

**MOREHEAD STATE UNIVERSITY**

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

*As of and for the Years Ended June 30, 2008 and 2007  
with Independent Auditors' Report Thereon*

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# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis



### MANAGEMENT'S DISCUSSION AND ANALYSIS

Morehead State University's (the University) Management 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, 2008. 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**

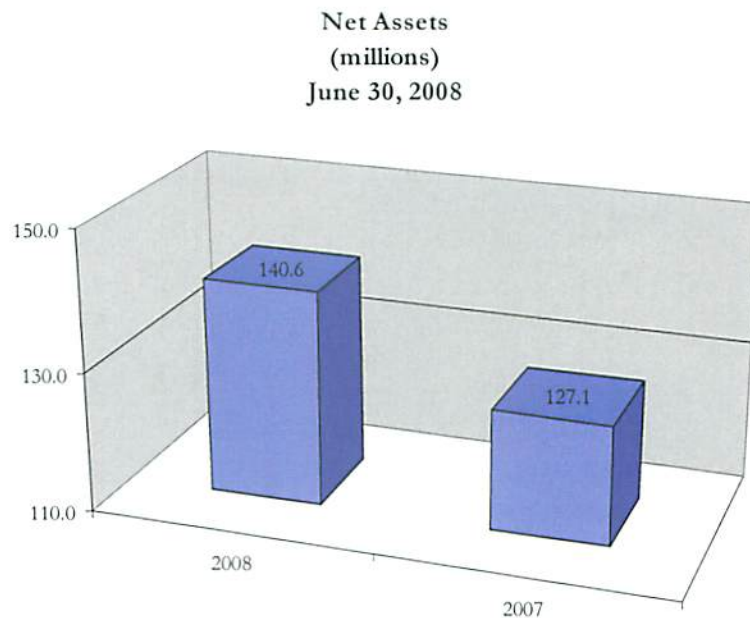
- The financial statements indicate that the University's financial condition remained stable at June 30, 2008. Financial operations were conducted in accordance with the approved budget plan.
- Total assets were \$186 million versus \$172 million at June 30, 2007. Significant components of the assets include \$28 million in cash, \$13 million in investments and \$131 million in capital assets net of depreciation.
- Total liabilities were \$46 million versus \$45 million at June 30, 2007. The significant components of the liabilities were \$30 million in bonds, notes and capital lease obligations, \$8 million in accounts payable

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis, continued

and accrued liabilities, \$4 million in refundable grants and \$4 million in deferred revenue and other liabilities.

- Total net assets were \$141 million at June 30, 2008 and \$127 million at June 30, 2007. Significant components of net assets include \$103 million invested in capital assets, net of depreciation and related debt, \$9 million in expendable restricted net assets, \$12 million of non-expendable restricted net assets and \$17 million in unrestricted net assets.



- Operating revenues were \$81 million at June 30, 2008 and \$75 million at June 30, 2007. Operating expenses were \$135 million versus \$120 million at June 30, 2007. This created an operating loss of \$54 million versus an operating loss of \$45 million at June 30, 2007.
- Net nonoperating revenues were \$47 million for the year ended June 30, 2008 and \$46 million for the year ended June 30, 2007. Nonoperating revenues were comprised primarily of state appropriations. The combination of the net loss from operations, the net nonoperating revenues and capital appropriations of \$20 million, resulted in an increase in net assets of \$14 million.

# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis, continued

### 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 Assets,
- the Statement of Revenues, Expenses and Changes in Net Assets 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 28 of the Financial Statements. The Notes to the Financial Statements contain policies, explanations and schedules that should be reviewed before, during and after reviewing the Statements in order to get a complete understanding.

# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis, continued

### **The Statement of Net Assets**

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 assets (the difference between assets and liabilities) are one indicator of the University's financial health. Over time, increases or decreases in net assets can indicate improvement or erosion of the University's financial health. Changes in net assets 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 Assets**

This statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB 35 requires state appropriations and gifts to be classified as nonoperating revenues. Accordingly, the University will generate a net operating loss prior to the addition of nonoperating 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

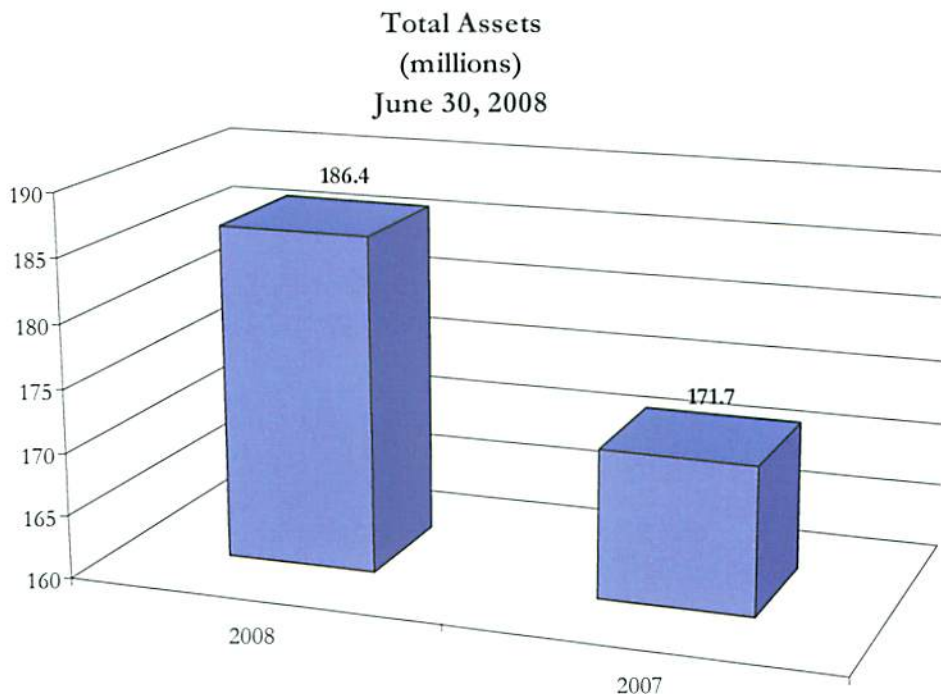
Management's Discussion and Analysis, continued

Condensed Financial Information  
Statement of Net Assets (in thousands)

	<u>2008</u>	<u>2007</u>
<b><u>Assets</u></b>		
Current assets	\$ 37,424	\$ 30,287
Capital assets	131,544	121,704
Other noncurrent assets	<u>17,420</u>	<u>19,709</u>
Total assets	<u>186,388</u>	<u>171,700</u>
<b><u>Liabilities</u></b>		
Current liabilities	15,561	14,583
Noncurrent liabilities	<u>30,196</u>	<u>30,020</u>
Total liabilities	<u>45,757</u>	<u>44,603</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	102,745	92,572
Restricted, expendable	8,570	5,827
Restricted, nonexpendable	11,760	11,756
Unrestricted	<u>17,556</u>	<u>16,942</u>
Total net assets	<u>\$ 140,631</u>	<u>\$ 127,097</u>

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Management's Discussion and Analysis, continued



Assets

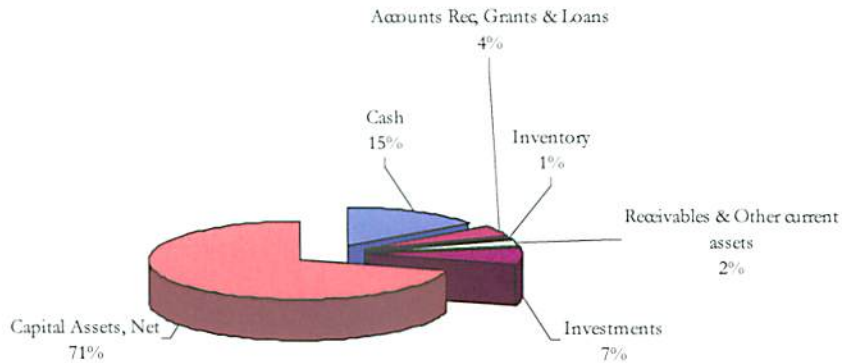
As of June 30, 2008, the University's total assets amount to approximately \$186 million versus \$172 million at June 30, 2007. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$131 million compared to \$122 million at June 30, 2007. Cash and investments, totaling \$41 million at June 30, 2008 and \$36 million at June 30, 2007, were the University's next largest asset.



# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis, continued

Assets  
(millions)  
June 30, 2008



Total assets increased by \$14.7 million during the year ended June 30, 2008. The principal areas of change were:

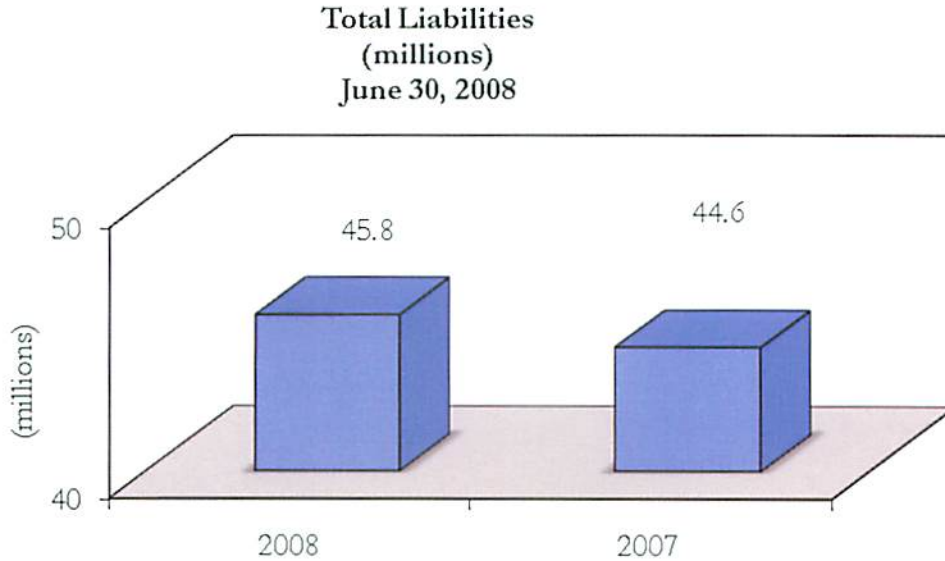
- cash and cash equivalents increased approximately \$8.3 million,
- accounts, grants and loans receivable, net decreased approximately \$1.1 million,
- capital assets, net of accumulated depreciation, increased approximately \$9.8 million,
- investments and other receivables decreased approximately \$2.9 million

### Liabilities

At June 30, 2008, the University's liabilities totaled approximately \$46 million versus \$45 million the previous year. Bonds, notes payable and capital lease obligations for capital assets represented \$30 million versus \$29 million at June 30, 2007.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued



Total liabilities increased by \$1.2 million during the year ended June 30, 2008. This increase was primarily due to a \$0.6 million increase in accounts payable and accrued liabilities, a \$0.4 million increase in bonds, notes and capital lease obligations and an increase of \$0.2 million in deferred revenue and other liabilities.

**Net Assets**

Net assets at June 30, 2008 totaled approximately \$141 million compared to \$127 million at June 30, 2007. Net assets invested in capital assets, net of related debt, totaled \$103 million versus \$92 million at June 30, 2007. Restricted net assets totaled \$20 million compared to \$18 million at June 30, 2007. Unrestricted net assets accounted for \$18 million versus \$17 million at June 30, 2007. Total net assets increased by \$14 million during the year ended June 30, 2008.

