

MOREHEAD STATE UNIVERSITY

For the Years Ended June 30, 2010 and 2009
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, 2010. 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

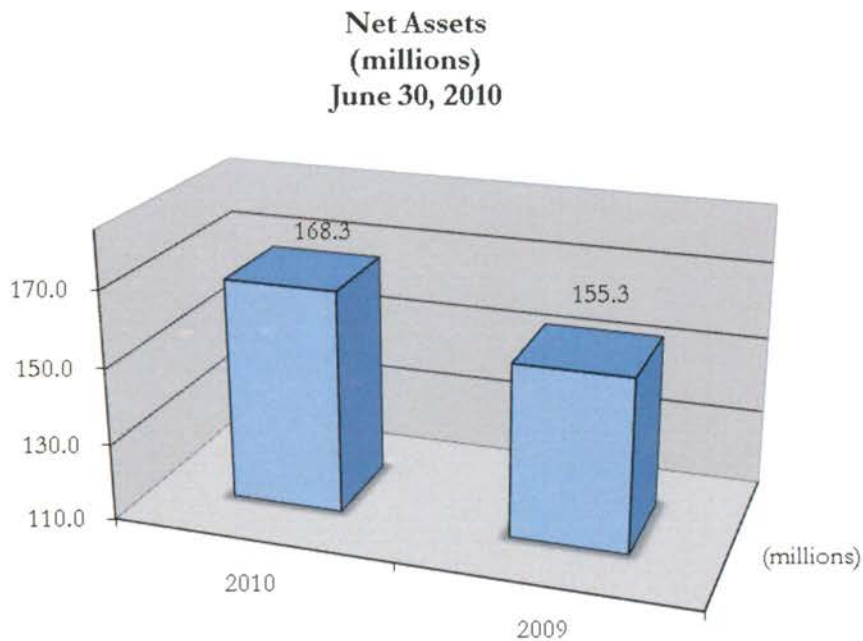
- The financial statements indicate that the University's financial condition remained stable at June 30, 2010. Financial operations were conducted in accordance with the approved budget plan.
- Total assets were \$243 million versus \$199 million at June 30, 2009. Significant components of the assets include \$38 million in cash, \$19 million in accounts, grants and loans receivable, net, \$13 million in investments and \$172 million in capital assets net of depreciation.
- Total liabilities were \$75 million versus \$43 million at June 30, 2009. The significant components of the liabilities were \$58 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 \$5 million in deferred revenue and other liabilities.

- Total net assets were \$168 million at June 30, 2010 and \$155 million at June 30, 2009. Significant components of net assets include \$115 million invested in capital assets, net of depreciation and related debt, \$24 million in expendable restricted net assets, \$12 million of non-expendable restricted net assets and \$17 million in unrestricted net assets.



- Operating revenues were \$73 million at June 30, 2010 and \$65 million at June 30, 2009. Operating expenses were \$140 million versus \$137 million at June 30, 2009. This created an operating loss of \$67 million at June 30, 2010 and \$72 million at June 30, 2009.
- Net non-operating revenues were \$62 million for the year ended June 30, 2010 and \$64 million for the year ended June 30, 2009. Non-operating revenues were comprised primarily of state appropriations. The combination of the net loss from operations, the net non-operating revenues and capital appropriations of \$18 million, resulted in an increase in net assets of \$13 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 non-operating. GASB 35 requires state appropriations and gifts to be classified as non-operating revenues. Accordingly, the University will generate a net operating loss prior to the addition of non-operating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows

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

Reporting Entity

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



MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

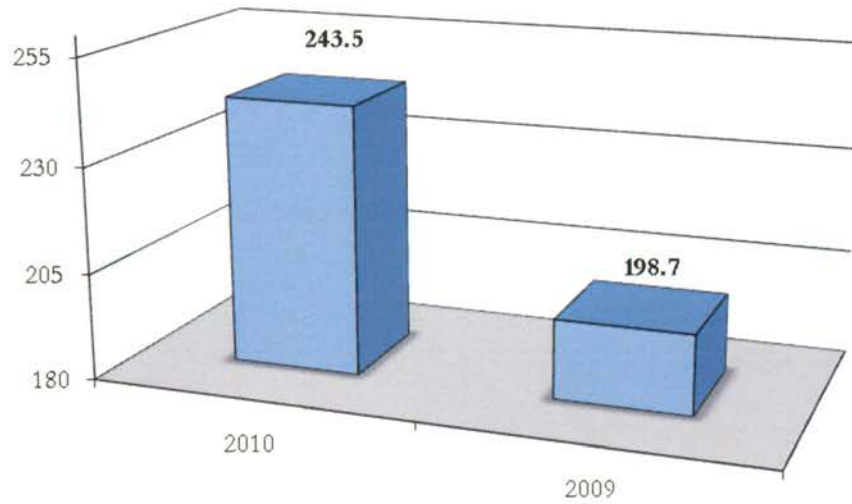
Condensed Financial Information
Statement of Net Assets (in thousands)

