allowances. Scholarship allowances were \$32.4 million at June 30, 2014 as compared to \$29.7 million for the year ended June 30, 2013.
- Grants and contracts decreased \$270 thousand. External grants and contracts can vary significantly from one fiscal year to the next given variations in new awards and variations in the award period given with each award.
- Auxiliary enterprises increased \$1.6 million due to a 4% increase in housing rates and an increase in the number of students living on campus.

#### Expenses

Operating expenses totaled approximately \$150 million compared to \$141 million at June 30, 2013. Of this amount, approximately \$126 million was used for educational and general expenses related to functions such as instruction, research, public service, academic support, student services and operation and maintenance of plant. The \$9 million increase is primarily the result of increases in utilities, scholarship commitments, strategic investments in plant, employee retirement benefits, and investments in employees with the implementation of the new employee compensation model. The University also established the voluntary buyout program to help adjust financial and human resources to meet the University's strategic plan goals and state mandates for recruiting, retention, and growth of the University.

- Total personnel costs increased \$4.7 million, which included the implementation of the new employee compensation model, increased retirement contributions to KERS and KTRS, voluntary buyout program expenses, and expenses related to the required accrued sick leave liability.
- Strategic investment in plant renovations and construction projects increased \$1.2 million.
- Utilities expenditures increased \$834 thousand.



**MOREHEAD STATE UNIVERSITY**

Management's Discussion and Analysis

**Cash Flows**

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the University during the period. The Statement of Cash Flows also helps financial statement readers assess:

- the University's ability to generate future net cash flows,
- the University's ability to meet obligations as they become due, and
- the University's need for external financing.

**Statement of Cash Flows (In Thousands)  
Year ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Cash Provided By (Used In):</b>		
Operating activities	\$ (58,285)	\$ (54,264)
Noncapital financing activities	67,617	65,603
Capital and related financing activities	(7,805)	(19,950)
Investing activities	<u>100</u>	<u>223</u>
Net increase (decrease) in cash	1,627	(8,388)
Cash, beginning of the year	<u>31,478</u>	<u>39,866</u>
<b>Cash, end of the year</b>	<u>\$ 33,105</u>	<u>\$ 31,478</u>

Major sources of funds included in operating activities are student tuition and fees, \$39 million versus \$40 million in the previous year and grants and contracts, \$13 million compared to \$14 million in the previous year. The largest cash payments for operating activities were made to suppliers \$75 million versus \$71 million in the previous year and to employees in the amount of \$63 million compared to \$61 million in the previous year.



The largest cash receipt in noncapital financing activities was the operating appropriation from the Commonwealth of Kentucky of \$42 million for both June 30, 2014 and 2013 fiscal years. Cash used by capital and related financing activities was primarily expended on the construction and acquisition of capital assets.

# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis

### Capital Asset and Debt Administration

#### Capital Assets

Capital assets, net of accumulated depreciation (but not of related debt), totaled approximately \$203 million at June 30, 2014 versus \$200.6 million at June 30, 2013. This represents a net increase of \$2.4 million from June 30, 2013. Significant changes to capital assets during fiscal 2013 - 2014 included:

Buildings and land improvements	\$ 18.0	million
Library additions, equipment and vehicles	(0.7)	million
Net change in construction in progress	(7.4)	million
Increase in accumulated depreciation, net	(7.5)	million

#### Debt

At year-end, the University had \$70 million in outstanding debt versus \$65 million in the previous year. This includes \$58.6 million in bonds payable compared to \$52.9 million at June 30, 2013. In addition, the University had capital lease obligations of \$11.8 million compared to \$12.0 million in the previous year.

The University's debt is summarized by type of debt instrument as follows (in thousands):

	June 30,	
	<u>2014</u>	<u>2013</u>
General Receipts bonds	\$ 58,120	\$ 51,845
Consolidated Educational buildings revenue bonds	495	1,080
Capital lease obligations	<u>11,774</u>	<u>11,993</u>
	<u>\$ 70,389</u>	<u>\$ 64,918</u>

The University issued \$9.5 million in General Receipt's bonds in September 2013 for the renovation of housing facilities as part of the Comprehensive Housing Master Plan and issued \$875 thousand in additional capital lease obligations. This was offset by \$4.9 million in debt service payments.

# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis

### FACTORS IMPACTING FUTURE PERIODS

The following are known facts and circumstances that could affect future financial results:

- The University's Board of Regents has approved an operating budget for the fiscal year ending June 30, 2015 totaling \$153.2 million.
- The 2014-15 budget includes a 4.9% increase in student tuition and fees and a 5.1% increase in residence hall rates.
- Beginning in fiscal year 2014-15, GASB Statement No. 68 requires state and local government employers participating in a cost-sharing defined benefit plan to recognize their proportionate share of the long term obligation for pension benefits as a liability. As a participating employer in the Kentucky Teachers Retirement System (KTRS) and Kentucky Employees Retirement System (KERS), the University will be required to report a net pension liability.
- On July 24, 2014 the University issued \$27.5 million in General Receipts Refunding Bonds to refund \$495 thousand in Consolidated Education Building Revenue Bonds and \$29.2 million in General Receipts Build America Bonds.
- The University will continue the Comprehensive Housing Master Plan by issuing \$30.7 million in General Receipts Bonds during the 2014-15 fiscal year to construct a new residence hall on the main campus and on the University Farm.
- Scheduled to open in August 2015, the Craft Academy for Excellence in Science and Mathematics is a dual-credit residential high school for academically exceptional Kentucky students. The academy will be housed on the campus of Morehead State University and will initially enroll 60 high school juniors in 2015. The enrollment will increase by 60 students in August 2016 with the addition of a new junior class.
- The University will continue the initiatives of the University Technology Plan to improve campus network infrastructure through short term financing.



## Report of Independent Auditors

Members of the Board of Regents and  
Dr. Wayne D. Andrews, President  
Morehead State University  
Morehead, Kentucky

Secretary of Finance and  
Administration Cabinet of the  
Commonwealth of Kentucky

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1–11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Morehead State University's basic financial statements. The supplemental information contained on pages 55 and 56 and the Schedule of Expenditures of Federal Awards, on pages 57 through 64, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The supplemental information contained on pages 55 and 56 and the Schedule of Expenditures of Federal Awards, on pages 57 through 64 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial

Board of Regents  
Report of Independent Auditors

statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014 on our consideration of Morehead State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

*Dean Dotson Allen Ford, PLLC*

November 24, 2014  
Lexington, Kentucky



MOREHEAD STATE UNIVERSITY

Statements of Net Position

June 30, 2014 and 2013

Assets	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 33,105,168	\$ 31,478,329
Accounts, grants and loans receivable, net	10,694,100	13,216,009
Prepaid interest	-	102,192
Inventories	1,671,286	1,623,643
Other current assets	<u>131,180</u>	<u>31,928</u>
Total current assets	45,601,734	46,452,101
Noncurrent assets:		
Accounts, grants and loans receivable, net	3,885,589	3,658,181
Investments	13,695,872	13,596,954
Capital assets, net	<u>202,974,277</u>	<u>200,574,796</u>
Total noncurrent assets	<u>220,555,738</u>	<u>217,829,931</u>
Total assets	<u>\$ 266,157,472</u>	<u>\$ 264,282,032</u>
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,188,183	\$ 7,008,292
Unearned revenue	3,752,480	4,060,378
Other current liabilities	774,011	949,162
Bonds and capital lease obligations, current portion	<u>4,850,549</u>	<u>4,481,040</u>
Total current liabilities	18,565,223	16,498,872
Long-term liabilities:		
Bonds and capital lease obligations, noncurrent portion	65,538,212	60,437,551
Advances from federal government for student loans	3,507,148	3,416,142
Unearned revenue	<u>290,235</u>	<u>290,235</u>
Total long-term liabilities	<u>69,335,595</u>	<u>64,143,928</u>
Total liabilities	<u>87,900,818</u>	<u>80,642,800</u>
Net position:		
Net investment in capital assets	132,585,516	135,758,395
Restricted:		
Expendable	6,452,375	6,887,238
Nonexpendable	12,872,770	12,743,671
Unrestricted	<u>26,345,993</u>	<u>28,249,928</u>
Total net position	<u>\$ 178,256,654</u>	<u>\$ 183,639,232</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 1,424,084	\$ 737,396
Accrued interest receivable	2,752	3,358
Accounts receivable	60,000	-
Current portion of pledges receivable	1,726,224	870,620
Current portion of net investment in capital leases	<u>78,623</u>	<u>74,018</u>
Total current assets	<u>3,291,683</u>	<u>1,685,392</u>
Noncurrent assets:		
Investments, at fair value	43,894,298	38,419,822
Cash surrender value – life insurance	107,228	119,920
Property and equipment, net	227,131	209,319
Pledges receivable, net of current portion	3,739,012	1,389,027
Net investment in capital leases, net of current portion	<u>350,721</u>	<u>429,344</u>
Total noncurrent assets	<u>48,318,390</u>	<u>40,567,432</u>
Total assets	<u>\$ 51,610,073</u>	<u>\$ 42,252,824</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of annuities payable	\$ 215,448	\$ 201,948
Due to Morehead State University	<u>131,180</u>	<u>31,928</u>
Total current liabilities	346,628	233,876
Long-term liabilities:		
Funds held in trust for Morehead State University	12,014,828	12,014,828
Annuities payable, net of current portion	<u>1,019,312</u>	<u>1,041,603</u>
Total long-term liabilities	<u>13,034,140</u>	<u>13,056,431</u>
Total liabilities	<u>13,380,768</u>	<u>13,290,307</u>
Net assets:		
Unrestricted	(1,515,236)	(1,745,596)
Temporarily restricted	20,525,078	12,661,752
Permanently restricted	<u>19,219,463</u>	<u>18,046,361</u>
Total net assets	<u>38,229,305</u>	<u>28,962,517</u>
Total liabilities and net assets	<u>\$ 51,610,073</u>	<u>\$ 42,252,824</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$32,404,111 and \$29,750,887)	\$ 38,074,620	\$ 40,516,548
Federal grants and contracts	12,299,433	12,483,560
State and local grants and contracts	1,283,161	1,393,374
Nongovernmental grants and contracts	659,562	636,051
Sales and services of educational activities	2,149,927	2,457,546
Auxiliary enterprises:		
Residence halls (net of scholarship allowances of \$165,826 and \$253,768)	11,924,509	10,561,975
Bookstore	5,102,910	4,922,585
Other auxiliaries	2,269,904	2,161,837
Other operating revenues	<u>4,473,963</u>	<u>4,589,438</u>
Total operating revenues	78,237,989	79,722,914
Operating expenses:		
Education and general:		
Instruction	46,025,933	44,203,014
Research	1,559,471	2,241,288
Public service	6,092,974	5,623,128
Library	3,306,975	3,311,965
Academic support	12,286,903	12,001,070
Student services	16,964,312	15,973,516
Institutional support	15,058,426	13,767,591
Operation and maintenance of plant	10,704,103	8,642,717
Depreciation	9,789,361	9,646,093
Student aid	14,308,722	13,812,188
Auxiliary enterprises:		
Residence halls	7,788,900	6,472,245
Bookstore	4,426,705	4,224,767
Other auxiliaries	1,842,351	1,828,854
Other operating loss (gain)	<u>391,025</u>	<u>(628,205)</u>
Total operating expenses	<u>150,546,161</u>	<u>141,120,231</u>
Operating loss	(72,308,172)	(61,397,317)