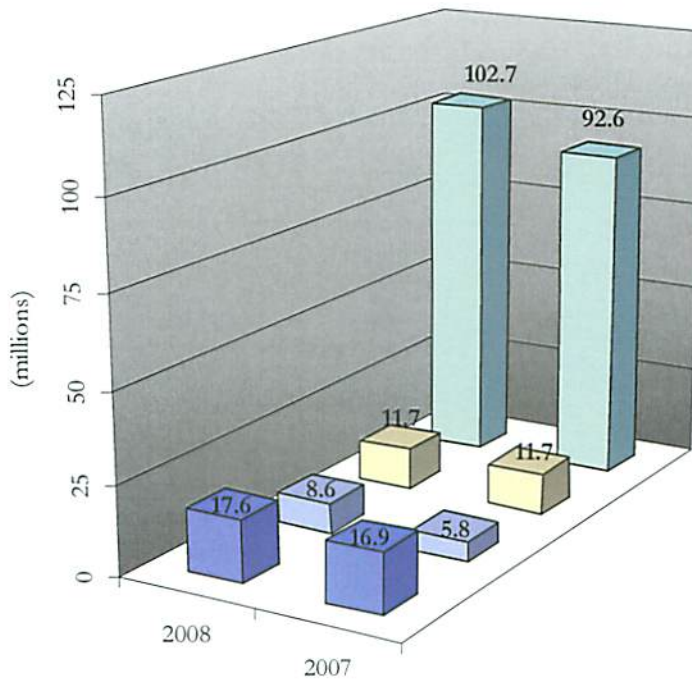
MOREHEAD STATE UNIVERSITY

Management’s Discussion and Analysis, continued

Net Assets Invested in Capital Assets, Net of Related Debt

Net assets invested in capital assets, net of related debt, increased by \$10.2 million. This increase was primarily due to revenue received for capital projects in the amount of \$13.7 million from state bond proceeds and from revenue received for capital projects in the amount of \$5.7 million from the sale of General Receipts Bonds. Other increases to net assets invested in capital assets, net of related debt, resulted from an increase of appropriations for capital construction of \$12.8 million versus a decrease of \$2.7 million last year, an increase of \$0.2 million for land improvements versus an increase of \$3.8 million last year and net increases in other capital assets of \$1.9 million at June 30, 2008 versus net increases of \$1.3 million at June 30, 2007. Also, new debt was issued in the amount of \$18.3 million and there were \$17.9 million in payments of principal on debt compared to \$3.4 million during fiscal year 2007. Decreases in net assets invested in capital assets were primarily due to a decrease of \$19 million for equipment and livestock versus a \$2.8 million increase last year, a \$1.6 million decrease in capital appropriations for buildings versus an increase of \$2.1 million at June 30, 2007. Other decreases in net assets invested in capital assets were from current year depreciation of \$7.4 million compared to \$7.4 million for the year ended June 30, 2007 and losses on disposals and sales of assets of \$3 million compared to \$0.1 million during fiscal year 2007.

**Total Net Assets  
June 30, 2008**



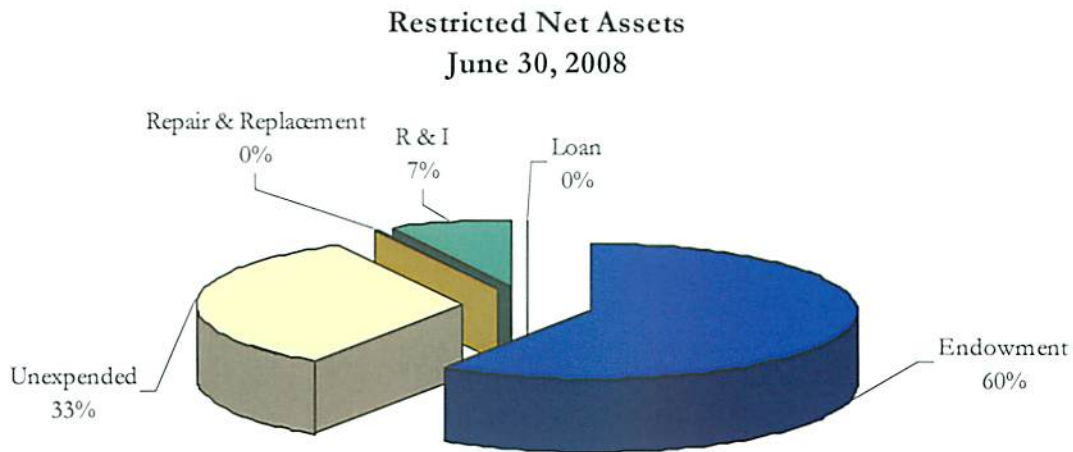
■ Unrestricted   ■ Expendable   ■ Non Expendable   ■ Invested in capital assets, net of related debt

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## Management's Discussion and Analysis, continued

### Restricted Net Assets

Restricted net assets are subject to stipulations made by entities external to the University that govern the use of these funds. Restricted net assets increased by \$2.7 million from the previous year to \$20 million. Major components of the increase include a \$5.7 million increase in unexpended restricted net assets and a decrease of \$3.2 million in the retirement of indebtedness net assets.



### Unrestricted Net Assets

Unrestricted net assets increased by \$0.6 million from the previous year to \$18 million. Unrestricted net assets are not subject to externally imposed restrictions. However, substantially all of the unrestricted net asset 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 assets as of June 30, 2008 is as follows:

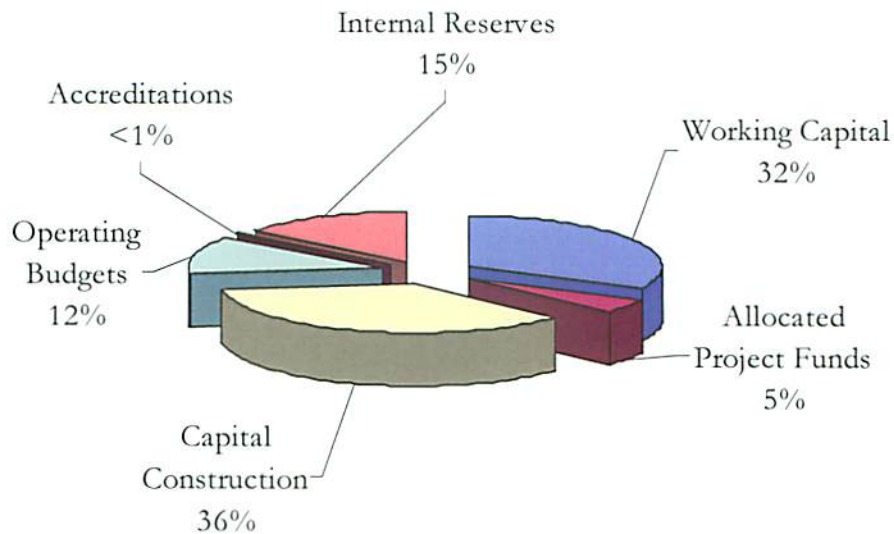
MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

*Allocation of Unrestricted Net Assets (in thousands)*

	<u>2008</u>	<u>2007</u>
Working capital	\$ 5,668	\$ 3,835
Allocated project funds	820	887
Capital construction	6,329	4,847
Operating budgets	2,156	2,800
Accreditations	23	11
Internal reserves	<u>2,560</u>	<u>4,561</u>
Unrestricted net assets	<u>\$ 17,556</u>	<u>\$ 16,941</u>

**Allocation of Unrestricted Net Assets  
June 30, 2008**



**MOREHEAD STATE UNIVERSITY**

Management's Discussion and Analysis, continued

**Statements of Revenues, Expenses and Changes in Net Assets (in thousands)**

	<u>2008</u>	<u>2007</u>
<b><u>Operating Revenues</u></b>		
Student tuition and fees, net	\$ 28,796	\$ 26,061
Federal grants and contracts	21,142	19,622
State and local grants and contracts	10,704	9,585
Nongovernmental grants and contracts	866	775
Sales and services of educational activities	2,148	2,303
Auxiliary enterprises	12,854	11,944
Other operating revenue	<u>4,208</u>	<u>4,662</u>
<b>Total operating revenue</b>	<b><u>80,718</u></b>	<b><u>74,952</u></b>
<b><u>Operating Expenses</u></b>		
Educational and general	111,842	101,706
Auxiliary enterprises	12,251	10,628
Depreciation	7,414	7,482
Other operating expenses	<u>2,994</u>	<u>328</u>
<b>Total operating expenses</b>	<b><u>134,501</u></b>	<b><u>120,144</u></b>
<b>Operating loss</b>	<b><u>(53,783)</u></b>	<b><u>(45,192)</u></b>
<b><u>Nonoperating Revenues (Expenses)</u></b>		
State appropriations	47,311	45,531
Investment income, net	1,289	2,148
Interest on capital assets – debt related	<u>(1,588)</u>	<u>(1,377)</u>
<b>Net nonoperating revenues</b>	<b><u>47,012</u></b>	<b><u>46,302</u></b>
<b>(Loss) income before other revenues, expenses, gains or losses</b>	<b>(6,771)</b>	<b>1,110</b>
Capital appropriations	<u>20,305</u>	<u>7,095</u>
<b>Increase in net assets</b>	<b>13,534</b>	<b>8,205</b>
Net assets, beginning of year	<u>127,097</u>	<u>118,892</u>
<b>Net assets, end of year</b>	<b><u>\$ 140,631</u></b>	<b><u>\$ 127,097</u></b>

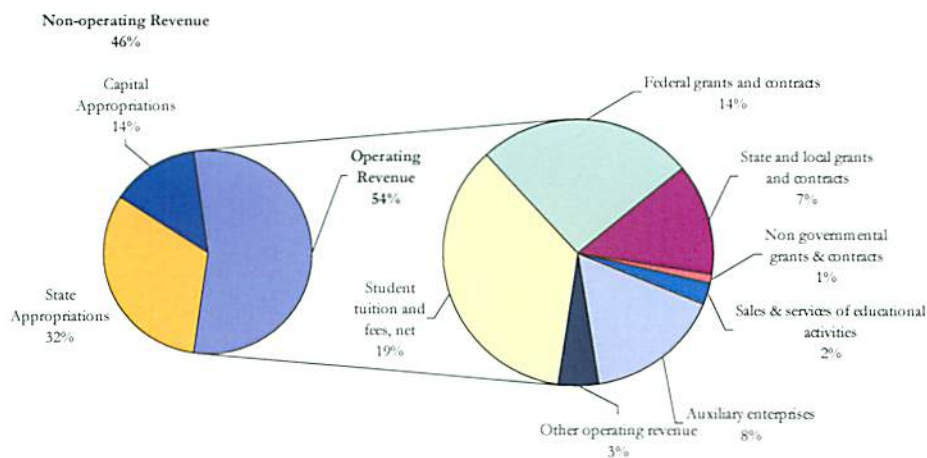
# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis, continued

### Revenues

Total operating revenues were approximately \$81 million for the year ended June 30, 2008 and approximately \$75 million for the year ended June 30, 2007. The most significant sources of operating revenue for the University are net student fees \$29 million, federal grants and contracts \$21 million, auxiliary enterprises \$13 million, state and local grants \$11 million and other revenues including, private grants and sales and services of educational activities, \$7 million.

Sources of Revenue  
June 30, 2008

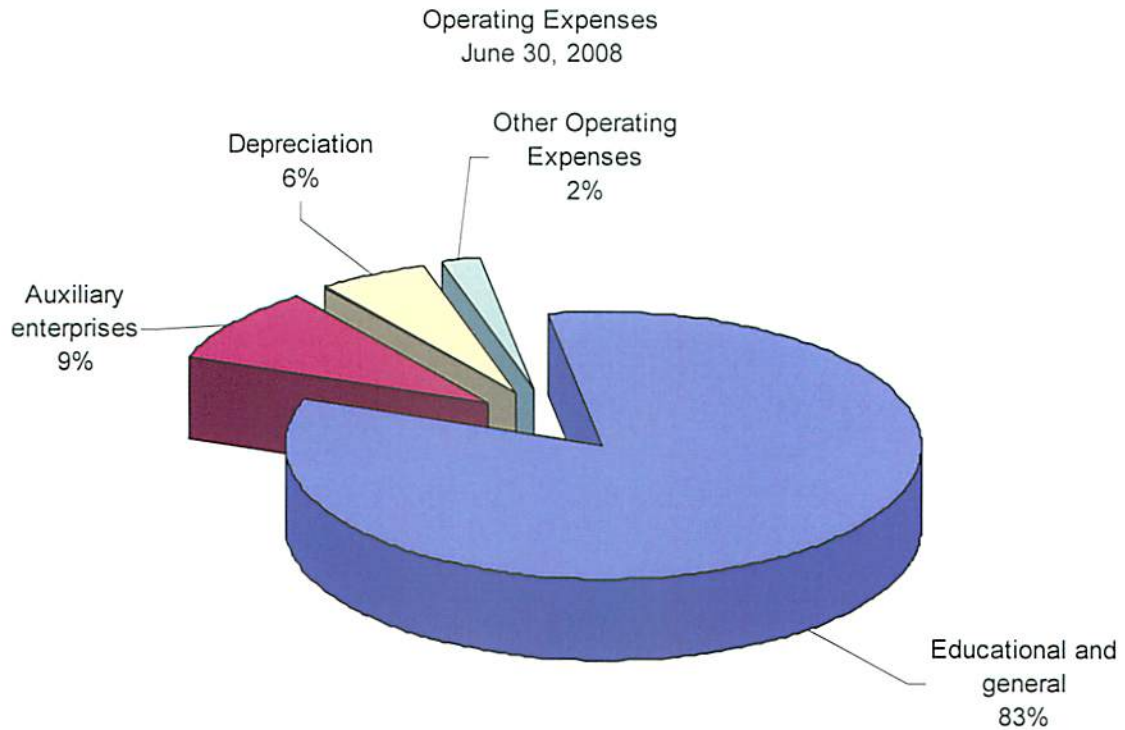


### Expenses

Operating expenses totaled approximately \$135 million compared to \$120 million at June 30, 2007. Of this amount, approximately \$112 million was used for educational and general expenses related to functions such as instruction, research and public service.