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current assets	\$ 53,966	\$ 30,303
Capital assets	171,964	151,169
Other noncurrent assets	<u>17,531</u>	<u>17,221</u>
Total assets	<u>243,461</u>	<u>198,693</u>
<u>Liabilities</u>		
Current liabilities	17,441	16,446
Noncurrent liabilities	<u>57,658</u>	<u>26,928</u>
Total liabilities	<u>75,099</u>	<u>43,374</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	114,660	125,430
Restricted, expendable	24,044	3,384
Restricted, nonexpendable	12,012	11,722
Unrestricted	<u>17,646</u>	<u>14,783</u>
Total net assets	<u>\$ 168,362</u>	<u>\$ 155,319</u>

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

**Total Assets
(millions)
June 30, 2010**



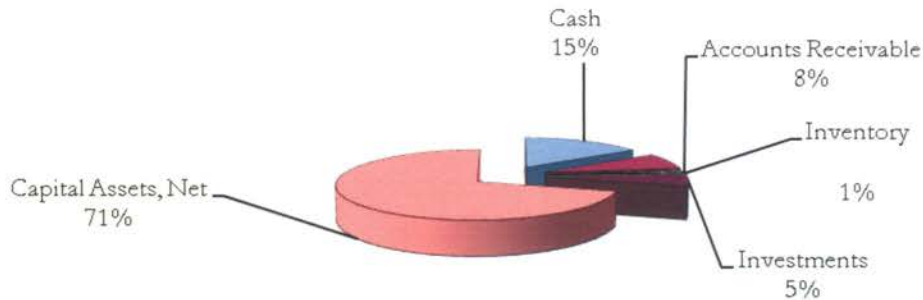
Assets

As of June 30, 2010, the University's total assets amount to approximately \$243 million versus \$199 million at June 30, 2009. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$172 million compared to \$151 million at June 30, 2009. Cash and investments, totaling \$51 million at June 30, 2010 and \$24 million at June 30, 2009, were the University's next largest asset.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

**Assets
(millions)
June 30, 2010**



Total assets increased by \$44.8 million during the year ended June 30, 2010. The principal areas of change were:

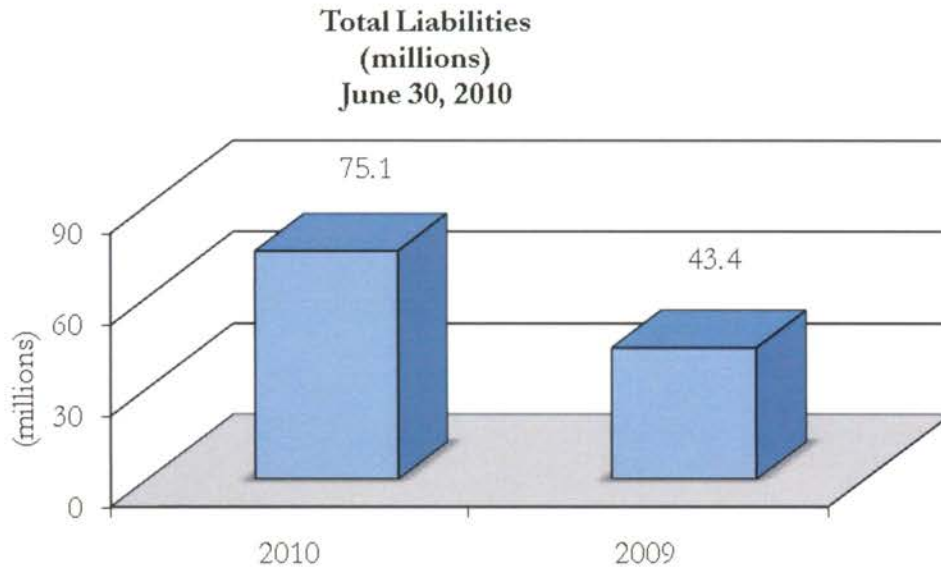
- cash and cash equivalents increased approximately \$27.2 million,
- accounts, grants and loans receivable, net decreased approximately \$3.4 million,
- capital assets, net of accumulated depreciation, increased approximately \$20.8 million,
- investments and other assets increased approximately \$0.2 million