MOREHEAD STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position, continued

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Nonoperating revenues (expenses):		
Grants and contracts	25,493,030	23,441,203
State appropriations	42,123,780	42,162,425
Investment income, net	199,212	68,618
Interest on capital asset-related debt	<u>(3,433,019)</u>	<u>(2,654,540)</u>
Net nonoperating revenues	<u>64,383,003</u>	<u>63,017,706</u>
 (Loss) income before capital appropriations	 (7,925,169)	 1,620,389
 Capital appropriations	 <u>2,542,591</u>	 <u>3,410,488</u>
 (Decrease) increase in net position	 (5,382,578)	 5,030,877
 Net position, beginning of year	 <u>183,639,232</u>	 <u>178,608,355</u>
 Net position, end of year	 <u>\$ 178,256,654</u>	 <u>\$ 183,639,232</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 697,554	\$ 5,328,272	\$ 1,173,102	\$ 7,198,928
Other revenue and gains:				
Investment income:				
Interest and dividend income, net	18,160	637,169	-	655,329
Realized and unrealized gains	5,847	4,589,937	-	4,595,784
In-kind contributed services	102,377	-	-	102,377
Development activities	412,805	232,324	-	645,129
Other income	56,292	31,681	-	87,973
Annuities payable adjustment	(142,457)	-	-	(142,457)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>2,956,057</u>	<u>(2,956,057)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	4,106,635	7,863,326	1,173,102	13,143,063
Expenses:				
Program expenses:				
Contributions to Morehead State				
University for:				
Academic programs	1,965,410	-	-	1,965,410
Athletics	181,295	-	-	181,295
University support:				
Operations and materials	848,384	-	-	848,384
Student financial aid	489,203	-	-	489,203
Athletics	<u>80,736</u>	<u>-</u>	<u>-</u>	<u>80,736</u>
Total program expenses	3,565,028	-	-	3,565,028
General and administrative	283,930	-	-	283,930
Fundraising	<u>27,317</u>	<u>-</u>	<u>-</u>	<u>27,317</u>
Total expenses	<u>3,876,275</u>	<u>-</u>	<u>-</u>	<u>3,876,275</u>
Change in net assets	230,360	7,863,326	1,173,102	9,266,788
Net assets, beginning of year	<u>(1,745,596)</u>	<u>12,661,752</u>	<u>18,046,361</u>	<u>28,962,517</u>
Net assets, end of year	<u>\$ (1,515,236)</u>	<u>\$ 20,525,078</u>	<u>\$ 19,219,463</u>	<u>\$ 38,229,305</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 311,534	\$ 1,148,778	\$ 644,629	\$ 2,104,941
Other revenue and gains:				
Investment income:				
Interest and dividend income, net	16,026	560,589	-	576,615
Realized and unrealized gains (losses)	2,698	2,568,260	-	2,570,958
In-kind contributed services	99,499	-	-	99,499
Development activities	431,368	294,245	-	725,613
Other income	58,823	40,124	-	98,947
Annuities payable adjustment	(134,870)	-	-	(134,870)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>2,150,192</u>	<u>(2,150,192)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	2,935,270	2,461,804	644,629	6,041,703
Expenses:				
Program expenses:				
Contributions to Morehead State				
University for:				
Academic programs	1,148,462	-	-	1,148,462
Athletics	202,287	-	-	202,287
University support:				
Operations and materials	758,823	-	-	758,823
Student financial aid	506,177	-	-	506,177
Athletics	<u>111,490</u>	<u>-</u>	<u>-</u>	<u>111,490</u>
Total program expenses	2,727,239	-	-	2,727,239
General and administrative	191,633	-	-	191,633
Fundraising	<u>34,775</u>	<u>-</u>	<u>-</u>	<u>34,775</u>
Total expenses	<u>2,953,647</u>	<u>-</u>	<u>-</u>	<u>2,953,647</u>
Change in net assets	(18,377)	2,461,804	644,629	3,088,056
Net assets, beginning of year	<u>(1,727,219)</u>	<u>10,199,948</u>	<u>17,401,732</u>	<u>25,874,461</u>
Net assets, end of year	<u>\$ (1,745,596)</u>	<u>\$ 12,661,752</u>	<u>\$ 18,046,361</u>	<u>\$ 28,962,517</u>

See accompanying notes.



MOREHEAD STATE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>		
Tuition and fees	\$ 39,110,043	\$ 40,367,719
Grants and contracts	13,071,614	14,016,966
Payments to suppliers	(75,420,807)	(71,158,709)
Payments to employees	(62,883,852)	(61,448,678)
Loans issued to students	(765,078)	(476,384)
Collection of loans issued to students	587,242	492,858
Auxiliary enterprises:		
Residence halls	11,924,509	10,561,975
Bookstore	5,280,598	4,820,940
Other auxiliaries	2,177,352	2,134,835
Sales and services of educational activities	2,050,675	2,517,746
Other receipts	<u>6,582,509</u>	<u>3,906,568</u>
Net cash used in operating activities	(58,285,195)	(54,264,164)
<b>Cash flows from noncapital financing activities:</b>		
Nonoperating grants and contracts	25,493,030	23,441,203
State appropriations	<u>42,123,780</u>	<u>42,162,425</u>
Net cash provided by noncapital financing activities	67,616,810	65,603,628
<b>Cash flows from capital and related financing activities:</b>		
Capital appropriations	2,542,591	3,410,488
Purchase of capital assets	(11,703,010)	(16,946,676)
Increase in advances from federal government for student loans	91,006	182,250
Issuance of new bonds	9,475,000	-
Principal paid on capital debt and leases	(4,879,830)	(4,066,316)
Interest paid on capital debt and leases	<u>(3,330,827)</u>	<u>(2,529,892)</u>
Net cash used in capital and related financing activities	(7,805,070)	(19,950,146)
<b>Cash flows from investing activities:</b>		
Interest received on investments, net	199,212	68,618
Changes in investments, net	<u>(98,918)</u>	<u>154,359</u>
Net cash provided by investing activities	<u>100,294</u>	<u>222,977</u>
Net increase (decrease) in cash and cash equivalents	1,626,839	(8,387,705)
Cash and cash equivalents, beginning of year	<u>31,478,329</u>	<u>39,866,034</u>
Cash and cash equivalents, end of year	<u>\$ 33,105,168</u>	<u>\$ 31,478,329</u>

MOREHEAD STATE UNIVERSITY

Statements of Cash Flows, continued

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (72,308,172)	\$ (61,397,317)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	9,789,361	9,646,093
Loss (gain) on disposal of capital assets	389,168	(628,205)
Bad debt expense	1,265,799	1,000,712
Changes in assets and liabilities:		
Receivables, net	1,028,702	(1,218,769)
Inventories	(47,643)	(51,956)
Other current assets	(99,252)	60,948
Accounts payable and accrued liabilities	2,179,891	(983,980)
Unearned revenue	(307,898)	(764,020)
Other current liabilities	<u>(175,151)</u>	<u>72,330</u>
Net cash used in operating activities	<u>\$ (58,285,195)</u>	<u>\$ (54,264,164)</u>
<b>Supplemental disclosures of cash flow information:</b>		
Noncash capital and related financing transactions:		
Insurance proceeds receivable	\$ -	\$ 983,281
Capital lease item	875,000	-

See accompanying notes.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements

### 1. Organization and Summary of Significant Accounting Policies

#### Organization

Morehead State University (the University) is a regional, coeducational, public institution of higher education offering general and liberal arts programs and pre-professional and professional training in education and various other fields at both the undergraduate and graduate levels. Located in Morehead, Kentucky, the University has provided educational service to the Commonwealth of Kentucky since 1887.

#### Reporting Entity

The University is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statements of the Commonwealth. The Morehead State University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Trustees is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of the resources the Foundation holds and invests are restricted by the donors to the activities of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

#### Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. In accordance with GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* (GASB No. 35) and subsequent standards issued by GASB, the University reports as a Business Type Activity (BTA). BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

GASB No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net position categories:

- **Net Investment in Capital Assets:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.



# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 1. Organization and Summary of Significant Accounting Policies, continued

#### Basis of Presentation, continued

- **Restricted:**

*Expendable*– Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

*Nonexpendable*– Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

- **Unrestricted:** Net position 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 of Regents or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation required by GASB No. 35 is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows.

Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

#### Allowance for Doubtful Accounts

The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. The allowance represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing accounts that may become uncollectible.

#### Inventories

University store inventories representing approximately 57% and 55% of total inventories at June 30, 2014 and 2013, respectively, are stated at the lower of cost (retail inventory method) or market. The remainder of the inventories is stated at the lower of moving-average-cost or market.

#### Investments

The University values investments at fair value based on quoted market prices.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 1. Organization and Summary of Significant Accounting Policies, continued

#### Investments, continued

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.

#### Capital Assets

Capital assets are stated at cost for purchased assets and at fair value at date of donation in the case of gifts. Expenditures which increase values or extend useful lives of the respective assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation of assets is computed using the straight-line method over the assets estimated useful lives. The University capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research and public service. Estimated lives used for depreciation purposes are as follows:

<u>Classification</u>	<u>Estimated Life</u>
Land improvements	20 years
Buildings	50 years
Building improvements	20 years
Vehicles	5-9 years
Equipment	5-15 years
Library books	10 years

#### Accrued Vacation Pay

Accrued vacation pay is included in accounts payable and accrued liabilities in the statement of net position and represents earned vacation available to employees at current compensation rates.

#### Unearned Revenue

Unearned revenue includes amounts received from grant and contract sponsors that have not yet been earned. Unearned revenue also includes tuition billed on or before June 30th for future terms.

#### Advances from Federal Government for Student Loans

Funds provided by the United States Government under the Federal Perkins Loan program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the United States Government and, therefore, are recorded as a liability in the accompanying financial statements. Federally funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the University.



# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 1. Organization and Summary of Significant Accounting Policies, continued

#### Restricted Asset Spending Policy

The University's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

#### Operating Activities

The University defines operating activities, as reported on the statement of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, gifts and investment income, are recorded as non-operating revenues, in accordance with GASB No. 35.

#### 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Actual results could differ from the estimated amounts.

#### Income Taxes

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(1) of the Internal Revenue Code, as amended and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

#### Recent Accounting Pronouncements

In November 2013, the GASB approved Statement No. 71, *Pension transition for contributions made subsequent to the measurement date – an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition



# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 1. Organization and Summary of Significant Accounting Policies, continued

#### Recent Accounting Pronouncements, continued

only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

Cost-sharing governmental employers will also be required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. All governments participating in the defined benefit pension plan would also have the following in their note disclosures:

- Descriptions of the plan and benefits provided
- Significant assumptions employed in the measurement of the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Assumptions related to the discount rate and impact on the total pension liability of a 1 percentage point increase and decrease in the discount rate
- Net pension assets and liabilities

The provisions of this Statement are effective for fiscal years beginning after June 15, 2014. The University is currently evaluating the effects of this Statement on its financial statements.