# MOREHEAD STATE UNIVERSITY

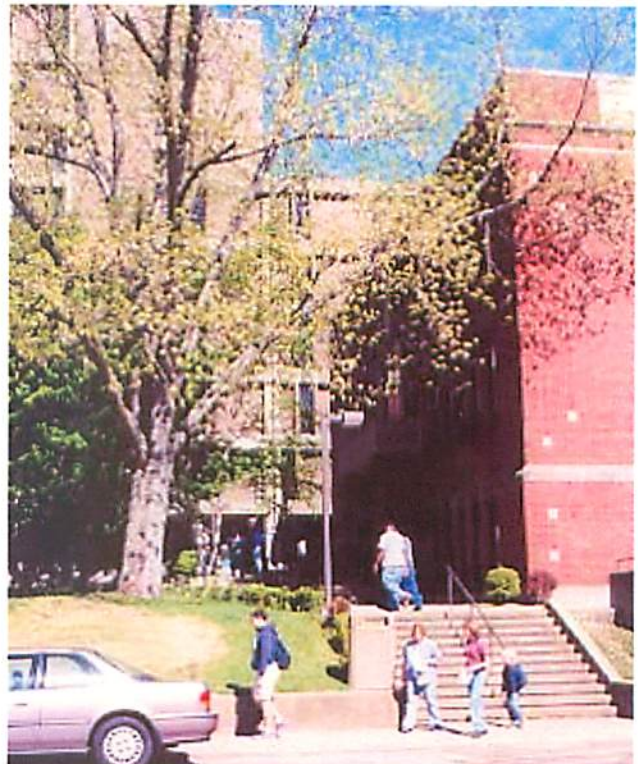
## Management's Discussion and Analysis, continued



### 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.





MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Statement of Cash Flows (In Thousands)  
Year ended June 30,

	<u>2008</u>	<u>2007</u>
<b>Cash Provided By (Used In):</b>		
Operating activities	\$ (41,367)	\$ (42,071)
Noncapital financing activities	47,311	45,531
Capital and related financing activities	(2,053)	(6,622)
Investing activities	<u>4,447</u>	<u>2,438</u>
Net increase (decrease) in cash	8,338	(724)
Cash, beginning of the year	<u>19,243</u>	<u>19,967</u>
Cash, end of the year	<u>\$ 27,581</u>	<u>\$ 19,243</u>

Major sources of funds included in operating activities are student tuition and fees, \$23.9 million versus \$21.4 million the previous year and grants and contracts, \$37.6 million compared to \$25.6 million the previous year. The largest cash payments for operating activities were made to employees \$58.6 million versus \$54.6 million the previous year and suppliers \$64.3 million compared to \$54.7 million the previous year.



The largest cash receipt in the noncapital financing activities group is the operating appropriation from the Commonwealth of Kentucky of \$47.3 million versus \$45.5 million the previous year and cash used by capital and related financing activities is primarily

expended on the construction and acquisition of capital assets.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Capital Asset and Debt Administration

Capital Assets

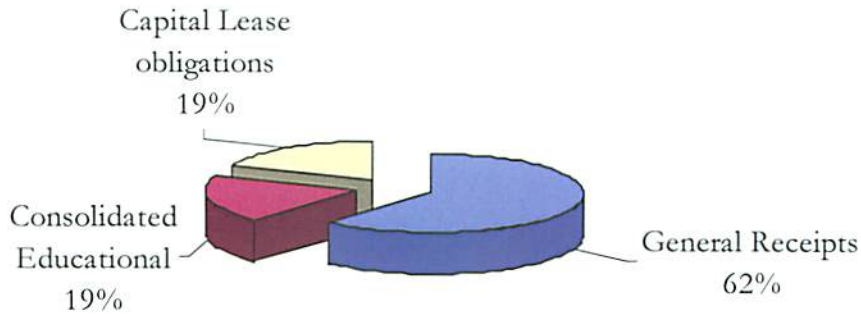
Capital assets, net of accumulated depreciation (but not of related debt), totaled approximately \$131.5 million at June 30, 2008 versus \$121.7 million at June 30, 2007. This represents a net increase of \$9.8 million over June 30, 2007. Significant changes to capital assets during fiscal 2007 - 2008 included:

Buildings and structures	\$(1.4)	million
Library additions, equipment and vehicles	(17.6)	million
Net change in construction in progress	12.8	million
Decrease in accumulated depreciation, net	16.0	million

Debt

At year-end, the University had \$29.5 million in outstanding debt versus \$29.1 million the previous year. This includes \$23.9 million in bond payable compared to \$22.8 million at June 30, 2007. In addition, the University had capital lease obligations of \$5.6 million compared to \$6.3 million the previous year-end.

Outstanding Debt  
June 30, 2008



**MOREHEAD STATE UNIVERSITY**

**Management's Discussion and Analysis, continued**

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

	June 30,	
	<u>2008</u>	<u>2007</u>
Housing and Dining System revenue bonds	\$ -	\$ 16,330
General Receipts bonds	18,320	-
Consolidated Educational buildings revenue bonds	5,530	6,415
Capital lease obligations	5,674	6,257
Notes payable	<u>-</u>	<u>130</u>
	<u>\$ 29,524</u>	<u>\$ 29,132</u>

Debt outstanding increased approximately \$0.4 million from the end of the prior year.

**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, 2009 totaling \$122 million.
- Under the new 2008-09 tuition model, all students will be assessed tuition on a per credit hour basis. The weighted average tuition increase for an MSU student will be 5% for fiscal year 2008-09.

DEAN DORTON FORD

## Independent Auditors' Report

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

We have audited the accompanying financial statements of Morehead State University (the "University") and its discretely presented component unit as of June 30, 2008 and 2007, and for the years then ended, which collectively comprise the University's basic financial statements as listed on the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

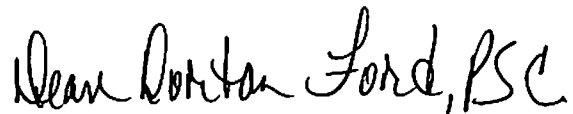
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2008 and 2007, and the respective changes in its net assets and, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2008, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 1 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The supplemental information contained on pages 57 through 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the University. The supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 7, 2008  
Lexington, Kentucky

A handwritten signature in black ink that reads "Dean Donivan Ford, PSC". The signature is written in a cursive, flowing style.

**MOREHEAD STATE UNIVERSITY**

Statement of Net Assets

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 27,581,056	\$ 19,242,952
Accounts, grants and loans receivable, net	7,925,010	8,996,258
Prepaid interest	124,649	-
Inventories	1,674,861	1,926,554
Other current assets	<u>118,295</u>	<u>121,278</u>
Total current assets	<u>37,423,871</u>	<u>30,287,042</u>
Noncurrent assets:		
Accounts, grants and loans receivable, net	3,670,066	3,403,180
Prepaid interest	600,786	-
Investments	13,149,065	16,306,863
Capital assets, net	<u>131,544,122</u>	<u>121,703,879</u>
Total noncurrent assets	<u>148,964,039</u>	<u>141,413,922</u>
Total assets	<u>186,387,910</u>	<u>171,700,964</u>
<b>Liabilities &amp; Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	8,424,392	7,723,602
Deferred revenue	3,142,456	2,984,786
Other current liabilities	809,228	717,700
Bonds, notes and capital lease obligations, current portion	<u>3,184,960</u>	<u>3,157,368</u>
Total current liabilities	<u>15,561,036</u>	<u>14,583,456</u>
Long-term liabilities:		
Bonds, notes and capital lease obligations, noncurrent portion	26,339,235	25,974,194
Advances from federal government for student loans	<u>3,856,503</u>	<u>4,046,260</u>
Total long-term liabilities	<u>30,195,738</u>	<u>30,020,454</u>
Total liabilities	<u>45,756,774</u>	<u>44,603,910</u>
Net Assets:		
Invested in capital assets, net of related debt	102,745,364	92,572,317
Restricted:		
Expendable	8,569,611	5,827,346
Nonexpendable	11,759,719	11,755,936
Unrestricted	<u>17,556,442</u>	<u>16,941,455</u>
Total net assets	<u>\$ 140,631,136</u>	<u>\$ 127,097,054</u>

See accompanying notes.

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statement of Financial Position

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 432,070	\$ 507,340
Accounts receivable	-	22,069
Accrued interest receivable	11,013	14,454
Pledges receivable, net	376,639	650,914
Lease financing receivable, current	<u>140,988</u>	<u>130,342</u>
Total current assets	<u>960,710</u>	<u>1,325,119</u>
<b>Noncurrent assets:</b>		
Investments	27,829,257	29,145,811
Cash surrender value – life insurance	94,047	105,235
Property and equipment, net	243,976	267,248
Pledges receivable, net	490,085	519,149
Lease financing receivable	<u>1,186,665</u>	<u>1,327,653</u>
Total noncurrent assets	<u>29,844,030</u>	<u>31,365,096</u>
 Total assets	 <u>\$ 30,804,740</u>	 <u>\$ 32,690,215</u>
<b>Liabilities &amp; Net Assets</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 11,170	\$ 6,109
Annuities payable	87,582	78,681
Due to Morehead State University	<u>26,900</u>	<u>26,900</u>
Total current liabilities	<u>125,652</u>	<u>111,690</u>
<b>Long-term liabilities:</b>		
Funds held in trust for Morehead State University	11,329,592	11,329,598
Annuities payable	388,591	303,752
Due to Morehead State University	<u>80,700</u>	<u>80,700</u>
Total long-term liabilities	<u>11,798,883</u>	<u>11,714,050</u>
 Total liabilities	 <u>11,924,535</u>	 <u>11,825,740</u>
<b>Net Assets:</b>		
Unrestricted	241,928	294,629
Temporarily restricted	5,373,253	7,618,200
Permanently restricted	<u>13,265,024</u>	<u>12,951,646</u>
Total net assets	<u>18,880,205</u>	<u>20,864,475</u>
 Total liabilities and net assets	 <u>\$ 30,804,740</u>	 <u>\$ 32,690,215</u>