Liabilities

At June 30, 2010, the University's liabilities totaled approximately \$75 million versus \$43 million the previous year. Bonds, notes payable and capital lease obligations for capital assets represented \$58 million versus \$26 million at June 30, 2009.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued



Total liabilities increased by \$31.7 million during the year ended June 30, 2010. This increase was primarily due to a \$31.4 million increase in bonds, notes and capital lease obligations and an increase of \$0.3 million in deferred revenue and other liabilities.

Net Assets

Net assets at June 30, 2010 totaled approximately \$168 million compared to \$155 million at June 30, 2009. Net assets invested in capital assets, net of related debt, totaled \$115 million versus \$125 million at June 30, 2009. Restricted net assets totaled \$36 million compared to \$15 million at June 30, 2009. Unrestricted net assets accounted for \$17 million versus \$15 million at June 30, 2009. Total net assets increased by \$13 million during the year ended June 30, 2010.

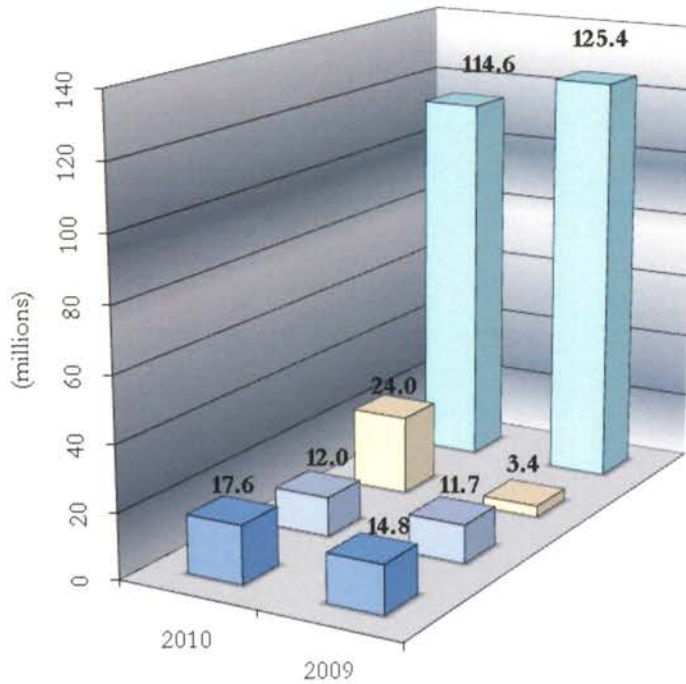
MOREHEAD STATE UNIVERSITY

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, decreased by \$10.7 million. This decrease was primarily due to new bond issues of \$34.7 million at June 30, 2010. Other decreases were due to current year depreciation of \$8.7 million compared to \$7.9 million for the prior year, decreases in construction in progress of \$3 million versus \$0.6 million for the prior year, and current year losses on disposal of assets of \$0.3 million compared to \$1.1 million during fiscal year ended June 30, 2009. Net assets in capital assets, net of related debt, increased by current year fixed asset additions of \$32.7 million compared to \$29.7 million at June 30, 2009. Also, increases were contributed by \$3.3 million in payments of principal on debt compared to \$3.2 million during the prior year.