#### Subsequent Events

On July 24, 2014 the University issued \$27.5 million in General Receipts Refunding Bonds to refund \$495 thousand in Consolidated Education Building Revenue Bonds and \$29.2 million in General Receipts Build America Bonds.

### 2. Cash, Cash Equivalents and Investments

The statement of net position classification "cash and cash equivalents" includes all readily available sources of cash such as petty cash, demand deposits, deposits with the Commonwealth of Kentucky, certificates of deposit and temporary investments in marketable securities with original maturities less than three months.

The state 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.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**2. Cash, Cash Equivalents and Investments, continued**

Government obligations. The University's deposits with the state treasurer are pooled with funds of other state agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the state treasurer may determine, in the state's name.

The University requires that balances on deposit with financial institutions be insured by 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 state treasurer, collateralized by securities in the University's name, insured by the FDIC or in the University's name.

At June 30, 2014 and 2013, the University had petty cash funds totaling \$44,815 and deposits as reflected by bank balances as follows:

	<u>2014</u>	<u>2013</u>
Insured, commercial banks	\$ 259,827	\$ 259,822
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	14,375,642	13,687,362
Maintained by Commonwealth of Kentucky	<u>18,424,884</u>	<u>17,486,330</u>
	<u>\$ 33,060,353</u>	<u>\$ 31,433,514</u>

As of June 30, 2014 and 2013, investments consisted of:

	<u>2014</u>	<u>2013</u>
Insured and registered, with securities held by the counterparty or by its trust department or agent, in the University's name:		
Money market funds – restricted for capital purposes	\$ 823,102	\$ 853,282
Equity mutual funds	<u>746,420</u>	<u>617,989</u>
	1,569,522	1,471,271
Certificate of deposit	111,522	110,855
Restricted assets held by the Morehead State University Foundation, Inc.	<u>12,014,828</u>	<u>12,014,828</u>
Total investments	<u>\$ 13,695,872</u>	<u>\$ 13,596,954</u>

Restricted investments for capital purposes are comprised of amounts invested for sinking fund and debt service reserves. The University may legally invest in direct obligations of and other obligations guaranteed as to principal by 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.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 2. Cash, Cash Equivalents and Investments, continued

University investments held by the Foundation are comprised of the Regional University Excellence Trust Fund endowment and other similar endowments (see Note 13). 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, 2014 and 2013, are invested as follows:

	<u>2014</u>	<u>2013</u>
Percentage of pool invested in:		
Registered investment companies fixed income funds	22%	25%
Registered investment companies equity fund	42%	39%
Registered investment companies alternative investments	<u>36%</u>	<u>36%</u>
	<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.

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University does not have a formal policy for concentration of credit risk.

#### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.



MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

3. Accounts, Grants and Loans Receivable

Accounts, grants and loans receivable consist of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Student tuition and fees	\$ 4,636,345	\$ 5,606,109
Laptop lease	119,300	356,700
Financing and interest	672,200	1,788,498
Insurance claim receivable	-	983,281
Student loans	3,970,243	3,738,031
Grants and contracts	6,633,566	5,549,520
Auxiliary enterprises	290,476	378,672
Other	<u>295,380</u>	<u>606,913</u>
	16,617,510	19,007,724
Allowance for doubtful accounts	<u>(2,037,821)</u>	<u>(2,133,534)</u>
	14,579,689	16,874,190
Current portion	<u>(10,694,100)</u>	<u>(13,216,009)</u>
Noncurrent portion	<u>\$ 3,885,589</u>	<u>\$ 3,658,181</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net

Capital assets as of June 30, 2014, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 20,052,861	\$ 2,569,508	\$ 650	\$ 22,621,719
Buildings	259,286,561	15,456,778	4,593	274,738,746
Library books	25,955,517	749,564	-	26,705,081
Vehicles	2,065,903	52,582	100,455	2,018,030
Equipment and livestock	24,948,845	1,169,311	2,618,377	23,499,779
Datatel	4,203,490	-	1,290	4,202,200
Art collection	962,775	17,350	1,970	978,155
Construction in progress	<u>14,152,946</u>	<u>9,019,709</u>	<u>16,456,792</u>	<u>6,715,863</u>
	351,628,898	29,034,802	19,184,127	361,479,573
<u>Accumulated Depreciation</u>				
Land improvements	7,800,853	550,940	650	8,351,143
Buildings	100,015,775	6,040,970	1,582	106,055,163
Library books	20,754,975	1,004,665	-	21,759,640
Vehicles	1,747,246	126,191	100,455	1,772,982
Equipment and livestock	16,535,253	2,065,326	2,234,190	16,366,389
Datatel	<u>4,200,000</u>	<u>1,269</u>	<u>1,290</u>	<u>4,199,979</u>
	<u>151,054,102</u>	<u>9,789,361</u>	<u>2,338,167</u>	<u>158,505,296</u>
Capital assets, net	<u>\$ 200,574,796</u>	<u>\$ 19,245,441</u>	<u>\$ 16,845,960</u>	<u>\$ 202,974,277</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net, continued

Capital assets as of June 30, 2013, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 20,012,861	\$ 40,000	\$ -	\$ 20,052,861
Buildings	251,087,661	8,738,820	539,920	259,286,561
Library books	24,914,943	1,040,574	-	25,955,517
Vehicles	1,991,264	155,348	80,709	2,065,903
Equipment and livestock	25,339,359	1,459,450	1,849,964	24,948,845
Datatel	4,203,490	-	-	4,203,490
Art collection	885,555	77,220	-	962,775
Construction in progress	<u>8,717,682</u>	<u>14,177,579</u>	<u>8,742,315</u>	<u>14,152,946</u>
	337,152,815	25,688,991	11,212,908	351,628,898
<u>Accumulated Depreciation</u>				
Land improvements	7,279,558	521,295	-	7,800,853
Buildings	94,894,733	5,608,396	487,354	100,015,775
Library books	19,736,352	1,018,623	-	20,754,975
Vehicles	1,719,477	108,478	80,709	1,747,246
Datatel	15,702,848	2,379,859	1,547,454	16,535,253
Equipment and livestock	<u>4,190,558</u>	<u>9,442</u>	<u>-</u>	<u>4,200,000</u>
	<u>143,523,526</u>	<u>9,646,093</u>	<u>2,115,517</u>	<u>151,054,102</u>
Capital assets, net	<u>\$ 193,629,289</u>	<u>\$ 16,042,898</u>	<u>\$ 9,097,391</u>	<u>\$ 200,574,796</u>



**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**5. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of June 30, are as follows:

	<u>2014</u>	<u>2013</u>
Payable to vendors and contractors	\$ 1,071,574	\$ 431,453
Accrued vacation	2,258,269	2,235,768
Accrued sick leave liability	784,477	-
Accrued salaries and other liabilities	<u>5,073,863</u>	<u>4,341,071</u>
	<u>\$ 9,188,183</u>	<u>\$ 7,008,292</u>

**6. Long-Term Liabilities**

Long-term liabilities at June 30, 2014, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Consolidated Educational Building Revenue Bonds	\$ 1,080,000	\$ -	\$ 585,000	\$ 495,000	\$ 40,000	\$ 455,000
General Receipts Bonds	51,845,000	9,475,000	3,200,000	58,120,000	3,300,000	54,820,000
Capital lease obligations	2,322,464	875,000	691,574	2,505,890	774,818	1,731,072
Energy Savings Capital Lease	<u>9,671,127</u>	<u>-</u>	<u>403,256</u>	<u>9,267,871</u>	<u>735,731</u>	<u>8,532,140</u>
Total bonds, notes and capital lease obligations	64,918,591	10,350,000	4,879,830	70,388,761	4,850,549	65,538,212
Federal refundable grants	<u>3,416,142</u>	<u>91,006</u>	<u>-</u>	<u>3,507,148</u>	<u>-</u>	<u>3,507,148</u>
Total long-term liabilities	<u>\$ 68,334,733</u>	<u>\$ 10,441,006</u>	<u>\$ 4,879,830</u>	<u>\$ 73,895,909</u>	<u>\$ 4,850,549</u>	<u>\$ 69,045,360</u>

Long-term liabilities at June 30, 2013, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Consolidated Educational Building Revenue Bonds	\$ 1,650,000	\$ -	\$ 570,000	\$ 1,080,000	\$ 585,000	\$ 495,000
General Receipts Bonds	54,695,000	-	2,850,000	51,845,000	2,855,000	48,990,000
Capital lease obligations	2,968,780	-	646,316	2,322,464	637,784	1,684,680
Energy Savings Capital Lease	<u>9,671,127</u>	<u>-</u>	<u>-</u>	<u>9,671,127</u>	<u>403,256</u>	<u>9,267,871</u>
Total bonds, notes and capital lease obligations	68,984,907	-	4,066,316	64,918,591	4,481,040	60,437,551
Federal refundable grants	<u>3,233,892</u>	<u>182,250</u>	<u>-</u>	<u>3,416,142</u>	<u>-</u>	<u>3,416,142</u>
Total long-term liabilities	<u>\$ 72,218,799</u>	<u>\$ 182,250</u>	<u>\$ 4,066,316</u>	<u>\$ 68,334,733</u>	<u>\$ 4,481,040</u>	<u>\$ 63,853,693</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**6. Long-Term Liabilities, continued**

The following is a summary of bonds and capital lease obligations at June 30:

	<u>2014</u>	<u>2013</u>
2.00 – 3.625% Consolidated Educational Building Revenue Bonds, Series M repayable in semi-annual installments with the final installment due May, 2024	\$ 495,000	\$ 1,080,000
4.00% General Receipts Bonds, 2007 Series A, repayable in semi-annual installments with the final installment due November, 2027	4,340,000	4,570,000
3.00 – 3.80% General Receipts Bonds, 2008 Series A, payable in semi-annual installments with the final installment due November, 2022	5,980,000	6,695,000
2.00 – 6.00% General Receipts Bonds, 2009 Taxable Series A, repayable in semi-annual installments with the final installment due November, 2028	24,125,000	25,360,000
1.27 – 5.75% General Receipts Bonds, 2010 Taxable Series A, repayable in semi-annual installments with the final installment due November, 2029	5,030,000	5,280,000
2.00-4.125% General Receipts Bonds, 2011 Series A Improvement Bonds, repayable in semi-annual installments with the final installment due November, 2030	4,665,000	4,880,000
2.00-3.625% General Receipts Bonds, 2012 Series A Tax Exempt Bonds, repayable in semi-annual installments beginning in the fiscal year ending June 30, 2014, with the final installment due November, 2031	4,850,000	5,060,000
1.00-4.375% General Receipts Bonds, 2013 Series A Tax Exempt Bonds, repayable in semi-annual installments beginning in the fiscal year ending June 30, 2014, with the final installment due April, 2033	9,130,000	-
5.00% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due February, 2019	78,637	93,235
9.40% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due March, 2023	304,690	326,528
4.19% Capital lease obligation with a finance corporation in semi-annual payments with final installment due October, 2019	803,158	930,508
3.58% Capital lease obligation with a finance corporation in semi-annual payments with final installment due June, 2015	452,179	888,594
4.47% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due August, 2015	46,017	83,599
2.65% Capital lease obligation with JP Morgan/Chase, repayable in quarterly installments, with the final installment due June, 2025	9,267,871	9,671,127
4.50% Capital lease obligation for land acquisition, repayable in monthly installments with the final installment due December, 2020	<u>821,209</u>	<u>-</u>
	<u>\$ 70,388,761</u>	<u>\$ 64,918,591</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

6. Long-Term Liabilities, continued

In order to retire the revenue bonds, the University is required to make deposits to sinking funds in annual amounts sufficient to meet the principal and interest payments due within the next twelve months. As of June 30, 2014 and 2013, all reserve requirements have been fully funded (\$64,781 and \$632,587, respectively). The revenue bonds are subject to several non-financial covenants, all of which management has asserted were met as of June 30, 2014 and 2013.