**MOREHEAD STATE UNIVERSITY**

Statement of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$18,521,080 and \$18,436,900)	\$ 28,795,640	\$ 26,060,527
Federal grants and contracts	21,142,394	19,622,279
State and local grants and contracts	10,704,492	9,585,224
Nongovernmental grants and contracts	866,247	774,816
Sales and services of educational activities	2,148,093	2,303,292
Auxiliary enterprises:		
Residence halls (net of scholarship allowances of \$81,462 and \$84,088)	7,595,819	7,252,831
Bookstore	4,149,390	3,895,745
Other auxiliaries	1,108,324	795,130
Other operating revenues	<u>4,207,762</u>	<u>4,662,631</u>
Total operating revenues	<u>80,718,161</u>	<u>74,952,475</u>
 Operating expenses:		
Education and general:		
Instruction	46,438,012	44,626,658
Research	2,592,195	2,340,694
Public service	7,087,842	7,313,882
Library	3,102,434	2,939,303
Academic support	8,470,695	6,990,416
Student services	11,758,889	9,700,861
Institutional support	13,172,964	11,852,915
Operation and maintenance of plant	8,415,798	7,194,940
Depreciation	7,413,487	6,673,767
Student aid	10,804,243	8,745,703
Auxiliary enterprises:		
Residence Halls	7,222,309	6,003,612
Bookstore	3,906,210	3,689,317
Other auxiliaries	1,122,146	935,399
Depreciation	-	808,661
Other operating expenses	<u>2,994,114</u>	<u>327,865</u>
Total operating expenses	<u>134,501,338</u>	<u>120,143,993</u>
 Operating loss	 <u>(53,783,177)</u>	 <u>(45,191,518)</u>



MOREHEAD STATE UNIVERSITY

Statement of Revenues, Expenses and Changes in Net Assets, continued

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Nonoperating revenues (expenses):		
State appropriations	47,310,971	45,531,490
Investment income (net of investment expense of \$84,225 and \$7,333)	1,288,879	2,147,887
Interest on capital asset - related debt	<u>(1,588,126)</u>	<u>(1,377,277)</u>
Net nonoperating revenues	<u>47,011,724</u>	<u>46,302,100</u>
 (Loss) income before capital appropriations	 (6,771,453)	 1,110,582
 Capital appropriations	 <u>20,305,535</u>	 <u>7,094,473</u>
 Increase in net assets	 13,534,082	 8,205,055
 Net assets, beginning of year	 <u>127,097,054</u>	 <u>118,891,999</u>
 Net assets, end of year	 <u>\$ 140,631,136</u>	 <u>\$ 127,097,054</u>

See accompanying notes.

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statement of Activities

Year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues and other support:</b>				
Contributions	\$ 131,952	\$ 1,241,998	\$ 313,378	\$ 1,687,328
<b>Other revenue and gains (losses):</b>				
Investment income:				
Interest and dividend income, net	43,788	1,891,786	-	1,935,574
Realized and unrealized gains	2,348	(3,477,580)	-	(3,475,232)
In-kind contributed services	64,836	-	-	64,836
Other income	1,972	608,121	-	610,093
Annuities payable adjustment	(79,565)	-	-	(79,565)
<b>Net assets released from restrictions:</b>				
Restrictions satisfied by payments	<u>2,509,272</u>	<u>(2,509,272)</u>	<u>-</u>	<u>-</u>
 Total revenues and other support	 2,674,603	 (2,244,947)	 313,378	 743,034
 <b>Expenses:</b>				
Program expenses:				
Contributions to Morehead State				
University for:				
Academic programs	1,230,696	-	-	1,230,696
Athletics	277,042	-	-	277,042
University support:				
Operations and materials	357,591	-	-	357,591
Student financial aid	561,939	-	-	561,939
Athletics	<u>63,438</u>	<u>-</u>	<u>-</u>	<u>63,438</u>
 Total program expenses	 2,490,706	 -	 -	 2,490,706
 General and administrative	 162,860	 -	 -	 162,860
Fundraising	<u>73,738</u>	<u>-</u>	<u>-</u>	<u>73,738</u>
 Total expenses	 <u>2,727,304</u>	 <u>-</u>	 <u>-</u>	 <u>2,727,304</u>
 Change in net assets	 (52,701)	 (2,244,947)	 313,378	 (1,984,270)
Net assets, beginning of year	<u>294,629</u>	<u>7,618,200</u>	<u>12,951,646</u>	<u>20,864,475</u>
 Net assets, end of year	 <u>\$ 241,928</u>	 <u>\$ 5,373,253</u>	 <u>\$13,265,024</u>	 <u>\$18,880,205</u>

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statement of Activities

Year ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues and other support:</b>				
Contributions	\$ 70,158	\$ 2,367,169	\$ 417,409	\$ 2,854,736
<b>Other revenue and gains (losses):</b>				
Investment income:				
Interest and dividend income, net	44,142	1,330,839	-	1,374,981
Realized and unrealized gains	37,742	2,439,491	-	2,477,233
In-kind contributed services	77,347	-	-	77,347
Other income	158	501,485	-	501,643
Annuities payable adjustment	(43,541)	-	-	(43,541)
<b>Net assets released from restrictions:</b>				
Restrictions satisfied by payments	<u>3,662,697</u>	<u>(3,662,697)</u>	<u>-</u>	<u>-</u>
<b>Total revenues and other support</b>	<b>3,848,703</b>	<b>2,976,287</b>	<b>417,409</b>	<b>7,242,399</b>
<b>Expenses:</b>				
<b>Program expenses:</b>				
<b>Contributions to Morehead State</b>				
University for:				
Academic programs	1,230,772	-	-	1,230,772
Athletics	352,985	-	-	352,985
University support:				
Operations and materials	252,715	-	-	252,715
Student financial aid	451,546	-	-	451,546
Athletics	51,214	-	-	51,214
Eagle Trace Golf Course	<u>1,595,649</u>	<u>-</u>	<u>-</u>	<u>1,595,649</u>
<b>Total program expenses</b>	<b>3,934,881</b>	<b>-</b>	<b>-</b>	<b>3,934,881</b>
<b>General and administrative</b>	<b>140,829</b>	<b>-</b>	<b>-</b>	<b>140,829</b>
<b>Fundraising</b>	<u>71,917</u>	<u>-</u>	<u>-</u>	<u>71,917</u>
<b>Total expenses</b>	<u>4,147,627</u>	<u>-</u>	<u>-</u>	<u>4,147,627</u>
<b>Change in net assets</b>	<b>(298,924)</b>	<b>2,976,287</b>	<b>417,409</b>	<b>3,094,772</b>
<b>Net assets, beginning of year</b>	<u>593,553</u>	<u>4,641,913</u>	<u>12,534,237</u>	<u>17,769,703</u>
<b>Net assets, end of year</b>	<u>\$ 294,629</u>	<u>\$ 7,618,200</u>	<u>\$12,951,646</u>	<u>\$20,864,475</u>

**MOREHEAD STATE UNIVERSITY**

Statement of Cash Flows

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities:</b>		
Tuition and fees	\$ 23,932,828	\$ 21,426,147
Grants and contracts	37,622,659	25,605,391
Payments to suppliers	(64,331,986)	(54,659,322)
Payments to employees	(58,638,285)	(54,581,842)
Loans issued to students	(216,835)	(904,473)
Collection of loans issued to students	737,132	635,382
Auxiliary enterprises:		
Residence halls	7,678,931	7,251,936
Bookstore	4,356,394	3,907,463
Other auxiliaries	1,136,757	805,032
Sales and services of educational activities	2,148,093	2,303,292
Other receipts	<u>4,207,762</u>	<u>6,139,638</u>
Net cash used in operating activities	<u>(41,366,550)</u>	<u>(42,071,356)</u>
<b>Cash flows from noncapital financing activities:</b>		
State appropriations	<u>47,310,971</u>	<u>45,531,490</u>
Net cash provided by noncapital financing activities	<u>47,310,971</u>	<u>45,531,490</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital appropriations	20,305,535	7,094,473
Purchase of capital assets	(20,247,844)	(8,139,106)
Decrease in advances from federal government for student loan	(189,757)	(819,434)
Issuance of new bonds	18,320,000	-
Principal paid on capital debt and leases	(17,927,367)	(3,380,627)
Interest paid on capital debt and leases	<u>(2,313,561)</u>	<u>(1,377,277)</u>
Net cash used in capital and related financing activities	<u>(2,052,994)</u>	<u>(6,621,971)</u>
<b>Cash flows from investing activities:</b>		
Interest received on investments, net	1,288,879	2,147,887
Changes in investments, net	<u>3,157,798</u>	<u>289,833</u>
Net cash provided by investing activities	<u>4,446,677</u>	<u>2,437,720</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>8,338,104</b>	<b>(724,117)</b>
<b>Cash and cash equivalents, beginning of year</b>	<u><b>19,242,952</b></u>	<u><b>19,967,069</b></u>
<b>Cash and cash equivalents, end of year</b>	<u><b>\$ 27,581,056</b></u>	<u><b>\$ 19,242,952</b></u>

**MOREHEAD STATE UNIVERSITY**

Statement of Cash Flows, continued

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (53,783,177)	\$ (45,191,518)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	7,413,487	7,482,428
Loss on disposal of capital assets	2,994,114	118,478
Bad debt expense	392,897	943,616
Changes in assets and liabilities:		
Receivables, net	411,465	(5,224,511)
Inventories	251,693	(64,916)
Other current assets	2,983	10,000
Accounts payable and accrued liabilities	700,790	(390,511)
Deferred revenue	157,670	264,515
Other current liabilities	<u>91,528</u>	<u>(18,937)</u>
 Net cash used in operating activities	 <u>\$ (41,366,550)</u>	 <u>\$ (42,071,356)</u>

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 Directors 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 asset categories:

- **Invested in capital assets, net of related debt:** 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 assets 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 assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

- **Unrestricted:** Net assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board 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 assets, revenues, expenses, changes in net assets and cash flows.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989 and do not conflict with or contradict GASB pronouncements.

#### 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 60% and 64% of total inventories at June 30, 2008 and 2007, 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 of greater than \$1,000 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
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 assets and represents earned vacation available to employees at current compensation rates.

#### Deferred Revenue

Deferred revenue includes amounts received from grant and contract sponsors that have not yet been earned. For fiscal year ended June 30, 2008 deferred revenue also includes tuition billed on or before June 30, 2008 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 assets, 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 nonoperating 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.

### 2. Cash, Cash Equivalents and Investments

The statement of net assets 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, 2008 and 2007, the University had petty cash funds totaling \$110,539 and \$110,419, respectively and deposits as reflected by bank balances as follows:

	<u>2008</u>	<u>2007</u>
Insured, commercial banks	\$ 117,266	\$ 215,802
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	18,058,467	17,253,719
Maintained by Commonwealth of Kentucky	<u>9,294,784</u>	<u>1,663,012</u>
	<u>\$ 27,470,517</u>	<u>\$ 19,132,533</u>

As of June 30, 2008 and 2007, investments consisted of:

	<u>2008</u>	<u>2007</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	\$ 1,348,243	\$ 4,550,926
Equity mutual funds	303,072	303,805
Money market funds	<u>74,209</u>	<u>33,106</u>
	1,725,524	4,887,837
Certificate of deposit	93,949	89,428
Restricted assets held by the Morehead State University Foundation, Inc.	<u>11,329,592</u>	<u>11,329,598</u>
<b>Total investments</b>	<u>\$ 13,149,065</u>	<u>\$ 16,306,863</u>

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

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

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.