**Total Net Assets
June 30, 2010**



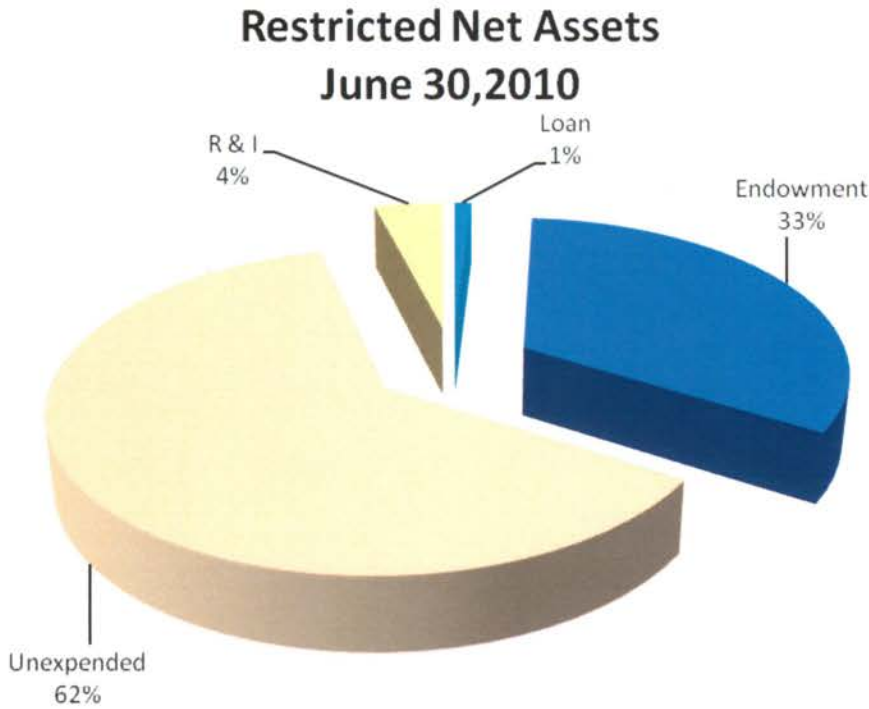
■ Unrestricted ■ Expendable ■ Non Expendable ■ Invested in capital assets, net of related debt

MOREHEAD STATE UNIVERSITY

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 \$20.9 million from the previous year to \$36 million. This was due to increases in unexpended restricted net assets.



Unrestricted Net Assets

Unrestricted net assets increased by \$3 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, 2010 is as follows:

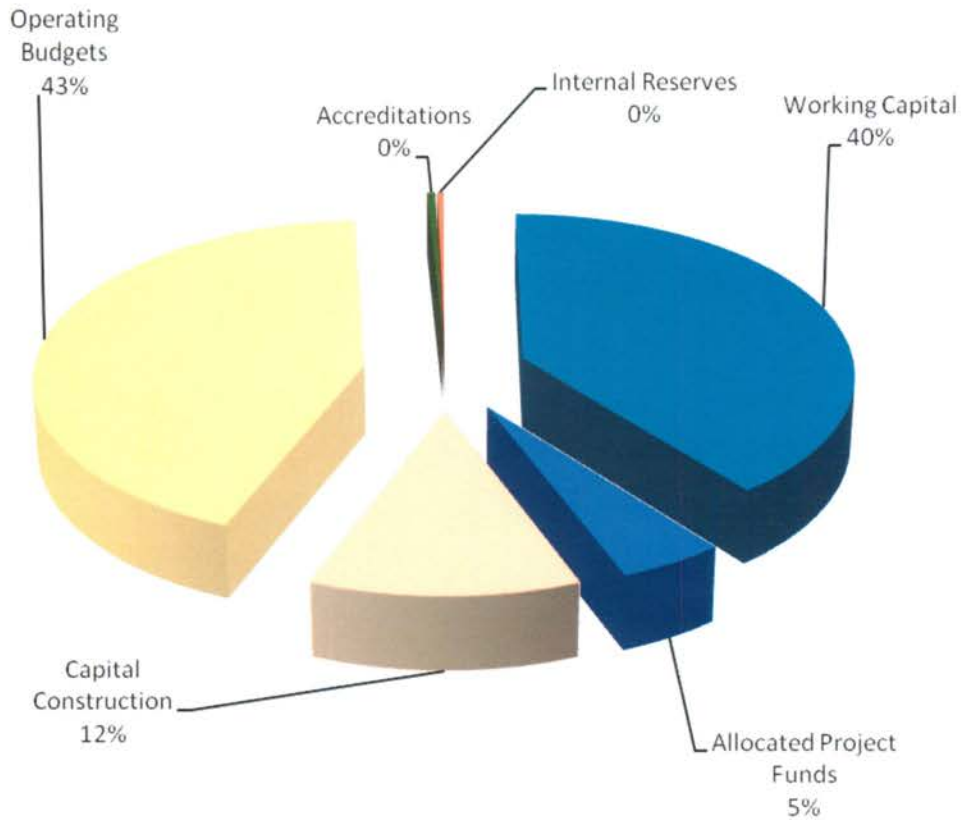
MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Allocation of Unrestricted Net Assets (in thousands)