The Consolidated Educational Building Revenue Bonds are collateralized by various buildings. The revenues derived from student registration fees are pledged as collateral on the Consolidated Educational Building Revenue Bond issues.

The capital leases consist of leases of real estate and equipment. The leased equipment includes items related to an energy savings project and a new computer system.

The following equipment is held under capital lease obligations at June 30:

	<u>2014</u>	<u>2013</u>
Real estate and equipment	\$ 17,745,334	\$ 7,722,742
Less: accumulated depreciation	<u>( 5,166,011)</u>	<u>( 4,794,578)</u>
	<u>\$ 12,579,323</u>	<u>\$ 2,928,164</u>

The following is a schedule by years of future minimum payments required for the capital lease obligations as of June 30, 2014:

Year ending June 30,		
2015		\$ 1,860,880
2016		1,362,729
2017		1,355,969
2018		1,355,969
2019		1,349,660
Thereafter		<u>6,335,502</u>
Total minimum lease payments		13,620,709
Less: amounts representing interest		<u>(1,846,948)</u>
Present value of minimum lease payments		<u>\$ 11,773,761</u>



MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

6. Long-Term Liabilities, continued

The principal and interest repayment requirements relating to the outstanding bonds at June 30, 2014, are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	3,340,000	2,494,851	5,834,851
2016	3,430,000	2,386,305	5,816,305
2017	3,520,000	2,269,815	5,789,815
2018	3,625,000	2,142,152	5,767,152
2019	3,740,000	2,000,299	5,740,299
2020-2033	<u>40,960,000</u>	<u>11,409,493</u>	<u>52,369,493</u>
	<u>\$ 58,615,000</u>	<u>\$ 22,702,915</u>	<u>\$ 81,317,915</u>

7. Pension Plan

Kentucky Teachers Retirement System

All faculty and exempt employees required to hold a degree and occupying full-time positions, defined as seven-tenths (7/10) of normal full-time service on a daily or weekly basis, are required by state law to participate in the Kentucky Teachers Retirement System (KTRS). KTRS, a cost sharing, multiple-employer, public employee retirement system, provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age sixty, unless the employee has twenty-seven or more years of participation in the plan. The plan also provides for disability retirement, death and survivor benefits and medical insurance.

The Kentucky Teachers Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868 or by calling (502) 573-5120.

Funding for the plan is provided from eligible employees who contribute 7.16% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 14.84% of currently eligible employees' salaries to the KTRS through appropriations to the University. Contribution requirements of the plan members and the University are established by Kentucky Revised Statute and the KTRS Board of Trustees. The University's contributions to KTRS for the years ended June 30, 2014 and 2013 were \$4,751,478 and \$4,500,837, respectively, equal to the required contributions for each year.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 7. Pension Plan, continued

#### Kentucky Employee Retirement System

Substantially all other full-time University employees are required by law to participate in the Kentucky Employees Retirement System (KERS), a cost sharing multiple-employer, 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 sixty-five, or has less than twenty-seven years of service. The plan also provides for disability retirement, death and survivor benefits and medical insurance.

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

Funding for the plan is provided from eligible hazardous and non-hazardous employees who contribute 8.00% and 5.00% for members prior to September 1, 2008 and 9.00% and 6.00% for members after September 1, 2008, respectively, of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 32.21% and 26.79%, respectively of current eligible hazardous and non-hazardous employees' salaries to the KERS through appropriations to the University. University contribution rates are determined by the Kentucky Revised Statue and the Board of Trustees of the Kentucky Retirement Systems each biennium.

The University's contributions to KERS for the years ended June 30, 2014 and 2013 were \$3,386,859 and \$2,574,231 respectively, equal to the required contributions for each year.

#### Optional Retirement Plans

Optional retirement plans (ORP's) are available to employees hired on or after January 1, 1997, who would otherwise be participants in the Kentucky Teachers' Retirement System. The ORP is established as a 403(b) defined contribution plan under, the Internal Revenue Code guidelines. The providers of the University's ORP's are the Teachers Insurance and Annuity Association-College Retirement Equities Fund, Variable Annuity Life Insurance Company and Voya Financial. Under these plans the employee's contribution is 7.16% of their gross salary and the University's contribution is 8.74% to the retirement company and 5.10% to Kentucky Teachers Retirement System. The University's contributions under these plans for the years ended June 30, 2014 and 2013 were \$1,757,364 and \$1,556,370 respectively, equal to the required contributions for each year.

### 8. Operating Leases

The University has operating lease agreements for use of equipment and various parcels of real estate cancelable annually with the option to renew. The University recognizes the expenditures related to those obligations as lease payments are made. Total rent expenses under operating type leases were approximately \$693,000 and \$684,000 in 2014 and 2013, respectively.



# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 9. Contingencies and Commitments

The University is a defendant in various lawsuits; however, University management is of the opinion, based on advice of legal counsel, that the ultimate resolution of these litigation matters will not have a material effect on the future operations or financial position of the University.

The University receives financial assistance from federal and state agencies in the form of grants and awards. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. The University has had no disallowed claims in the past. In the opinion of management, such potential disallowed claims, if any, would not have a material adverse effect on the overall financial position of the University at June 30, 2014.

The University has made certain commitments related to the completion of various construction projects in progress totaling approximately \$4,553,309. Such construction is principally financed by appropriations from the Commonwealth of Kentucky and proceeds from bonds.

### 10. Self-Insurance Program

The University maintains a self-insurance program for employees' dental insurance. The University funds the plan at the single rate for all permanent full-time employees with the employees paying the difference between the single plan and the family plan, if applicable. Expenses incurred to cover claims paid by the University under the plan for fiscal years ended June 30, 2014 and 2013 totaled \$315,683 and \$311,508, respectively.

The University maintains a fully insured health plan. The University pays a sliding percentage of premiums for all permanent full-time employees. Depending on the level of coverage, this amount ranges from a low of \$386 per month to a high of \$655. Payments for employee health insurance for fiscal years ended June 30, 2014 and 2013 were \$6,004,065 and \$5,604,463 respectively.

### 11. Risk Management

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

The Commonwealth of Kentucky operates a public entity risk pool operating as a common risk management and insurance program for its members. The pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts.



# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 11. Risk Management, continued

The University operates a self-insurance program for worker's compensation for its employees. The University purchases reinsurance through commercial carriers for claims in excess of specified stop loss amounts.

### 12. Friends of Kentucky Folk Art Center, Inc.

The Friends of Kentucky Folk Art Center, Inc. (KFAC) provides educational opportunities, benefits and programs to the public to enhance the awareness of and foster an appreciation and understanding of contemporary folk art. Under an operating agreement, the University provides office space and certain administrative services to the KFAC at no charge. For each of the fiscal years ended June 30, 2014 and 2013, KFAC received State Appropriations in the amount of \$176,554. KFAC is an affiliate of the University in accordance with the provisions of KRS 164A.610. The financial statements of this affiliated corporation are reported upon separately. However, the assets, liabilities and net assets of KFAC have been included in the University's financial statements.

### 13. Endowment Trust Funds

The Foundation holds endowment investments for the University, the majority of which are associated with the Regional University Excellence Trust Fund (RUETF). The 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 basis. Funds are endowed for the purposes of supporting endowed chairs and professorships.

The Foundation also holds endowment investments for the University which are associated with the Technology Endowment Program. The University will provide matching funds of at least one dollar for every dollar of grant funds. At the end of twenty years, both the principal and the income derived will be used to upgrade and/or replace software/hardware of the University's Information Management System.

The fair market value of Morehead State University endowment funds held by the Foundation as of June 30, 2014 and 2013 was \$44,200,399 and \$38,725,682, respectively. The portion of the endowments representing the value of the funding received from the Kentucky General Assembly was \$11,724,599 for the years ended June 30, 2014 and 2013, and is included in investments held by the Foundation. The portion of the endowments representing the value of the funding received from the Technology Endowment Program was \$290,229 for both years ended June 30, 2014 and 2013, and is included in investments held by the Foundation.

### 14. Related Parties

The University and the Foundation are related parties. The Foundation's purpose is to assist in the development, growth, expansion and progress of the student programs of Morehead State University. The University authorizes the Foundation to solicit contributions on its behalf. In the absence of donor

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 14. Related Parties, continued

restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to the University.

Related party transactions and funds held by the Foundation on behalf of the University are as follows during 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 102,377	\$ 99,499
Funds held by the Foundation on behalf or for the benefit of the University	12,014,828	12,014,828
Funds due to the University by the Foundation	131,180	31,928

The University entered into an agreement with the Foundation where the University will provide personnel, office space, support equipment and other services that may be necessary to the operation of the Foundation. The Foundation reimburses the University for these services at an annual rate determined mutually by the two entities, \$179,503 for the year ended June 30, 2014 and \$81,709 for the year ended June 30, 2013. Amounts disclosed above as funds disbursed by the University on behalf of the Foundation for employee salaries and benefits are net of the annual rate for the fiscal years ended June 30, 2014 and 2013.

The University has also entered into several direct financing capital leases of real estate with the Foundation as disclosed in Note 15I.

### 15. Morehead State University Foundation, Inc.

#### A. Description of Organization

The Morehead State 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 Morehead State University (the University). Specifically, it was founded to cooperate with the University and its Board of Regents in the promotion of the educational, civic and charitable purposes of the University in any lawful manner deemed appropriate by the Foundation's Board of Trustees. 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.

#### B. Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Foundation in the preparation of its financial statements.



MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Basis of Presentation

The Foundation's financial statements are presented in accordance with GAAP. Under these standards net assets and revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

Temporarily restricted net assets: Net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed. Generally, donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Cash

The Foundation maintains its cash balances in financial institutions, which at times, may exceed federally insured limits. The Foundation has not experienced any losses on such accounts. The Foundation believes it is not exposed to any significant credit risk related to its cash balances.