University investments held by the Foundation are comprised of the Regional University Excellence Trust Fund endowment and other similar endowments (see Note 14). 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, 2008 and 2007, are invested as follows:

	<u>2008</u>	<u>2007</u>
Percentage of pool invested in:		
Registered investment companies equity funds	61%	60%
Registered investment companies fixed income funds	<u>39%</u>	<u>40%</u>
Total	<u>100%</u>	<u>100%</u>

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal policy to specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### 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>2008</u>	<u>2007</u>
Student tuition and fees	\$ 4,374,188	\$ 768,037
Financing and interest	12,648	488,878
Student loans	3,763,082	3,720,029
Grants and contracts	4,042,302	7,197,727
Auxiliary enterprises	661,961	899,049
Other	<u>103,751</u>	<u>23,332</u>
	12,957,932	13,097,052
Allowance for doubtful accounts	<u>(1,362,856)</u>	<u>(697,614)</u>
	11,595,076	12,399,438
Current portion	<u>(7,925,010)</u>	<u>(8,996,258)</u>
Noncurrent portion	<u>\$ 3,670,066</u>	<u>\$ 3,403,180</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**4. Capital Assets, Net**

Capital assets as of June 30, 2008, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 16,904,811	\$ 244,164	\$ -	\$ 17,148,975
Buildings	170,849,668	1,739,797	3,314,827	169,274,638
Library books	19,295,152	1,124,107	-	20,419,259
Vehicles	2,175,829	45,067	21,639	2,199,257
Equipment and livestock	36,219,467	3,706,963	23,273,390	16,653,040
Datatel	4,109,184	81,961	-	4,191,145
Art collection	73,891	707,934	-	781,825
Construction in progress	<u>1,529,882</u>	<u>14,717,010</u>	<u>1,958,652</u>	<u>14,288,240</u>
	<u>251,157,884</u>	<u>22,367,003</u>	<u>28,568,508</u>	<u>244,956,379</u>
<u>Accumulated Depreciation</u>				
Land improvements	5,012,820	487,916	-	5,500,736
Buildings	77,680,553	3,546,794	2,765,250	78,462,097
Library books	14,904,732	946,263	-	15,850,995
Vehicles	1,778,707	168,081	21,639	1,925,149
Datatel	1,639,842	833,368	-	2,473,210
Equipment and livestock	<u>28,437,351</u>	<u>1,447,982</u>	<u>20,685,263</u>	<u>9,200,070</u>
	<u>129,454,005</u>	<u>7,430,404</u>	<u>23,472,152</u>	<u>113,412,257</u>
Capital assets, net	<u>\$ 121,703,879</u>	<u>\$ 14,936,599</u>	<u>\$ 5,096,356</u>	<u>\$ 131,544,122</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**4. Capital Assets, Net, continued**

Capital assets as of June 30, 2007, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 13,088,395	\$ 3,816,416	\$ -	\$ 16,904,811
Buildings	168,772,584	2,077,084	-	170,849,668
Library books	18,260,794	1,034,358	-	19,295,152
Vehicles	2,123,170	105,210	52,551	2,175,829
Equipment and livestock	33,373,663	3,690,487	844,683	36,219,467
Datatel	3,864,369	244,815	-	4,109,184
Art collection	66,075	7,816	-	73,891
Construction in progress	<u>4,227,366</u>	<u>2,985,439</u>	<u>5,682,923</u>	<u>1,529,882</u>
	<u>243,776,416</u>	<u>13,961,625</u>	<u>6,580,157</u>	<u>251,157,884</u>
<b><u>Accumulated Depreciation</u></b>				
Land improvements	4,582,575	430,245	-	5,012,820
Buildings	74,090,822	3,589,731	-	77,680,553
Library books	14,010,744	893,988	-	14,904,732
Vehicles	1,648,885	181,353	51,531	1,778,707
Datatel	857,167	782,675	-	1,639,842
Equipment and livestock	<u>27,420,544</u>	<u>1,604,436</u>	<u>587,629</u>	<u>28,437,351</u>
	<u>122,610,737</u>	<u>7,482,428</u>	<u>639,160</u>	<u>129,454,005</u>
Capital assets, net	<u>\$ 121,165,679</u>	<u>\$ 6,479,197</u>	<u>\$ 5,940,997</u>	<u>\$ 121,703,879</u>

**5. Accounts Payable and Accrued Liabilities**

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

	<u>2008</u>	<u>2007</u>
Payable to vendors and contractors	\$ 1,781,441	\$ 3,311,443
Accrued vacation	2,135,499	1,955,432
Accrued salaries and other liabilities	<u>4,507,452</u>	<u>2,456,727</u>
	<u>\$ 8,424,392</u>	<u>\$ 7,723,602</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**6. Long-Term Liabilities**

Long-term liabilities at June 30, 2008, 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>
Housing and Dining System Revenue Bonds	\$ 16,330,000	\$ -	\$ 16,330,000	\$ -	\$ -	\$ -
Consolidated Educational Building Revenue Bonds	6,415,000	-	885,000	5,530,000	920,000	4,610,000
General Receipts Bonds	-	18,320,000	-	18,320,000	1,655,000	16,665,000
Capital lease obligations	6,256,562	-	582,367	5,674,195	609,960	5,064,235
Notes payable	<u>130,000</u>	<u>-</u>	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total bonds, notes and capital lease obligations	29,131,562	18,320,000	17,927,367	29,524,195	3,184,960	26,339,235
Federal refundable grants	<u>4,046,260</u>	<u>-</u>	<u>189,757</u>	<u>3,856,503</u>	<u>-</u>	<u>3,856,503</u>
Total long-term Liabilities	<u>\$ 33,177,822</u>	<u>\$ 18,320,000</u>	<u>\$ 18,117,124</u>	<u>\$ 33,380,698</u>	<u>\$ 3,184,960</u>	<u>\$ 30,195,738</u>

Long-term liabilities at June 30, 2007, 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>
Housing and Dining System Revenue Bonds	\$ 17,820,000	\$ -	\$ 1,490,000	\$ 16,330,000	\$ 1,560,000	\$ 14,770,000
Consolidated Educational Building Revenue Bonds	7,665,000	-	1,250,000	6,415,000	885,000	5,530,000
Capital lease obligations	6,787,189	-	530,627	6,256,562	582,368	5,674,194
Notes payable	<u>240,000</u>	<u>-</u>	<u>110,000</u>	<u>130,000</u>	<u>130,000</u>	<u>-</u>
Total bonds, notes and capital lease obligations	32,512,189	-	3,380,627	29,131,562	3,157,368	25,974,194
Federal refundable grants	<u>4,865,694</u>	<u>-</u>	<u>819,434</u>	<u>4,046,260</u>	<u>-</u>	<u>4,046,260</u>
Total long-term Liabilities	<u>\$ 37,377,883</u>	<u>\$ -</u>	<u>\$ 4,200,061</u>	<u>\$ 33,177,822</u>	<u>\$ 3,157,368</u>	<u>\$ 30,020,454</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

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

	<u>2008</u>	<u>2007</u>
2.75 – 5.75% Housing and Dining System Revenue Bonds, Series N, O, P, Q and R, bonds refunded with General Receipt Bonds in June, 2008	\$ -	\$ 16,330,000
2.00 – 5.75% Consolidated Educational Building Revenue Bonds, Series L and M repayable in semi-annual installments with the final installment due May, 2024	5,530,000	6,415,000
4.00% General Receipts Bonds, 2007 Series A, repayable in semi-annual installments with the final installment due November, 2027	6,445,000	-
3.00% - 3.70% General Receipts Bonds, 2008 Series A, payable in semi-annual installments with the final installment due November, 2022	10,000,000	-
4.00% General Receipts Bonds, 2008 Taxable Series B, repayable in semi-annual installments with the final installment due May, 2013	1,875,000	-
5.00% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due February, 2019	156,232	167,053
10.0% Note payable to an individual, repayable in annual installments with the final installment paid January, 2008	-	100,000
10.0% Note payable to an individual, repayable in annual installments with the final installment paid January, 2008	-	30,000
5.75% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due February, 2012	513,422	591,735
9.40% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due March, 2023	409,706	422,157
4.19% Capital lease obligation with a finance corporation in semi-annual payments with final installment due October, 2019	1,493,743	1,593,042
3.58% Capital lease obligation with a finance corporation in semi-annual payments with final installment due June, 2015	2,852,799	3,205,527
4.47% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due August, 2015	<u>248,293</u>	<u>277,048</u>
	<u>\$ 29,524,195</u>	<u>\$ 29,131,562</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, 2008 and 2007, all reserve requirements have been fully funded. The revenue bonds are subject to several non-financial covenants, all of which management has asserted were met as of June 30, 2008 and 2007.

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>2008</u>	<u>2007</u>
Equipment	\$ 7,722,742	\$ 7,722,742
Less: accumulated depreciation	<u>( 2,741,997)</u>	<u>( 1,857,386)</u>
	<u>\$ 4,980,745</u>	<u>\$ 5,865,356</u>

The following is a schedule by years of future minimum payments required for the capital lease obligations as of June 30, 2008:

Year Ending June 30,	
2009	\$ 870,653
2010	870,653
2011	870,653
2012	845,065
2013	863,403
Thereafter	<u>2,698,247</u>
Total minimum lease payments	7,018,674
Less: amounts representing interest	<u>(1,344,479)</u>
Present value of minimum lease payments	<u>\$ 5,674,195</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, 2008, are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 2,575,000	\$ 807,437	\$ 3,382,437
2010	2,620,000	760,993	3,380,993
2011	2,385,000	666,283	3,051,283
2012	2,170,000	581,044	2,751,044
2013	1,755,000	501,572	2,256,572
2014-2028	<u>12,345,000</u>	<u>2,726,530</u>	<u>15,071,530</u>
	<u>\$ 23,850,000</u>	<u>\$ 6,043,859</u>	<u>\$ 29,893,859</u>

**Advance Refunding**

On June 10, 2008, the University issued its General Receipts Bonds, 2008 Tax-Exempt Series A, in the amount of \$10,000,000 and General Receipts Bonds, 2008 Taxable Series B, in the amount of \$1,875,000. The bonds have average interest rates of 3.576% and 4.12% respectively. The bonds consist of serial bonds bearing various fixed rates ranging from 3.0% to 4.0% with annual maturities from November 2008 through November 2022.

The net proceeds of \$11,738,655 (after issuance costs of \$63,035, less net discount of \$73,310), plus the balance in the debt service reserve account and repair and maintenance reserve account totaling \$3,724,910 were used to advance refund the University's Housing and Dining System Revenue Bonds Series N, O, P, Q and R which had total outstanding principal in the amount of \$14,770,000 and interest rates ranging from 2.75% to 5.75%.

The net proceeds were used to purchase state and local government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds are considered to be defeased and the related liability for the bonds has been removed from the University's financial statements.

The advance refunding was done in order to eliminate the requirement for maintaining debt service and repair and maintenance reserve accounts and to reduce cash flow needed for future debt service payments. The refunding decreased the University's total debt service cash flow payments by approximately \$4.4 million over the approximate 15 year life of the General Receipts Bonds 2008 Series A and B. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of approximately \$67,000.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 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 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 6.16% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 13.84% 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 ending June 30, 2008 and 2007 were \$4,298,335 and \$4,087,232 respectively, equal to the required contributions for each year.

#### 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 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%, respectively of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 22.00% and 7.75%, 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 Statute and the Board of Trustees of the Kentucky Retirement Systems each biennium.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 7. Pension Plan, continued

The University's contributions to KERS for the years ending June 30, 2008 and 2007 were \$968,634 and \$946,117 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 International Netherlands Group. Under these plans the employee's contribution is 6.16% of their gross salary and the University's contribution is 4.41% to the retirement company and 9.43% to Kentucky Teachers Retirement System. Senate Bill 65 was passed to set the ORP-KTRS rate to 5.10% for all payments effective April 1, 2008. The University's contribution to the retirement annuity company was adjusted to 8.74%. The University's contributions under these plans to Kentucky Teachers Retirement System for the years ending June 30, 2008 and 2007 were \$808,615 and \$860,697 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 \$523,000 and \$588,000 in 2008 and 2007, respectively.

### 9. Contingencies and Commitments

The University is a defendant in 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 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, 2008.

The University has made certain commitments related to the completion of various construction projects in progress totaling approximately \$38,200,000. Such construction is principally financed by appropriations from the Commonwealth of Kentucky and proceeds from bonds.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 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 year ending June 30, 2008 and 2007 totaled \$306,164 and \$291,411, 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 \$326 per month to a high of \$676. Payments for employee health insurance for fiscal years ending June 30, 2008 and 2007 were \$5,398,030 and \$4,784,039 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.

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. As a result of the 1998 General Assembly's legislative decision to appropriate \$200,000 annually to KFAC as an affiliate of the University, the KFAC became an affiliated corporation 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.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 13. Segment Information

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specifically identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets and liabilities, that are required by an external party to be accounted for separately. At June 30, 2007, the University had one segment that met the reporting requirements of GASB No. 35, which was the University Housing and Dining System.

The Housing and Dining System is an organizational unit of the University that manages the University's student dormitory housing units. The gross revenues from the dormitory housing units were pledged for retirement of the Housing and Dining System Revenue Bonds at June 30, 2007. There were no outstanding revenue bonds associated with this organizational unit at June 30, 2008; therefore, this reporting is not required for the fiscal year ending June 30, 2008.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**13. Segment Information, continued**

Condensed Statement of Net Assets at June 30, 2007:

	2007 Housing and Dining
<b>Assets</b>	
Current assets	\$ 875,457
Noncurrent assets	2,979,108
Accounts receivable	927,621
Capital assets, net	<u>23,245,863</u>
Total assets	28,028,049
<b>Liabilities</b>	
Current liabilities	1,560,000
Noncurrent liabilities	<u>14,770,000</u>
Total liabilities	<u>16,330,000</u>
<b>Net assets</b>	
Invested in capital, net of related debt	6,915,863
Restricted, expendable	<u>4,782,186</u>
Total net assets	<u>\$ 11,698,049</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2007:

	2007 Housing and Dining
Operating revenues	\$ 7,144,698
Operating expenses	(6,087,700)
Depreciation expense	<u>(808,661)</u>
Operating income	248,337
Nonoperating revenue	192,221
Nonoperating expenses	<u>(744,266)</u>
Deficiency of revenues over expenses	(303,708)
Investment account transfers	<u>1,963,389</u>
Change in net assets	1,659,681
Net assets, beginning of year	<u>10,038,368</u>
Net assets, end of year	<u>\$ 11,698,049</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

13. Segment Information, continued

Condensed Statement of Cash Flows for the year ended June 30, 2007:

	2007 Housing and Dining
Net cash flows from operating activities	\$ 129,377
Net cash flows from investing activities	480,941
Net cash flows from capital and related financing activities	<u>(400,255)</u>
Net increase in cash and cash equivalents	210,063
Cash and cash equivalents, beginning of year	<u>665,394</u>
Cash and cash equivalents, end of year	<u>\$ 875,457</u>

14. 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 fair market value of Morehead State University endowment funds held by the Foundation as of June 30, 2008 and 2007 was \$21,842,642 and \$23,398,371, respectively. The portion of the endowments representing the value of the funding received from the Kentucky General Assembly was \$11,329,592 and \$11,329,598 for the years ended June 30, 2008 and 2007, respectively, and is included in investments held by the Foundation.

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



# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 15. Related Parties, continued

Related party transactions and funds held by the Foundation on behalf of the University are as follows during 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 64,836	\$ 77,347
Funds held by the Foundation on behalf or for the benefit of the University	11,329,592	11,329,598
Funds due to the University by the Foundation	107,600	107,600

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. This amount was \$30,000 per year at June 30, 2007 and increased to \$79,908 per year on March 1, 2008. Amounts disclosed above as funds disbursed by the University on behalf of the Foundation for employee salaries and benefits are net of the \$30,000 per year for the fiscal year ended June 30, 2007 and net of a prorated amount based on the increase of \$46,636 for the fiscal year ended June 30, 2008.

The University has also entered into several direct financing capital leases of real estate with the Foundation as disclosed in Note 16H.

### 16. 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 preparation of financial statements prepared in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

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

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

The following is a summary of the significant accounting policies consistently followed by the Foundation in the preparation of its financial statements.

##### Basis of Presentation

The Foundation's financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. 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.

##### 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 3.34% and 5.25% for the years ended June 30, 2008 and 2007, 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

### 16. 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.

##### 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, 2008 and 2007, the Foundation held \$11,329,592 and \$11,329,598, respectively, for the University's investment purposes.

##### 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, 2008 and 2007 were \$81,750 and \$66,387, respectively.

The June 30, 2008 and 2007 annuity liabilities balances of \$476,173 and \$382,433 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 6% to 9.9%. The estimated remaining life expectancies of the annuitants range from 5.7 to 7.1 years and 6.0 to 9.6 years for the years ended June 30, 2008 and 2007, respectively.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

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

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

##### Due to Morehead State University

A gift was pledged to the Foundation that the donor stipulated was specifically for the University. In accordance with SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, the gift has been included as a liability on the Foundation's Statement of Financial Position.

##### Contributions

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

Gifts of land, buildings, equipment, and other 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 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 Statement of Activities for the years ended June 30, 2008 and 2007 includes in-kind contributions of \$352,736 and \$387,445, 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.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

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

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

##### Tax Exempt Status

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.

##### Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157") effective for financial statements issued for fiscal years beginning after November 2007, and interim periods within those fiscal years. This statement increases consistency and comparability in fair value measurements and expands disclosures about fair value measurements. In February 2008, FASB Staff Position No. 157-2 deferred the effective date of FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Foundation is currently evaluating the provisions of FAS 157.

On August 6, 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. This FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act that serves as a guideline for states to use in enacting legislation. This FSP also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. The provisions of the FSP are effective for fiscal years ending after December 15, 2008. Earlier application is permitted provided that annual financial statements for that fiscal year have not been previously issued. The Foundation is currently evaluating the provisions of FAS 117-1.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

**C. Investments**

Investments held as of June 30, 2008 and 2007 are summarized as follows:

	<u>2008</u>	<u>2007</u>
Certificates of deposit	\$ 1,113,385	\$ 1,068,343
Mutual funds	26,549,007	27,922,610
Corporate bonds and stocks	45,886	37,875
Annuity investment	<u>120,979</u>	<u>116,983</u>
 Total investments at fair value	 <u>\$ 27,829,257</u>	 <u>\$ 29,145,811</u>

Investment management fees were approximately \$69,000 and \$65,000 during the years ended June 30, 2008 and 2007, respectively.

**D. Pledges Receivable**

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

Year ended June 30	
2009	\$ 467,736
2010	240,199
2011	188,793
2012	95,664
2013	20,194
Thereafter	<u>44,651</u>
	1,057,237
Less: present value discount	(95,549)
Less: allowance for uncollectible pledges	<u>(94,964)</u>
 Pledges receivable, net	 866,724
 Less: current pledges receivable	 <u>(376,639)</u>
Noncurrent pledges receivable	<u>\$ 490,085</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

**E. Property and Equipment**

Property and equipment as of June 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 53,000	\$ 53,000
Furniture and equipment	134,819	134,819
Buildings	<u>175,000</u>	<u>175,000</u>
	362,819	362,819
Less: accumulated depreciation	<u>(118,843)</u>	<u>(95,571)</u>
	<u>\$ 243,976</u>	<u>\$ 267,248</u>

**F. 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 \$640,000 for the years ended June 30, 2008 and 2007. The cash surrender value of these policies as of June 30, 2008 and 2007 is \$94,047 and \$105,235, respectively.

**G. 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 Statement of Activities as "University support".

**H. 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, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Total minimum lease payments to be received	\$ 1,896,062	\$ 2,137,341
Less: unearned income	<u>(568,409)</u>	<u>(679,346)</u>
Net investment in capital leases	<u>\$ 1,327,653</u>	<u>\$ 1,457,995</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

**H. Net Investment in Capital Leases, continued**

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

2009	\$	241,279
2010		241,279
2011		241,279
2012		241,279
2013		234,029
Thereafter		<u>696,917</u>
	<u>\$</u>	<u>1,896,062</u>

**I. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available at June 30, 2008 and 2007 for the following purposes:

	<u>2008</u>	<u>2007</u>
Funds restricted for specific purposes	\$ 2,172,692	\$ 5,115,438
Scholarships	1,712,454	1,347,754
Athletics	<u>1,488,107</u>	<u>1,155,008</u>
	<u>\$ 5,373,253</u>	<u>\$ 7,618,200</u>

Permanently restricted net assets at June 30, 2008 and 2007 consist of endowment funds.

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

	<u>2008</u>	<u>2007</u>
Pledges receivable	\$ 532,888	\$ 451,554
Investments	<u>4,840,365</u>	<u>7,166,646</u>
	<u>\$ 5,373,253</u>	<u>\$ 7,618,200</u>



MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

I. Temporarily and Permanently Restricted Net Assets, continued

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

	<u>2008</u>	<u>2007</u>
Pledges receivable	\$ 254,626	\$ 658,054
Investments	11,659,300	10,649,567
Property	206,252	206,252
Other	<u>1,144,846</u>	<u>1,437,773</u>
	<u>\$ 13,265,024</u>	<u>\$ 12,951,646</u>

J. 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 of \$30,000 per year. SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, 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 \$30,000 per year are considered in-kind contributed services and are treated as both revenue and expense to the Foundation. The reimbursement amount was increased to \$78,000 effective March 1, 2008.

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

K. Concentration of Credit Risk

The Foundation has a concentration of credit risk in that it maintains cash deposits in financial institutions which, at times, exceed federally insured limits. Cash deposits in excess of the federally insured limits total \$1,093,354 and \$1,149,246 as of June 30, 2008 and 2007, respectively. The Foundation has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk related to the accounts.

**MOREHEAD STATE UNIVERSITY**

**Notes to the Financial Statements, continued**

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

**L. Decline in Value of Investments**

Subsequent to June 30, 2008, the stock market experienced a significant decline in value. Investment securities are subject to various risks, such as interest rate, market and credit risk. Due to the risks associated with certain investment securities and the level of uncertainty related to changes in the value of the investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect investment values and the amounts reported in the statement of financial position.

**SUPPLEMENTAL INFORMATION**

MOREHEAD STATE UNIVERSITY

Schedule of Bonds, Notes and Capital Lease Obligations

June 30, 2008

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2007</u>	<u>Retired Bonds 2007-08</u>	<u>New Issues</u>	<u>Outstanding June 30, 2008</u>	<u>Interest Paid 2007-08</u>	<u>Debt Service Requirements 2008-09</u>	
									<u>Principal</u>	<u>Interest</u>
<b>Housing and Dining System Revenue Bonds:</b>										
Series N	06/01/00	\$ 4,790,000	5.0-5.75	\$ 3,830,000	\$ 3,830,000	\$ -	\$ -	\$ 206,364	\$ -	\$ -
Series O	06/01/00	4,625,000	5.0-5.25	2,025,000	2,025,000	-	-	91,002	-	-
Series P	07/01/01	5,125,000	2.75-4.9	3,975,000	3,975,000	-	-	173,515	-	-
Series Q	04/16/03	4,485,000	3.25	2,895,000	2,895,000	-	-	85,425	-	-
Series R	06/01/03	4,270,000	3.682	3,605,000	3,605,000	-	-	126,864	-	-
<b>Total housing and dining system</b>		<b>23,295,000</b>		<b>16,330,000</b>	<b>16,330,000</b>	<b>-</b>	<b>-</b>	<b>683,170</b>	<b>-</b>	<b>-</b>
<b>Consolidated Educational Building Revenue Bonds:</b>										
Series L	12/01/01	4,875,000	5.5-5.75	2,160,000	390,000	-	1,770,000	90,925	410,000	74,837
Series M	01/01/04	5,620,000	2.0-3.36	4,255,000	495,000	-	3,760,000	138,623	510,000	126,248
<b>Total educational buildings</b>		<b>10,495,000</b>		<b>6,415,000</b>	<b>885,000</b>	<b>-</b>	<b>5,530,000</b>	<b>229,548</b>	<b>920,000</b>	<b>201,085</b>
<b>General Receipts:</b>										
2007 Series A Bonds	08/14/07	6,445,000	4.0	-	-	6,445,000	6,445,000	172,583	345,000	250,900
<b>Total General Receipts</b>		<b>6,445,000</b>		<b>-</b>	<b>-</b>	<b>6,445,000</b>	<b>6,445,000</b>	<b>172,583</b>	<b>345,000</b>	<b>250,900</b>
<b>General Receipts:</b>										
2008 Series A Bonds	06/10/08	10,000,000	3.0-3.7	-	-	10,000,000	10,000,000	-	650,000	287,797