Pledges Receivable

Pledges receivable of amounts greater than \$500, less an appropriate allowance amount, are recorded at the net present value of estimated future cash flows using a discount rate commensurate with the risks involved. Net present value was computed using a discount rate of .72% and 5.25% for the years ended June 30, 2014 and 2013, respectively.

Pledges receivable are presented net of an allowance for doubtful accounts (\$607,248 and \$263,922 as of June 30, 2014 and 2013, respectively). The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. The allowance represents an amount, which in management's judgment, will be adequate to absorb probable losses on existing pledges that may become uncollectible.



MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Investments

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investment returns include dividend, interest and other investment income and realized and unrealized gains and losses on investments carried at fair value. Investment returns that are initially restricted by donor stipulation and for which the restriction will be satisfied in the same year are included as unrestricted net assets. Other investment returns are 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.

Property and Equipment

Property and equipment is stated at cost at the date of acquisition or fair value at date of donation. Expenditures with a cost greater than \$1,000, which increase values or extend useful lives of the respective assets, are capitalized, whereas expenditures for maintenance and repairs are charged to expense as incurred. Depreciation of assets is computed using the straight-line method over the estimated useful lives of the respective assets.

Annuities Payable

The Foundation pays stipulated amounts periodically to individuals (annuitants) who have given to the Foundation certain assets and who have entered into agreements that such payments cease at the death of the annuitant. Total annuity payments for the years ended June 30, 2014 and 2013 were \$200,233 and \$196,919, respectively.

The June 30, 2014 and 2013 annuity liability balances of \$1,234,760 and \$1,243,551, respectively are the present values of the monthly, quarterly, or semiannual payments to the annuitants based on the life expectancies of the annuitants and interest rates ranging from .69% to 4.39%. The estimated remaining life expectancies of the annuitants ranged from 4.0 to 18.2 years and 4.2 to 18.9 years for the years ended June 30, 2014 and 2013, respectively.

Due to Morehead State University

Contributions were made to the Foundation related to a program that the University has prefunded. The Foundation and the University have agreed that contributions made to the Foundation on behalf of this program will be remitted to the University annually. In accordance with GAAP, the contributions have been included as a liability on the Foundation's statements of financial position.

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 15. Morehead State University Foundation, Inc., continued

##### B. Summary of Significant Accounting Policies, continued

###### Funds Held in Trust for Morehead State University

The Foundation is the custodian of funds owned by the University for the purpose of establishing certain endowment funds as authorized by the Kentucky Council on Postsecondary Education and the Kentucky General Assembly. The Foundation invests the principal with a portion of the income derived from the principal to be remitted annually to the University. For the years ended June 30, 2014 and 2013, the Foundation held \$12,014,828 for the University's investment purposes.

###### Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Except for tax on any unrelated business income activities, no provision for income taxes has been made.

The Foundation has evaluated the tax positions taken on all income tax returns that remain open to examination by the respective taxing authorities (those returns filed for the years 2010 through 2013) and does not believe there are any uncertain positions on those returns that should impact the financial statements.

###### 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 statements 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 long-lived assets 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 the reclassification of temporarily restricted net assets to unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts 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 applicable to the years in which the promises are received. Amortization using the level-yield method is included

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 15. Morehead State University Foundation, Inc., continued

#### B. Summary of Significant Accounting Policies, continued

##### Contributions, continued

in contribution revenue. Conditional gifts are not included as support until the conditions are substantially met.

##### Donated Materials and Property

Donated materials and property are recorded at their estimated fair value when received. The statements of activities for the years ended June 30, 2014 and 2013 include in-kind contributions of \$406,118 and \$339,088, respectively.

##### Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the functional categories based on their relationship to various direct costs in those functions.

##### Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through September 24, 2014, the date the financial statements were available to be issued.

##### Reclassifications

Certain accounts in the 2013 financial statements have been reclassified to conform with the 2014 presentation with no effect on net assets or changes in net assets.

#### C. Investments

Investments held as of June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Certificates of deposit	\$ -	\$ 83,813
Mutual funds	28,059,163	24,614,332
Alternative investments	15,635,481	13,537,331
Corporate bonds and stock	54,219	43,170
Annuity investments	<u>145,435</u>	<u>141,176</u>
	<u>\$ 43,894,298</u>	<u>\$ 38,419,822</u>



MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

C. Investments, continued

Investment management fees were approximately \$92,000 and \$84,000 during the years ended June 30, 2014 and 2013, respectively.

D. Fair Value Measurements

The Foundation has determined the fair value of certain assets and liabilities through application of GAAP.

June 30, 2014	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Equity				
U.S. Large Cap	\$ 6,677,186	\$ 6,677,186	\$ -	\$ -
U.S. Small Cap	3,533,021	3,533,021	-	-
International	6,210,060	6,210,060	-	-
Global	1,815,896	1,815,896	-	-
Fixed income and cash:				
Cash	1,323,400	1,323,400	-	-
Core	5,669,000	5,669,000	-	-
Non-core/tactical	2,830,600	2,830,600	-	-
Alternative investments:				
Hedge funds	9,730,685	-	-	9,730,685
Real assets	5,367,618	-	-	5,367,618
Private equity	537,178	-	-	537,178
Corporate bonds and stocks	54,219	54,219	-	-
Annuity investment	145,435	145,435	-	-
Total assets	<u>\$ 43,894,298</u>	<u>\$ 28,258,817</u>	<u>\$ -</u>	<u>\$ 15,635,481</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

June 30, 2013	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 83,813	\$ 83,813	\$ -	\$ -
Mutual funds:				
Equity				
U.S. Large Cap	7,113,997	7,113,997	-	-
U.S. Small Cap	1,310,088	1,310,088	-	-
International	4,938,464	4,938,464	-	-
Global	1,640,009	1,640,009	-	-
Fixed income and cash:				
Cash	1,350,564	1,350,564	-	-
Core	5,605,976	5,605,976	-	-
Non-core/tactical	2,655,234	2,655,234	-	-
Alternative investments:				
Hedge funds	9,010,726	-	-	9,010,726
Real assets	4,186,261	-	-	4,186,261
Private equity	340,344	-	-	340,344
Corporate bonds and stocks	43,170	43,170	-	-
Annuity investment	141,176	141,176	-	-
Total assets	<u>\$ 38,419,822</u>	<u>\$ 24,882,491</u>	<u>\$ -</u>	<u>\$ 13,537,331</u>

Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities valued using level 3 inputs are valued as follows:

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

Quantitative Information about Level 3 Fair Value Measurements

	Valuation Techniques	Unobservable Inputs
Hedge funds	Capital contribution adjusted for allocated profits and losses based upon participation percentage (investor capital account divided total capital accounts) as determined at the beginning of the fiscal year.	<ul style="list-style-type: none"> <li>- Valuation and performance of underlying fund(s) being invested in by the hedge fund</li> <li>- Diversification of the underlying fund(s)</li> <li>- Leverage model used by the underlying fund(s)</li> </ul>
Real assets	<p>Investment is in various funds, which are valued individually using the following methods:</p> <ol style="list-style-type: none"> <li>1) Capped, float-adjusted, capitalization-weighted methodology</li> <li>2) Net asset value of underlying companies/funds being invested in, which hold real estate</li> <li>3) Current appraisal values and market information for properties held</li> <li>4) Market comparable companies</li> </ol>	<ul style="list-style-type: none"> <li>- Valuation and performance of underlying fund(s) being invested in</li> <li>- Diversification of the underlying fund(s)</li> <li>- Leverage model used by the underlying fund(s)</li> <li>- Relative health of industry in which real assets held are associated with</li> </ul>
Private equities	Market comparable companies	<ul style="list-style-type: none"> <li>- Discount for lack of marketability</li> <li>- Control premium</li> <li>- Threats from competition and regulatory environment</li> </ul>

There have been no changes in the methodology used to determine the fair market value at June 30, 2014 and 2013.



MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

The table below presents information about the changes in the fair value of assets based on significant unobservable inputs (Level 3):

	Hedge Funds	Real Assets	Private Equity	Total
Balance, June 30, 2012	\$ 7,639,015	\$ 3,366,300	\$ 200,000	\$ 11,205,315
Additional investment	865,000	-	-	865,000
Unrealized gains	539,099	824,085	141,344	1,504,528
Fees	(32,388)	(4,124)	(1,000)	(37,512)
Balance, June 30, 2013	\$ 9,010,726	\$ 4,186,261	340,344	\$ 13,537,331
Additional investment	3,351,411	648,996	151,586	4,151,993
Funds sold	(3,440,717)	-	-	(3,440,717)
Realized gains	2,173	-	-	2,173
Unrealized gains	826,152	541,189	46,037	1,413,378
Fees	(19,060)	(8,828)	(789)	(28,677)
Balance, June 30, 2014	\$ 9,730,685	\$ 5,367,618	\$ 537,178	\$ 15,635,481

Donor-Designated Endowments

The Foundation has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation follows UPMIFA and its own governing documents. The Foundation has interpreted UPMIFA as maintaining historical dollar value and to retain in endowment funds a portion of the investment return to support the increasing cost of benefits in the future, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations made pursuant to an applicable gift agreement. The Foundation has determined that the balance of its endowments includes funds that require that the income and net appreciation be restricted to certain uses for the benefit of participants.

The Foundation, on the advice of legal counsel, has determined that the majority of contributions are subject to the terms of its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation. Under the terms of the Foundation's governing documents, the Foundation has the ability to distribute as much of the original principal of any trust or separate gift, devise, bequest, or fund as the Foundation in its sole discretion shall determine. As a result of the ability to distribute the original principal, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 15. Morehead State University Foundation, Inc., continued

#### D. Fair Value Measurements, continued

##### Donor-Designated Endowments, continued

The Foundation has established a financial management and investment policy for endowment assets that provides general guidelines for the prudent investment management of the endowment fund assets. The investment policy is established with the objective to preserve the real purchasing power of endowment assets as well as generate capital appreciation, after accounting for endowment spending, inflation, and costs of the portfolio and fund management, both internal and external.

The current financial management and investment policy establishes an annual maximum approved spending goal for distributions of up to 3.5% of endowment assets, a combined Foundation management fee to support the annual operating budget and investment consultant fees shall not be greater than 2.5% of the portfolio value, and therefore the long-term target minimum annual return shall be 6.0%. In order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed more than 10% of total, and no more than 25% of total should be invested in any one sector.

The Foundation's investments include endowment investments for the University associated with the Technology Endowment Program and RUETF Endowment Match Program, also known as "Bucks for Brains". Funds held for the Technology Endowment Program are matched by the University of at least one dollar for every dollar of grant funds. As of both June 30, 2014 and 2013, the amount of funds included in the Foundation's investments held for the Technology Endowment Program was \$290,229. Funds held for the RUETF Endowment Match Program are endowed for the purposes of supporting endowed chairs and professorships, scholarships, fellowships, research funds, and mission support funds. As of June 30, 2014 and 2013, the amount of funds included in the Foundation's investments held for the RUETF Endowment Match Program was \$11,724,599 each year. These amounts are shown as funds held in trust for Morehead State University on the statements of financial position and are therefore not included in donor-designated endowment net assets.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

Donor-Designated Endowments, continued

Endowment net asset composition by fund type and changes in endowment net assets by fund type as of June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets,				
beginning of year	\$ -	\$ 8,664,493	\$ 18,046,361	\$ 26,710,854
Contributions	-	-	1,173,102	1,173,102
Interest and dividend income	-	545,407	-	545,407
Net appreciation	-	4,589,937	-	4,589,937
Amounts appropriated for expenditure	-	(833,729)	-	(833,729)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 12,966,108</u>	<u>\$ 19,219,463</u>	<u>\$ 32,185,571</u>

Endowment net asset composition by fund type and changes in endowment net assets by fund type as of June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets,				
beginning of year	\$ -	\$ 5,806,366	\$ 17,401,732	\$ 23,208,098
Contributions	-	-	644,629	644,629
Interest and dividend income	-	476,482	-	476,482
Net appreciation	-	2,538,155	-	2,538,155
Amounts appropriated for expenditure	-	(156,510)	-	(156,510)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 8,664,493</u>	<u>\$ 18,046,361</u>	<u>\$ 26,710,854</u>



MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

E. Pledges Receivable

Pledges receivable have been designated to be paid by donors as follows:

Year ended June 30,		
2015	\$	1,753,891
2016		1,139,890
2017		898,344
2018		815,690
2019		764,700
Thereafter		<u>1,006,000</u>
		6,378,515
Less: present value discount		(306,031)
Less: allowance for uncollectible pledges		<u>(607,248)</u>
Pledges receivable, net		5,465,236
Less: current pledges receivable		<u>(1,726,224)</u>
Noncurrent pledges receivable	\$	<u><u>3,739,012</u></u>

F. Property and Equipment

Property and equipment as of June 30, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 53,000	\$ 53,000
Furniture and equipment	158,616	127,907
Buildings	<u>175,000</u>	<u>175,000</u>
	386,616	355,907
Less: accumulated depreciation	<u>(159,485)</u>	<u>(146,588)</u>
	<u>\$ 227,131</u>	<u>\$ 209,319</u>

Depreciation expense was \$13,013 and \$12,468 for the years ended June 30, 2014 and 2013, respectively.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**15. Morehead State University Foundation, Inc., continued**

**G. Deferred Giving Program**

The Foundation established a life insurance deferred giving program during 1983. The program consists of donors designating the Foundation as the owner and beneficiary of life insurance policies. There are twenty deferred giving programs with life insurance in effect totaling \$625,000 and \$685,000 for the years ended June 30, 2014 and 2013, respectively. The cash surrender value of these policies as of June 30, 2014 and 2013 is \$107,228 and \$119,920, respectively.

**H. Support for Morehead State University**

The Foundation's purpose is to assist in the development, growth, expansion and progress of the student programs of Morehead State University. All support to the University has been disclosed separately on the statements of activities as University support.

**I. Net Investment in Capital Leases**

The Foundation's net investment in direct financing capital leases of real estate with the University as of June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Total minimum lease payments to be received	\$ 585,419	\$ 696,915
Less: unearned income	<u>(156,075)</u>	<u>(193,553)</u>
Net investment in capital leases	<u>\$ 429,344</u>	<u>\$ 503,362</u>

The following is a schedule of future minimum lease payments due from direct financing capital leases as of June 30:

2015	\$ 111,495
2016	77,700
2017	70,941
2018	70,941
2019	64,631
Thereafter	<u>189,711</u>
	<u>\$ 585,419</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

J. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available at June 30 for the following purpose:

	<u>2014</u>	<u>2013</u>
Funds restricted for specific purposes	\$ 20,298,343	\$ 12,623,333
Scholarships	15,455	13,681
Athletics	<u>211,280</u>	<u>24,738</u>
	<u>\$ 20,525,078</u>	<u>\$ 12,661,752</u>

Permanently restricted net assets at June 30, 2014 and 2013 consist of endowment funds.

Temporarily restricted net assets consist of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Cash	\$ 1,295,349	\$ 532,495
Pledges receivable	4,892,022	2,075,648
Accounts receivable	60,000	-
Investments	13,716,111	9,414,495
Buildings	132,252	135,752
Net investment in capital leases	<u>429,344</u>	<u>503,362</u>
	<u>\$ 20,525,078</u>	<u>\$ 12,661,752</u>

Permanently restricted net assets consist of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Cash	\$ 128,734	\$ 204,901
Pledges receivable	206,539	138,501
Investments	18,831,190	17,649,959
Buildings	<u>53,000</u>	<u>53,000</u>
	<u>\$ 19,219,463</u>	<u>\$ 18,046,361</u>



# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 15. Morehead State University Foundation, Inc., continued

#### K. Related-Party Transactions

The University entered into an agreement with the Foundation where the University will provide personnel, office space, support equipment and other services that may be necessary to the operation of the Foundation. The Foundation reimburses the University for these services at a rate determined mutually by the two entities, \$179,503 and \$81,709 for the years ended June 30, 2014 and 2013, respectively. GAAP requires recognition of professional services received if those services (a) create long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Those services in excess of the agreed upon amount are considered in-kind contributed services and are treated as both revenue and expense to the Foundation.

Related party transactions and balances are as follows during 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 102,377	\$ 99,499
Funds due to the University by the Foundation	131,180	31,928

Transactions with the University include direct financing capital leases and support for the University as disclosed in Notes H and I.

SUPPLEMENTAL INFORMATION

MOREHEAD STATE UNIVERSITY

Schedule of Bonds, Notes and Capital Lease Obligations

June 30, 2014

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2013</u>	<u>Payments 2013-14</u>	<u>New Issues</u>	<u>Outstanding June 30, 2014</u>	<u>Interest Paid 2013-14</u>	<u>Debt Service Requirements 2014-15</u>	
									<u>Principal</u>	<u>Interest</u>
Consolidated Educational Building Revenue Bonds:										
Series M	01/01/04	\$ 5,620,000	2.00-3.625	\$ 1,080,000	\$ 585,000	\$ -	\$ 495,000	\$ 42,637	\$ 40,000	\$ 21,431
Total educational buildings		5,620,000		1,080,000	585,000	-	495,000	42,637	40,000	21,431
General Receipts:										
2007 Series A Bonds	08/14/07	6,445,000	4.000	4,570,000	230,000	-	4,340,000	178,200	235,000	168,900
2008 Series A Bonds	06/10/08	10,000,000	3.00-3.800	6,695,000	715,000	-	5,980,000	221,204	735,000	197,641
2009 Series A Bonds	07/29/09	28,930,000	2.00-6.000	25,360,000	1,235,000	-	24,125,000	1,329,114	1,265,000	1,282,819
2010 Series A Bonds	06/29/10	5,770,000	1.27-5.750	5,280,000	250,000	-	5,030,000	239,138	255,000	232,794
2011 Series A Bonds	07/25/11	5,090,000	2.00-4.125	4,880,000	215,000	-	4,665,000	162,606	220,000	158,256
2012 Series A Bonds	06/15/12	5,060,000	2.00-3.625	5,060,000	210,000	-	4,850,000	143,181	215,000	138,931
2013 Series A Bonds	09/10/13	<u>9,475,000</u>	1.00-4.375	-	<u>345,000</u>	<u>9,475,000</u>	<u>9,130,000</u>	<u>154,549</u>	<u>375,000</u>	<u>294,079</u>
Total General Receipts		70,770,000		51,845,000	3,200,000	9,475,000	58,120,000	2,427,992	3,300,000	2,473,420



MOREHEAD STATE UNIVERSITY

Schedule of Bonds, Notes and Capital Lease Obligations

June 30, 2014

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2013</u>	<u>Payments 2013-14</u>	<u>New Issues</u>	<u>Outstanding June 30, 2014</u>	<u>Interest Paid 2013-14</u>	<u>Debt Service Requirements 2014-15</u>	
									<u>Principal</u>	<u>Interest</u>
Lease Purchase Agreements:										
MSU Foundation, Inc.	03/01/99	240,000	5.000	93,235	14,598	-	78,637	4,330	15,345	3,583
MSU Foundation, Inc.	10/21/02	466,457	9.400	326,528	21,839	-	304,689	30,174	23,982	28,030
Citi Mortgage, Inc.	03/31/05	1,824,000	4.190	930,508	127,350	-	803,158	37,668	132,742	32,276
Suntrust Bank, Inc.	06/15/05	3,874,522	3.580	888,594	436,415	-	452,179	27,940	452,179	12,177
MSU Foundation, Inc.	09/01/05	327,764	4.470	83,599	37,582	-	46,017	2,973	39,296	1,259
JP Morgan/Chase	03/31/12	9,671,127	2.650	9,671,127	403,256	-	9,267,871	570,803	735,731	238,328
Mabry Property	12/19/13	<u>875,000</u>	4.500	<u>-</u>	<u>53,790</u>	<u>875,000</u>	<u>821,210</u>	<u>19,185</u>	<u>111,274</u>	<u>34,678</u>
Total lease purchase		<u>17,278,870</u>		<u>11,993,591</u>	<u>1,094,830</u>	<u>875,000</u>	<u>11,773,761</u>	<u>693,073</u>	<u>1,510,549</u>	<u>350,331</u>
Total		<u>\$ 93,668,870</u>		<u>\$ 64,918,591</u>	<u>\$ 4,879,830</u>	<u>\$ 10,350,000</u>	<u>\$ 70,388,761</u>	<u>\$ 3,163,702</u>	<u>\$ 4,850,549</u>	<u>\$ 2,845,182</u>