MOREHEAD STATE UNIVERSITY

Schedule of Bonds, Notes and Capital Lease Obligations, continued

June 30, 2008

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2007</u>	<u>Retired Bonds 2007-08</u>	<u>New Issues</u>	<u>Outstanding June 30, 2008</u>	<u>Interest Paid 2007-08</u>	<u>Debt Service Requirements 2008-09</u>	
									<u>Principal</u>	<u>Interest</u>
2008 Series B Bonds	06/10/08	1,875,000	4.0	-	-	1,875,000	1,875,000	-	660,000	67,655
Total General Receipts		11,875,000		-	-	11,875,000	11,875,000	-	1,310,000	355,452
Lease Purchase Agreements:										
MSU Foundation, Inc.	03/01/99	240,000	5.0	167,053	10,821	-	156,232	8,107	11,375	7,553
MSU Foundation, Inc.	07/15/02	990,000	5.75	591,735	78,313	-	513,422	51,471	85,873	43,911
MSU Foundation, Inc.	10/21/02	466,457	9.4	422,157	12,451	-	409,706	39,561	13,674	38,338
Citi Mortgage, Inc.	03/31/05	1,824,000	4.19	1,593,042	99,299	-	1,493,743	65,719	103,503	61,515
Suntrust Bank, Inc	06/15/05	3,874,522	3.58	3,205,527	352,728	-	2,852,799	111,628	365,468	98,888
MSU Foundation, Inc.	09/01/05	327,764	4.47	277,048	28,755	-	248,293	11,800	30,067	10,488
Total lease purchase		7,722,743		6,256,562	582,367	-	5,674,195	288,286	609,960	260,693
Notes Payable:										
Fred White	06/01/01	700,000	10.0	100,000	100,000	-	-	9,500	-	-
Freddie White	06/01/01	90,000	10.0	30,000	30,000	-	-	2,850	-	-
Total notes payable		790,000		130,000	130,000	-	-	12,350	-	-
Total		\$ 60,622,743		\$ 29,131,562	\$ 17,927,367	\$ 18,320,000	\$ 29,524,195	\$ 1,385,937	\$ 3,184,960	\$ 1,068,130

**MOREHEAD STATE UNIVERSITY**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S Department of Education:			
Direct Programs:			
Student Financial Aid Cluster:			
National Science and Mathematics Access to Retain Talent Grant Program		84.375	\$ 86,894
Academic Competitiveness Grant Program		84.376	89,075
Federal Work Study		84.033	676,362
Federal Pell Grant Program		84.063	10,593,697
Federal Supplemental Educational Opportunity Grants Program		84.007	566,275
Federal Perkins Loan Program		84.038	540,816
Federal Direct Loans Program		84.268	28,991,196
			<u>41,544,315</u>
TRIO Cluster:			
CEOC - NE 04-07		84.066	404,842
CEOC - SE 02-07		84.066	48,922
CEOC - SE 07-10		84.066	143,174
Student Support Services 06-07		84.042	288,085
Talent Search 02-06		84.044	66,950
Talent Search 07-11		84.044	272,945
Talent Search II 02-06		84.044	45,325
Talent Search II 07-11		84.044	199,940
Upward Bound Central 05-06		84.047	545,505
Upward Bound Math/Science 04-06		84.047	245,911
Upward Bound East 03-06		84.047	132,836
Upward Bound East 07-11		84.047	193,735
			<u>2,588,170</u>
Gear-up IRAPP 00-05		84.334	78,233
Hail-IFIR 05-07		84.116	213,505
Hail-IFC 05-07		84.116	139,428
Patrick-SI 05-06		84.031	307,421
			<u>44,871,072</u>

**MOREHEAD STATE UNIVERSITY**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2008

<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 Kentucky Education and Workforce Development Cabinet - Department for Workforce Investment:</b>			
CDP Rehab 06-08	PO2 530 M-06189260	84.126	765,015
Fiscal Agent 07-08	PO2 531 07000076921	84.048	101,577
Mason-CTE Inst 07	M-05310692	84.048	1,542
TE 01 AHS 07-08	PO2 531 07000107981	84.048	4,559
TE 01 IET 07-08	PO2 531 07000107981	84.048	4,991
TE 01 IS 07-08	PO2 531 07000107981	84.048	2,635
TE 02 IET 07-08	PO2 531 07000107981	84.048	14,537
Tech Prep-Fwd 07-08	PO2 531 07000105431	84.048	14,695
Title 1c - AHS 07-08	PO2 531 07000078641	84.048	46,378
Title 1c - IET 07-08	PO2 531 07000078641	84.048	33,470
Title 1c - IS 07-08	PO2 531 07000078641	84.048	28,750
Title 1c - NAHS 07-08	PO2 531 07000078641	84.048	36,188
Title 1c - RS 07-08	PO2 531 07000078641	84.048	27,914
Zargari-CTE 07-08	PO2 531 07000076991	84.048	82,105
Zargari-Math CTE 07-08	PO2 531 07000107511	84.048	135,667
			<hr/> 1,300,023
<b>Passed through Kentucky Education and Workforce Development Cabinet - Department of Education:</b>			
DeMoss-MSP CAP 07-08	PO2 540 0800004428	84.366	123,419
First Coach 07-08	PO2 540 07000076362	84.357	199,549
			<hr/> 322,968
<b>Passed through Kentucky Council on Postsecondary Education:</b>			
Gunn-CPE 07-08	PO2 415 06000047151	84.367	80,330
Gunn-CPE Phase 2 08-09	PO2 415 07000128561	84.367	8,575
KY Gear Up 06-07	M-08808393	84.334	84,248
KY Gear Up 07-08	M-055083935	84.334	131,544
MSU Adult LC 07-08	PO2 415 07000121391	84.002	184,677
WL Adult LC 07-08	PO2 415 07000121431	84.002	176,292
			<hr/> 665,666

**MOREHEAD STATE UNIVERSITY**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

<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 Corporation:			
NWP #13 05-06	94-KY07	84.928	64,025
Total U.S. Department of Education			<u>47,223,754</u>
U.S Department of Health and Human Services:			
Direct Programs:			
White-NIH amp 07-10		93.279	35,609
Passed through University of Louisville Research Foundation:			
DeMoss - INBRE 07-08	04-0388C MSU	93.389	107,140
DeMoss-KBRIN-INBRE 08-09	04-0388D	93.389	20,255
Dennis-KBRIN-INBRE 08-09	04-0388D	93.389	10,413
Fultz-KBRIN-INBRE 08-09	04-0388D	93.389	74
Hare-KBRIN-INBRE 08-09	04-0388D	93.389	19,535
INBRE - Fultz 07-08	04-0388C MSU	93.389	13,330
INBRE - Mattingly 07-08	04-0388C MSU	93.389	103,826
INBRE - White 07-08	04-0388C MSU	93.389	48,745
White-KBRIN-INBRE 08-09	04-0388D	93.389	<u>3,982</u>
			327,300
Passed through Eastern Kentucky University:			
MSU Training 07-08	PO2 736 0700007597 1	93.658	75,832
PCWCP - Morehead 07-08	EKU 08-142	93.648	11,626
PCWCP - Mt. Sterl 07-08	EKU 08-172	93.648	11,754
PCWCP - Pburg 07-08	EKU 08-147	93.648	9,469
PCWP - Ashland 07-08	EKU 08-143	93.648	<u>9,593</u>
			118,274



**MOREHEAD STATE UNIVERSITY**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2008

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Nurse Practitioner 07-08	UKRF 4-63922-01-284	93.247	37,517
Passed through Kentucky Cabinet for Health and Family Services: STEPS 06-08	M-06069677	93.558	31,172
Passed through Louisville Metro Community Action Project: KY Medicare 07-08	90AM313302	93.048	29,963
Passed through Kentucky Council on Postsecondary Education: MSU Adult LC 07-08	PO2 415 07000121391	93.558	12,391
WL Adult LC 07-08	PO2 415 07000121431	93.558	8,897
			<u>21,288</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>601,123</u>
<b>U.S Department of Commerce:</b> <b>Direct Programs:</b>			
Hail - NOAA 05-06		11.400	51,553
Hare - NOAA 06-07		11.400	380,405
Hare Height Mod NOAA 07-08		11.400	36,693
			<u>36,693</u>
<b>Total U.S Department of Commerce</b>			<u>468,651</u>
<b>National Science Foundation:</b> <b>Direct Programs:</b>			
CSMS 03-07		47.076	178,254
NSF - Jerde 04-07		47.050	352
			<u>352</u>
			178,606

**MOREHEAD STATE UNIVERSITY**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2008

<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 Kentucky Research Foundation:</b>			
AMSP 02-05	UKRF 4-66358-03-191	47.076	62,164
Chatham - EPSCoR -07	3046884400-07-419	47.076	15,400
Feria - KY NSF 05-06	3046901800-05-496	47.076	2,172
Hare - KY NSF EPS 06-07	3046884400-06-399	47.076	9,540
Peyton-EPSCoR 07	30469011800-07-428	47.076	93,065
Remillard-UKRF 06-07	3046884400-06-407	47.076	8,259
Tuerk - EPSCoR - 07	3046884400-07-416	47.076	<u>20,911</u>
			211,511
<b>Passed through Institute for Global Environmental Strategies:</b>			
O'Keefe-NSF ESSEA 07-09	9055-001-45	47.050	9,856
<b>Passed through University of Albany:</b>			
Hare-NSF-Albany 08-09	08-23	47.075	<u>2,101</u>
<b>Total National Science Foundation</b>			<u>402,074</u>
<b>Corporation for National and Community Service:</b>			
<b>Direct Programs:</b>			
RSVP 06-09		94.002	97,965
<b>Passed through Kentucky Cabinet for Health and Family Services:</b>			
Promise Corps 07-09	06AFHKY001	94.006	<u>215,352</u>
<b>Total Corporation for National and Community Service</b>			<u>313,317</u>
<b>U.S. Department of Defense:</b>			
<b>Direct Programs:</b>			
Harr-DURIP 07-08		12.431	<u>184,950</u>

**MOREHEAD STATE UNIVERSITY**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2008

<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>Small Business Administration:</b>			
Passed through University of Kentucky Research Foundation:			
SBDC Federal 06-07	3048051900-07-275	59.037	35,090
SBDC Federal 07-08	3048104236-08-308	59.037	112,576
SBDC-UKRF 08	3046356600-08-240	59.037	<u>17,289</u>
Total Small Business Administration			<u>164,955</u>
 <b>U.S. Department of Justice:</b>			
Passed through University of Kentucky Research Foundation:			
Blanken UKRF 05/07	3046962300-06-286	16.560	11,351
Hail-Hometown Security 05/8	3046981600-06-428	16.560	<u>57,745</u>
			69,096
 Passed through Kentucky State Police:			
Krug-High Risk 07-09	2007-AH-FX-OO27	16.727	16,652
Krug-HRD 06-08	2006-50062-KY-AH	16.727	<u>43,779</u>
			60,431
 Passed through Operation UNITE:			
Koett-UNITE 2 07	07MS02	16.580	<u>4,590</u>
Total U.S. Department of Justice			<u>134,117</u>
 <b>U.S. Department of Energy:</b>			
Passed through Kentucky Transportation Cabinet:			
Hail-US Energy 07-08	3048103539-08-111	97.002	<u>130,000</u>
 <b>Appalachian Regional Commission:</b>			
Direct Programs:			
KY AHED-Duvall 04-07		23.001	125,051

**MOREHEAD STATE UNIVERSITY**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2008

<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 East Tennessee State University:			
Lange-ATP 07-08	2-2007-5	23.011	4,000
Total Appalachian Regional Commission			129,051
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Hail-ACRP 04-06		14.243	125,778
Kenney-HUD 06-07		14.246	2,778
Total U.S. Department of Housing and Urban Development			128,556
U.S. Department of Labor:			
Direct Programs:			
Today's Youth 06-07		17.250	200
Today's Youth 07-08		17.250	84,394
Sloan - HUD Youthbuild 07-08		17.274	29,168
Total U.S. Department of Labor			113,762
U.S. Department of the Interior:			
Direct Programs:			
Mason-USGS-DOI 08/09		15.810	1,253
Parkansky-USGS 05/09		15.808	68,155
Parkansky-USGS 07/11		15.808	19,622
			89,030
Passed through Kentucky Department of Fish and Wildlife:			
Eisen-USFWS 07-08	MOA 0700009065	15.634	5,217