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<b>US Department of Education</b>			
<b>Direct Programs:</b>			
<b>Student Financial Aid Cluster:</b>			
Federal Work Study		84.033	\$ 865,227
Federal Pell Grant Program		84.063	16,046,112
Federal Supplemental Educational Opportunity Grants Program		84.007	232,637
Federal Perkins Loan Program		84.038	694,584
Federal Direct Loan Program		84.268	48,860,886
Teacher Educational Assistance for College and Higher Education Grant		84.405	38,553
			<u>66,737,999</u>
<b>TRIO Cluster:</b>			
UPWARD BOUND MATH/SCI 12/13		84.047	256,612
UPWARD BOUND CENTRAL 13/14		84.047A	546,475
UPWARD BOUND EAST 12/13		84.047A	290,760
TALENT SEARCH 11/16		84.044A	418,903
TALENT SEARCH II 11/16		84.044A	247,079
STUDENT SUPPORT 10/15		84.042	316,021
CEOC-NE 09/14		84.066	443,415
			<u>2,519,265</u>
ROWLAND-USED-CEOC-SE 12/17		84.066A	230,601
GEAR UP IRAPP 08/14		84.334A	1,615,802
			<u>1,846,403</u>
<b>Passed through Kentucky Council on Postsecondary Education</b>			
BARTON-USED-CPE-ALGEBRA 12/14	PO2 415 1300003326 1	84.367B	96,151
BARTON-USED-CPE-ALGEBRA 14/15	PO2 415 1400003505	84.367	20,455
BARTON-USED-CPE-READING 12/13	PO2 415 1200003615 1	84.367B	7,171
BARTON-USED-CPE-READING 2 12/14	PO2 415 1300003285 1	84.367B	113,645
CONNELL-ADULT ED ACADEMY 12/13	PON2-415-1300000476-1	84.002	7,363
CONNELL-USED-CPE-GEAR UP 13/14	PO2 415 1400000542 1	84.334S	177,792
HARR-CPE-ADULT PROF DEV 13/14	PO2 415 1300006406 1	84.002	21,623
HENDERSON-BATH-USED-CPE 13/14	P02 415 1400000701 1	84.002	95,164
HENDERSON-MONT-USED-CPE 13/14	P02 415 1400000701 1	84.002	154,341
HENDERSON-MSU ADULT LC 12/13	P02 415 1300002114 1	84.002	12
HENDERSON-MSU-USED-CPE 13/14	P02 415 1400000701 1	84.002	132,606
Henderson-Perform-Bath 13/14	P02 415 1400000701 1	84.002	3,781
Henderson-Perform-MSU 13/14	P02 415 1400000701 1	84.002	7,027
Henderson-Perform-Powell 13/14	P02 415 1400000701 1	84.002	5,313
Henderson-Perform-West Liberty	P02 415 1400000701 1	84.002	3,709
HENDERSON-POWELL-USED-CPE 13/1	P02 415 1400000701 1	84.002	113,095
HENDERSON-WL-USED-CPE 13/14	P02 415 1400000701 1	84.002	149,905
HENDERSON-WOLFE-USED-CPE 13/14	P02 415 1400000701 1	84.002	84,538
STEELE-ADULT ED-USED-CPE 13/14	PO2 415 1300006203 1	84.002	307,756
			<u>1,501,447</u>
<b>Passed through Kentucky Department of Education</b>			
STUBBS-USED-KDE-FIELD BASED 13	PON2 540 1300002934 1	84.048A	20,808
STUBBS-USED-KDE-PD 13/14	PON2 540 1300002712 1	84.048A	2,708
WYMER-USED-KDE-COBRA 12/13	PON2-540-1200001684-1	84.366B	56,266
			<u>79,782</u>
<b>Passed through Kentucky Education and Workforce Development Cabinet</b>			
STUBBS-TITLE IC-NURSE 13/14	PON2 540 1300002845 1	84.048A	10,586
STUBBS-TITLE-IC-VET 13/14	PON2 540 1300002845 1	84.048A	10,324
STUBBS-TITLE IC-IMAGING 13/14	PON2 540 1300002845 1	84.048A	10,312
MATTINGLY-CDP REHAB 12/14	PON2-531-1200002811-1	84.346	821,626
			<u>852,848</u>

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Passed through National Writing Project Corp			
Mascle-USED-NWP-SEED 12/13	94-KY07-SEED2012	84.367D	8,718
MASCLE-USED-NWP-HIGHNEED 12/13	94-KY07-SEED2012	84.367D	200
			<u>8,918</u>
<b>Total U.S. Department of Education</b>			<u><b>73,546,662</b></u>
<b>Appalachian Regional Commission</b>			
<b>Direct Programs</b>			
KY AHED-WALKER 12/13		23.001	120,611
DEMOSS-ARC-DENTAL 13/14		23.001	346,782
DEMOSS-ARC-PARENT 13/14		23.001	180,169
DEMOSS-ARC-DENTAL 11/13		23.001	45,398
WALKER-ARC-KY AHED 13/14		23.001	116,887
			<u>809,847</u>
Passed through East Tennessee State			
HAIGHT-ARC-ETSU-ATP 13/14	220013-05	23.011	4,000
			<u>4,000</u>
<b>Total Appalachian Regional Commission</b>			<u><b>813,847</b></u>
<b>Corporation for National and Community Service</b>			
Direc JUDD-CNCS-RSVP 12/15		94.002	85,022
			<u>85,022</u>
Passed through Kentucky Cabinet for Health and Family Services			
MSU CORPS-CNCS 12/13	PO2 730 1300000045 2	94.006	29,975
WILLIAMS-CNCS-CHFS-MSU CORPS	PO2 730 1300000045 3	94.006	341,482
			<u>371,457</u>
<b>Total Corporation for National and Community Service</b>			<u><b>456,479</b></u>
<b>Corporation for Public Broadcasting</b>			
<b>Direct Programs</b>			
HITCHCOCK-CPB-RADIO 12/13		11.55	23,509
HITCHCOCK-CPB-RADIO BONUS 13/1		11.55	23,296
HITCHCOCK-CPB-RADIO 12/14		11.55	59,301
HITCHCOCK-CPB-RADIO CS 13/14		11.55	37,227
HITCHCOCK-CPB-RADIO CS 13/15		11.55	44,501
			<u>187,834</u>
<b>Total Corporation for Public Broadcasting</b>			<u><b>187,834</b></u>
<b>Institute of Museum and Library Services</b>			
<b>Direct Programs</b>			
COLLINSWORTH-OUTREACH 11/13		45.301	9,695
			<u>9,695</u>
<b>Total Institute of Museum and Library Services</b>			<u><b>9,695</b></u>



MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<b>National Aeronautics and Space Administration</b>			
<b>Direct Programs</b>			
MALPHRUS-NASA-FLASHLIGHT 13		43.001	24,779
MALPHRUS-NASA-UH FEED SYSTEM 1		43.008	28,933
			<u>53,712</u>
<b>Passed through Northern Kentucky University Research Foundation</b>			
Reeder-NASA-NKURF-STEM 13/15	4000972-S1	43.008	5,194
			<u>5,194</u>
<b>Passed through Radiance Technologies</b>			
MALPHRUS-NASA-RAD-SBIR1 14	W9132V-14-P-0006	43.001	6,999
			<u>6,999</u>
<b>Passed through University of Kentucky Research Foundation</b>			
XU-NASA-UKRF-MATERIALS SC 1213	NNX10AL96H, subaward 3048107336-13-144	43.001	1,240
MALPHRUS-NASA-EPSCOR 13/14	3048107646-13-239	43.008	75,000
PANNUTI-NASA-UKRF-FREQ 12/13	3048107645-13-145	43.001	8,282
PANNUTI-NASA-UKRF-FREQ 14	3048107336-14-103	43.001	109
JERDE-NASA-UKRF-SPACE WS 12/13	NNX10AL96H, subaward 3048107336-13-136	43.001	5,000
JERDE-NASA-UKRF-SPACE WS 14	3048107336-14-106	43.001	625
			<u>90,256</u>
<b>Total National Aeronautics and Space Administration</b>			<u><b>156,161</b></u>
<b>National Endowment for the Arts</b>			
<b>Direct Programs</b>			
Collinsworth-NEA-Cornett 14/15		45.024	10,509
			<u>10,509</u>
<b>Total National Endowment for the Arts</b>			<u><b>10,509</b></u>
<b>National Endowment for the Humanities</b>			
<b>Direct Programs:</b>			
SUMNER-NEH-MUSLIM 13/14		45.164	4,154
			<u>4,154</u>
<b>Total National Endowment for the Humanities</b>			<u><b>4,154</b></u>
<b>National Institute for Hometown Security</b>			
<b>Direct Programs:</b>			
LANGE-NIHS-STUDY 10/13		97.000*	90,542
			<u>90,542</u>
<b>Total National Institute for Hometown Security</b>			<u><b>90,542</b></u>
<b>National Institute of Health</b>			
<b>Direct Programs:</b>			
White-NIH AMP 07/10		93.279	5,888
CARLSON-NIH 13/16		93.865	83,792
WHITE-NIH-AMPHETAMINE 11/14		93.113	76,821
HARE-NIH-MOA OF UmuD 12/16		93.113	64,808
			<u>231,309</u>

\*Not subject to OMB Circular A-133

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<b>Passed through University of Louisville Research Foundation</b>			
INBRE-KBRIN-MATTINGLY 13/14	ULRF 09-0109D1-06	93.389	80,747
INBRE-KBRIN-CARLSON 14/15	ULRF 13-1493-08	93.389	4,847
INBRE-KBRIN-Startup 14/15	ULRF 13-1493-08	93.389	18,701
HARE-NIH-UMUD-KBRIN BRIDG 1314	ULRF 09-0109D1-06	93.389	25,832
INBRE-KBRIN-Hare-Bridge 14/15	ULRF 13-1493-08	93.389	5,168
INBRE-KBRIN-GIBBS-INVEST 13/14	ULRF 09-0109D1-06	93.389	83,817
INBRE-KBRIN-Mattingly 14/15	ULRF 13-1493-08	93.389	15,371
INBRE-KBRIN-DENNIS-LEAD 13/14	ULRF 09-0109D1-06	93.389	26,675
INBRE-KBRIN-Dennis-Lead 14/15	ULRF 13-1493-08	93.389	1,471
INBRE-KBRIN-CARLSON 13/14	ULRF 09-0109D1-06	93.389	19,801
			<hr/> 282,430
<b>Total National Institute of Health</b>			<hr/> <b>513,739</b>
<b>National Science Foundation</b>			
<b>Direct Programs</b>			
SCHACK-NSF-NUMERACY 11/12		47.076	17,602
HARE-NSF-MAPPING 12/14		47.075	101,901
DENNIS-NSF-PERIPLASMIC 11/14		47.074	74,991
			<hr/> 194,494
<b>Passed through Universidad Metropolitana, SRDC</b>			
ESPADA-SUMMER RESEARCH-13/14		47.049	8,197
			<hr/> 8,197
<b>Passed through University of Kentucky Research Foundation</b>			
OKEEFE-NSF-UKRF-CENOZOIC 12/13	Subaward 3048108525-13-165	47.081	11,467
			<hr/> 11,467
<b>Total National Science Foundation</b>			<hr/> <b>214,158</b>
<b>US Department of Agriculture</b>			
<b>Direct Programs:</b>			
MORLEY-RURAL BUS-USDA 13/14		10.769	42,467
MORLEY-USDA-RURAL BUS 12/13		10.769	24,056
MORLEY-ENERGY AUDIT 10/13		10.769	8,073
			<hr/> 74,596
<b>Passed through Kentucky Department of Education</b>			
Cady-Summer Food 14		10.558	10,558
CADY-SUMMER FOOD 13	103-X30-999-SU	10.558	21,758
			<hr/> 32,316
<b>Passed through Louisiana State University</b>			
MARK-USDA-LSU 11/13	2011-69005-30515	10.31	95
			<hr/> 95
<b>Total US Department of Agriculture</b>			<hr/> <b>107,007</b>
<b>US Department of Commerce</b>			
<b>Passed through Commonwealth Office of Technology</b>			
MARSHALL-COT-BROADBAND 13/14	PON2 079 1400000658 1	11.558	36,629
			<hr/> 36,629
<b>Total US Department of Commerce</b>			<hr/> <b>36,629</b>

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<b>US Department of Health and Human Services</b>			
<b>Direct Programs:</b>			
Barnett-HHS-Suicide Prevention		93.243	35,051
			<u>35,051</u>
<b>Passed through Eastern Kentucky University</b>			
WILSON-MSU TRAINING-HHS-EKU 13	452652-14-108	93.658	83,503
Geurin-PCWCP-Morehead 13/14	452655-14-112	93.658	6,505
Hesterberg-PCWCP-Ashland 13/14	PON2 736 1300002117 1	93.648	6,991
Hesterberg-PCWCP-Preston 13/14	PON2 736 1300002117 2	93.648	6,951
Geurin-PCWCP-Mt.Sterling 13/14	PON2 736 1300002117 1	93.658	5,927
			<u>109,877</u>
<b>Passed through Governor's Office of Early Childhood</b>			
AKERS-HHS-GOEC-CECC 13	PON2 135 1300001737 1	93.708	19,153
			<u>19,153</u>
<b>Passed through Ky Administrative Office of the Courts</b>			
SHANNON-DOJ-AOC-STATEWIDE13/14	PON2-025-1200001315	93.243	41,180
SHANNON-HHS-AOC-CLARK/MAD 13/1	PON2-025-1400000391	93.243	47,562
SHANNON-HHS-AOC-FAYETTE 13/14	PON2-025-110000001371	93.243	14,224
SHANNON-HHS-AOC-HOPKINS 13/14	PON2-025-1300002591	93.243	38,375
SHANNON-HHS-AOC-KNOTT/MAG13/14	PON2-025-1200002084	93.243	38,938
SHANNON-HHS-AOC-MCCRACKEN 13/1	PON2-025-1300001380	93.243	24,114
SHANNON-HHS-AOC-WARREN 13/14	PON2-025-1300001507	93.243	40,544
SHANNON-HHS-CLARKMADISON12/13	PON2-025-1200001292	93.243	56
SHANNON-HHS-COURT-DAVIESS12/13	PON2-025-110000001372	93.243	42,649
SHANNON-HHS-COURT-FAYETTE12/13	PON2-025-1100001371	93.243	26,851
SHANNON-HHS-COURT-HARDIN 12/13	PON2-025-1200000784	93.243	10,993
SHANNON-HHS-COURT-SMART 12/13	2011-DC-BX-0137	93.243	1,734
SHANNON-HHS-COURT-WARREN 12/13	1H79TI024174-01	93.243	7,470
SHANNON-HHS-CRT-MCCRACKEN 1213	1H79TI024488-01	93.243	11,634
SHANNON-HHS-HOPKINS #2 12/13	1H79TI024485-01	93.243	9,568
SHANNON-HHS-KNOTT-MAGOFFIN1213	PON2-025-1200002084	93.243	17,149
SHANNON-HHS-KNOX-LAUREL 12/13	PON2-025-1200000785	93.243	13,576
SHANNON-HHS-MUHLENBERG 12/13	PON2-025-1200001314	93.243	8,624
SHANNON-HHS-STATEWIDE 12/13	PON2-025-1200001315	93.243	4,379
			<u>399,620</u>
<b>Passed through Louisville Metro Government</b>			
JUDD-KY MEDICARE-HHS-METRO 13/	90MP0102-03-00	93.048	17,571
JUDD-HHS-CAPACITY BLDG 13/14	90SP0018-01	93.048	7,985
Judd-KY Medicare 14/15	90MP0102-04-00	93.048	1,170
JUDD-HHS-CAPACITY BLDG 12/13	90SP0018/01	93.048	2,615
			<u>29,341</u>
<b>Passed throughVolunteers of America of Los Angeles</b>			
SHANNON-HHS-VOL-SAFEHAVEN 1213	TI021268	93.243	11,336
SHANNON-HHS-VOL-REENTRY 12/13	TI022530-01	93.243	26,444
SHANNON-HHS-VOL-EVAL 13/14	TI024834-01	93.243	16,925
SHANNON-HHS-VOALA-HIV 12/13	TI024433	93.243	5,458
SHANNON-HHS-VOALA-SAFE HAVEN 1	TI021268	93.243	14,560
SHANNON-HHS-VOALA-HIV 13/14	TI024433	93.243	20,357
			<u>95,080</u>
<b>Total US Department of Health and Human Services</b>			<u><b>688,122</b></u>



MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<b>US Department of Justice</b>			
<b>Passed through Ky Administrative Office of the Courts</b>			
SHANNON-DOJ-CRT-VETERANS 12/13	2012-DC-BX-0039	93.243	4,433
Shannon-DOJ-AOC-Hardin VTC 13/	PON2 025 1400000814	93.243	1,021
SHANNON-DOJ-AOC-PERRY 13/14	PON2-025-1400000892	93.243	1,564
SHANNON-DOJ-AOC-FLOYD 13/14	2012-DC-BX-0035	93.243	1,554
SHANNON-DOJ-AOC-JEFFERSON13/14	PON2-025-1300001425	93.243	9,026
Shannon-DOJ-AOC-Conf. Eval. 13	PON2 025 1400000813	93.243	814
			<u>18,412</u>
<b>Passed through KY Justice &amp; Public Safety Cabinet</b>			
WILBURN-DOJ-RESPONSE 13	VAWA-2012-Morehead-00262	16.588	9,393
WILBURN-DOJ-RESPONSE 14	VAWA-2013-Morehead-00308	16.588	6,585
			<u>15,978</u>
<b>Total US Department of Justice</b>			<u>34,390</u>
<b>US Department of Labor</b>			
<b>Direct Programs:</b>			
WILSON-DOL-YOUTHBUILD 12/13		17.274	399,891
			<u>399,891</u>
<b>Passed through Buffalo Trace Area Development District:</b>			
REYNOLDS-TODAY'S YOUTH 13/14	FY14-5245	17.259	112,369
REYNOLDS-TODAY'S YOUTH 12/13	FY 13-5245	17.259	55
			<u>112,424</u>
<b>Total US Department of Labor</b>			<u>512,315</u>
<b>US Department of State</b>			
<b>Direct Programs:</b>			
MASTERSON-DOS-READING RM 1213		19.7	28,925
			<u>28,925</u>
<b>Total US Department of State</b>			<u>28,925</u>
<b>US Environmental Protection Agency</b>			
<b>Passed through Kentucky Energy and Environmetn Cabinet:</b>			
McNeil-EPA-KEC-LAB 12/13	PON2-129-1200002196-1	66.468	29,670
HAIGHT-TRIPLETT CREEK 14/17	PON2 129 1400001224 1	66.605	1,855
			<u>31,525</u>
<b>Passed through KY Division of Water:</b>			
Haight-Triplett Creek 08/09	C9994861-08	66.46	129,420
			<u>129,420</u>
<b>Passed through Tetra Tech:</b>			
REEDER-EPA-TT-HINKSTON CRK 14	C9994861-11	66.46	6,200
			<u>6,200</u>
<b>Total US Environmental Protection Agency</b>			<u>167,145</u>
<b>US Geological Survey</b>			
<b>Direct Programs:</b>			
OKEEFE-USGS-CCTP 12/13		15.808	1,531
			<u>1,531</u>

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Passed through America View, Inc MCMICHAEL-USGS-AMVIEW 12/13	AV08-KY-01	15.815	<u>14,155</u> 14,155
Passed through University of Kentucky Research Foundation HAIGHT-USGS-UKRF-WATERSHED 14/	3048108119-14-157	15.805	<u>398</u> 398
<b>Total US Geological Survey</b>			<u>16,084</u>
<b>US Small Business Administration</b>			
Passed through University of Kentucky Research Foundation:			
MORLEY-SBA-UKRF-FED 12/13	3048110108-13-160	59.037	35,378
MORLEY-SBA-UKRF-SBDC 13/14	30448111056-14-090	59.037	109,817
MORLEY-SBA-UKRF-EXPORT 13	3049025096	59.037	<u>6,416</u>
			151,611
<b>Total US Small Business Administration</b>			<u>151,611</u>
<b>Total</b>			<u>\$ 77,746,008</u>

MOREHEAD STATE UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Morehead State University (the "University") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Federal Student Loan Programs

Loans made by the University to eligible students under the Federal Perkins Loan Program and federal student loans issued by the Federal Direct Loan Program during the year ended June 30, 2014 are summarized as follows:

Federal Perkins Loan Program:		
Loans disbursed	\$	694,584
Federal Direct Loan Program:		
Federal Unsubsidized Loans	\$	30,936,371
Federal Subsidized Loans		15,780,615
Federal Plus Loans		2,143,900

As of June 30, 2014, the University had loans outstanding, in the amount of \$3,587,057 with an allowance for doubtful accounts of \$84,655 under the Federal Perkins Loan Program.



**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

**Report of Independent Auditors**

Members of the Board of Regents and  
Dr. Wayne D. Andrews, President  
Morehead State University  
Morehead, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Morehead State University (the University) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 24, 2014.

**Internal Control over Financial Reporting**

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

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

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

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

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

### Purpose of this Report

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

*Dean Dotson Allen Ford, PLLC*

November 24, 2014  
Lexington, Kentucky

**Report on Compliance For Each Major Federal Program  
and Report on Internal Control Over Compliance  
Required by OMB Circular A-133**

**Report of Independent Auditors**

Members of the Board of Regents and  
Dr. Wayne D. Andrews, President  
Morehead State University  
Morehead, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of Morehead State University (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The University's major federal programs are identified in the summary of auditors' results section of the accompanying *Schedule of Findings and Questioned Costs*.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.



Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Dean Dotson Allen Ford, PLLC*

November 24, 2014  
Lexington, Kentucky

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Section I – Summary of Auditors’ Results (under Section .505(d)(1) of OMB Circular A-133):

Financial Statements:

- a. The type of report issued on the financial statements: **Unmodified Opinion**
- b. Internal control over financial reporting:  
Material weaknesses: **No**  
Significant deficiencies identified that are not considered to be material weaknesses: **None Noted**
- c. Non-compliance which is material to the financial statements: **No**

Federal Award:

- d. Internal control over major programs:  
Material weaknesses: **No**  
Significant deficiencies identified that are not considered to be material weaknesses: **None Noted**
- e. The type of report issued on compliance for major programs: **Unmodified Opinion**
- f. Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **No**
- g. Major programs:  
Student Financial Aid Custer:  
Federal Pell Grant, CFDA 84.063  
Federal Work Study, CFDA 84.033  
Federal Supplemental Educational Opportunity Grant, CFDA 84.007  
Federal Perkins Loan, CFDA 84.038  
Federal Direct Loan Program, CFDA 84.268  
Teacher Education Assistance for College and Higher Education Grant, CFDA 84.405  
Adult Education – Basic Grants to States, CFDA 84.002  
Carl D. Perkins Vocational Training Center, CFDA 84.346  
Appalachian Regional Development, CFDA 23.001  
Youthbuild, CFDA 17.274  
AmeriCorps, CFDA 94.006
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$327,524**
- i. Auditee qualified as a low-risk auditee: **Yes**

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

**Section II – Financial Statement Findings (under Section .505(d)(2) of OMB Circular A-133):**

Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:  
None Noted

**Section III – Federal Award Findings and Questioned Costs (under Section .505(d)(3) of OMB Circular A-133):**

None Noted