**MOREHEAD STATE UNIVERSITY**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2008

<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 University of Kentucky Research Foundation:			
McMichael-USGS 07-08	3046989200-07-464	15.805	<u>2,154</u>
Total U.S. Department of the Interior			<u>96,401</u>
National Aeronautics and Space Administration:			
Passed through Western Kentucky University:			
Kruth-WKU-NASA 07-08	WKU 516171-07-81	43.001	18,000
Malphrus-WKU-Intern	WKU 516171-07-72	43.001	10,499
Mason-NASA-WKU-MARS 07-09	516171-08-90	43.001	14,767
Pannuti-WKU-NASA 07-08	WKU 516171-07-86	43.001	4,500
Pannuti X-RAY Ctr 07-08	NNX07AU32G	43.001	<u>35,877</u>
Total National Aeronautics and Space Administration			<u>83,643</u>
		<b>Federal</b>	
U.S. Department of Agriculture:			
Direct Programs:			
USDA 05-07		10.769	25,240
Passed through Kentucky Education and Workforce Development Cabinet - Department of Education:			
Upward Bound Food 07	103X30999SU	10.558	19,818
Upward Bound Food-KDE 08	103X30999SU	10.558	<u>14,304</u>
			34,122
Passed through Kentucky Division of Forestry:			
McMichael-KDF 06-07	600001517	10.664	<u>1,573</u>
Total U.S. Department of Agriculture			<u>60,935</u>
National Endowment for the Arts:			
Direct Programs:			
Collinsworth-NEA 06-08		45.024	<u>9,516</u>

**MOREHEAD STATE UNIVERSITY**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2008

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency: Passed through Shaw E & I, Inc.: Sloan-SHAW 07-08	EP-C-04-034	66.439	6,481
Passed through University of Louisville Research Foundation: Reeder-ULRF 05-06	G03-1016-07	66.460	<u>1,100</u>
<b>Total U.S. Environmental Protection Agency</b>			<u>7,581</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 50,252,386</u></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, 2008 are summarized as follows:

Federal Perkins Loan Program:		
Loans disbursed	\$	540,816
Federal Direct Loan Program:		
Federal Subsidized Stafford Loans	\$	15,354,631
Federal Unsubsidized Stafford Loans		11,814,068
Federal Plus Loans		1,822,497

As of June 30, 2008, the University had loans outstanding, in the amount of \$3,663,441 with an allowance for doubtful accounts of \$93,016 under the Federal Perkins Loan Program.

DEAN | DORTON | FORD  
P.C.**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***

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

We have audited the financial statements of Morehead State University (the University) as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 7, 2008. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting, item 08-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

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Members of the Board of Regents and  
Dr. Wayne D. Andrews, President  
Page 2

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

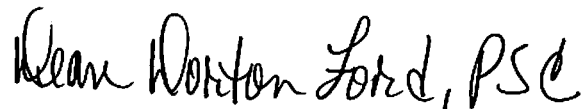
### **Compliance and Other Matters**

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

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Regents, audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 7, 2008  
Lexington, Kentucky

A handwritten signature in black ink that reads "Dean Norton Lord, PSC". The signature is written in a cursive style with a small dot at the end of the last letter.

DEAN DORTON FORD  
PSC**Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

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

**Compliance**

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 are applicable to each of its major federal programs for the year ended June 30, 2008, except those requirements discussed in the fourth paragraph below. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, Morehead State University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008, other than those requirements discussed in the following paragraph. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 08-02.

We did not audit the University's compliance with requirements governing the maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments for the Perkins Loan Program. Those requirements govern functions that are performed by University Accounting Service, LLC (UAS). UAS's compliance with the requirements governing the functions that it performs for the University was

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examined by other accountants whose report has been furnished to us. The report of the other accountants indicates that compliance with those requirements was examined in accordance with the Department of Education's audit guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions Servicers*. Based on our review of the service organization accountant's report, we have determined that all of the compliance requirements included in the *Compliance Supplement* that are applicable to the major program in which the University participates are addressed in either our report or the report of the service organization accountants. Further, based on our review of the service organization accountant's report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on the University's major program.

### **Internal Control Over Compliance**

The management of Morehead State University is responsible for establishing and maintaining effective internal control over compliance with 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 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 our opinion on compliance, 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.

Requirements governing the maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments for the Federal Perkins Loan Program are performed by UAS. Internal control over compliance relating to such functions was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. A copy of the service organization accountant's report has been furnished to us. However, the scope of our work did not extend to internal control maintained at UAS.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in a University's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 08-02 to be a significant deficiency.

Members of the Board of Regents and  
Dr. Wayne D. Andrews, President  
Page 3

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the University's internal control. We do not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Regents, audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 7, 2008  
Lexington, Kentucky

A handwritten signature in black ink that reads "Dean Houston Ford, PSC". The signature is written in a cursive, flowing style.

**MOREHEAD STATE UNIVERSITY**  
**Schedule of Findings and Questioned Costs**

Year ended June 30, 2008

**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: **Unqualified Opinion**
- b. Internal control over financial reporting:
  - Material weaknesses: **No**
  - Significant deficiencies identified that are not considered to be material weaknesses: **Yes**
- 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: **Yes**
- e. The type of report issued on compliance for major programs: **Unqualified Opinion**
- f. Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes**
- g. Major programs:
  - Student Financial Aid Custer:**
    - Federal Pell Grants, CFDA 84.063**
    - Federal Work Study, CFDA 84.033**
    - Federal Supplemental Educational Opportunity Grants, CFDA 84.007**
    - Federal Perkins Loans, CFDA 84.038**
    - Federal Direct Loan Program, CFDA 84.268**
    - Academic Competitiveness Grant, CFDA 84.375**
    - National Science and Mathematics Access to Retain Talent Grant, CFDA 84.268**
    - Vocational Rehabilitation, CFDA 84.346**
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$638,000**
- i. Auditee qualified as a low-risk auditee: **No**

**MOREHEAD STATE UNIVERSITY**

**Schedule of Findings and Questioned Costs, continued**

**Year ended June 30, 2008**

**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*: 08-01**

**Finding 08-01:**

**Condition:**

During our audit procedure the University stated that the schedule of fixed assets did not reconcile to the general ledger and that an adjustment had been made to reconcile the differences through a fixed asset deletion account. Our audit procedures revealed that the fixed asset schedule used to reconcile the fixed asset register to the general ledger at year-end was not complete. The existing fixed asset schedule excluded numerous additions made during the 2008 fiscal year.

**Effect:**

If we had not discovered this error, this situation would have resulted in fixed asset additions being understated and fixed asset deletions being overstated. As such, the current year depreciation expense would have been understated.

**Recommendation:**

This situation should be remedied as soon as possible by implementing a validation control to test the reports used in reconciling fixed assets for each reporting period. We further recommend that the University extend these validation controls to all material accounts affecting the financial statements.

**Management's Response:**

The accounting staff was aware that there was an imbalance and this was noted in the work papers that were given to the auditors. The fixed asset module was activated in the spring and summer of 2008. With the customization that had to be done by Administration Computer Applications staff, there was not sufficient time to learn all capabilities of the fixed assets module in a real world environment. Validation controls have been implemented to test the reports and will be in place for the University's September 30, 2008 interim financial reports for the Board of Regents. Additional training to fully acquaint the accounting staff with the capabilities of the fixed asset module has been scheduled.

**MOREHEAD STATE UNIVERSITY**

**Schedule of Findings and Questioned Costs, continued**

**Year ended June 30, 2008**

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

**Findings and Questioned Costs relating to Federal Awards: 08-02**

**Finding 08-02:**

**Federal Program:** U.S. Department of Education  
Federal Direct Loan Program, CFDA 84.268

**Condition:**

During the audit, we noted that students who graduated during the school year were not reported to lenders or guaranty agencies as graduated. As a result, students who graduated and did not return for the next term were listed as withdrawn as of the end of the graduated term. These students who graduated in the Spring term were not reported as having ceased to enroll until 4 months after their date of graduation. Students who graduated but returned for the next term were not shown as graduated or withdrawn; they were shown with the enrollment status for the next term.

**Criteria:**

Per the provisions of § 662.610, unless a school expects to complete its next Student Status Confirmation Report within 60 days, the school must notify the Secretary or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis.

**Effect:**

The provisions of § 662.610 were not followed and thus some graduating students were not reported as having ceased enrollment in a timely matter.

**Cause:**

There is not an internal control in place to verify that students who received a loan who either did not enroll or ceased to be enrolled on at least a half-time basis were reported to the Secretary or the guaranty agency within a timely matter.

**Recommendation:**

We noted that the University sends status change reports to the National Clearinghouse who then sends them on to lenders, guaranty agencies, etc.; however, the University has the ultimate responsibility to report to these third parties. Therefore, we recommend that the University establish

**MOREHEAD STATE UNIVERSITY**

**Schedule of Findings and Questioned Costs, continued**

**Year ended June 30, 2008**

**Finding 08-02, continued:**

**Recommendation, continued:**

an internal control to verify that students who receive a loan who either did not enroll or ceased to be enrolled on at least a half-time basis are reported to the Secretary or the guaranty agency within a timely matter after these files are sent to the National Clearinghouse.

**Management's Response:**

Prior to the 2007-08 academic year, the Office of Enrollment Services (Financial Aid) submitted a file containing only those students who graduated during the term to the National Student Clearinghouse. This file was in addition to the regular files submitted throughout the term. The file was usually sent a few weeks after the end of the term, after the students had been "graduated" by the Office of the Registrar. The students would be marked as "G" on the Clearinghouse records and reported to lenders, etc.

At the same time that Morehead State University changed software to Datatel Colleague, the Office of the Registrar began participating in DegreeVerify with the National Student Clearinghouse. It was our understanding that if a DegreeVerify file was sent to the Clearinghouse, the Office of Enrollment Services was no longer required to send a "Graduates Only" file. We had spoken to personnel at the Clearinghouse who also verified this. We failed to recognize or understand, however, that we needed to request that the National Student Clearinghouse run the "Graduates Only" file from the DegreeVerify file. The Office of Enrollment Services did not send "Graduates Only" files for the 07-08 academic year and the Clearinghouse did not run the "Graduates Only" files based on the DegreeVerify file. As a result, students who graduated and did not return for the next term were listed as withdrawn as of the end of the graduated term. Students who graduated but returned for the next term were not shown as graduated or withdrawn; they were shown with the enrollment status for the next term.

Beginning with the Fall 2008 term a request was made to the National Student Clearinghouse to run the "Graduates Only" file based on the DegreeVerify file. This will ensure that the University complies with the provisions of Section 662.610 as cited above.



# MOREHEAD STATE UNIVERSITY

## Summary Schedule of Prior Audit Findings

Year ended June 30, 2008

### **Finding 07-1:**

#### **Condition:**

Our audit procedures revealed that after the departure of the Assistant Director of Accounting & Budgetary Control in March 2007 there was no systematic method of ensuring that timely and complete monthly reconciliation and closing procedures were taking place. However, a Statement of Revenues, Expenses and Changes in Net Assets was produced on a quarterly basis for the first three quarters of fiscal year ended June 30, 2007. A complete set of internal financial statements, which would include a Statement of Net Assets, was not produced during the year.

#### **Recommendation:**

This situation should be corrected as soon as possible with the establishment of a system of consistent monthly reconciliations and closing procedures. Consistent application of established procedures is dependent upon adequate staffing to ensure that systems will continue to operate in the event of turnover or extended absences in senior level accounting positions. In that respect, it is recommended that an appropriate number of senior level accounting staff be added.

#### **Current Status:**

We noted that the University adheres to a monthly reconciliation schedule and formal closing procedures. We also noted that the University has added additional senior level accounting staff.

### **Finding 07-2:**

#### **Condition:**

There is no formalized process or procedure in place for the University's system changes. Based on interviews with the Information Technology (IT) department heads, there are verbal policies being used. These policies do not appear to be consistent across the IT organization. Also, there is limited technical documentation of changes made to critical systems. Furthermore, there is no formal policy that prohibits testing of new functionality in the production environment.

#### **Recommendation:**

The University should develop a written change control process that provides proper documentation and testing for system changes. The process should include individuals allowed to request system changes, testing requirements, contingency planning and exception handling.

**MOREHEAD STATE UNIVERSITY**

**Summary Schedule of Prior Audit Findings, continued**

**Year ended June 30, 2008**

**Finding 07-2, continued:**

**Current Status:**

We noted that the University formalized processes and procedures necessary for the University's system changes.