	<u>2010</u>	<u>2009</u>
Working capital	\$ 6,962	\$ 6,347
Allocated project funds	821	520
Capital construction	2,100	2,174
Operating budgets	7,616	3,725
Accreditations	80	50
Internal reserves	<u>67</u>	<u>1,967</u>
Unrestricted net assets	<u>\$ 17,646</u>	<u>\$ 14,783</u>

**Allocation of Unrestricted Net Assets
June 30, 2010**



MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Statement of Revenue, Expenses and Changes in Net Assets (in thousands)

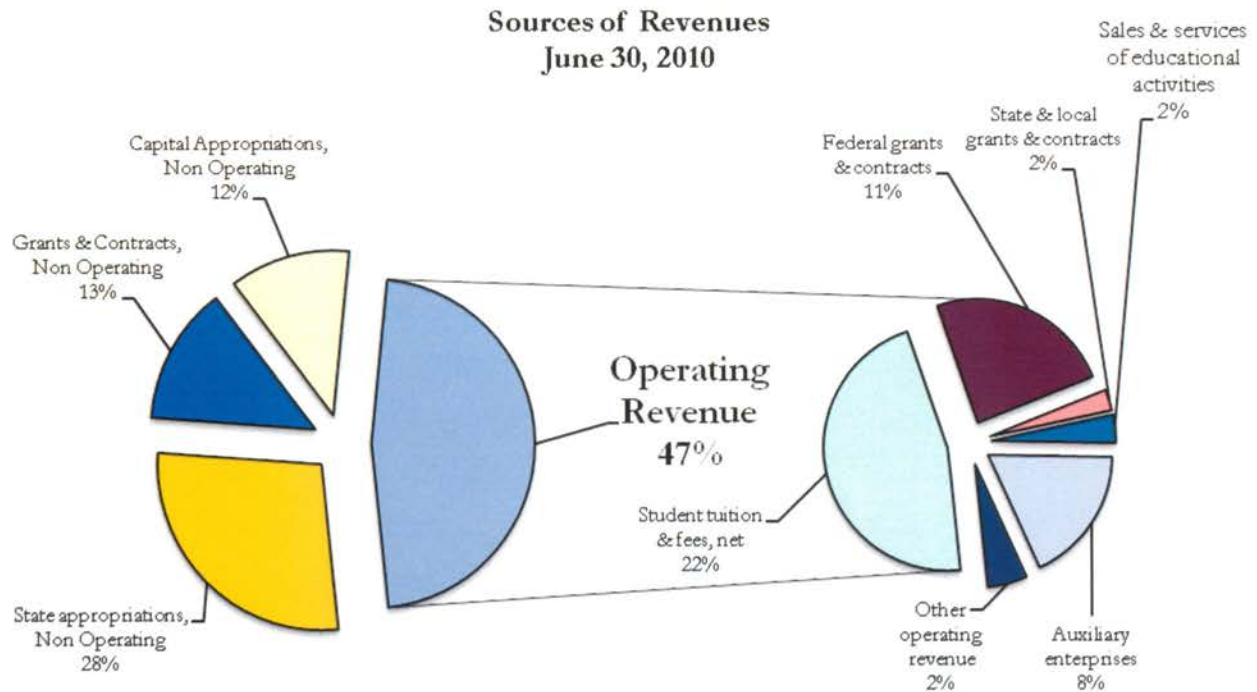
	<u>2010</u>	<u>2009</u>
<u>Operating Revenues</u>		
Student tuition and fees, net	\$ 33,583	\$ 31,325
Federal grants and contracts	17,491	11,726
State and local grants and contracts	1,999	1,939
Nongovernmental grants and contracts	831	692
Sales and services of educational activities	2,662	2,709
Auxiliary enterprises	13,009	13,327
Other operating revenue	<u>3,786</u>	<u>3,811</u>
Total operating revenue	<u>73,361</u>	<u>65,529</u>
<u>Operating Expenses</u>		
Educational and general	118,850	116,617
Auxiliary enterprises	12,710	11,523
Depreciation	8,713	7,867
Other operating expenses	<u>339</u>	<u>1,053</u>
Total operating expenses	<u>140,612</u>	<u>137,060</u>
Operating loss	<u>(67,251)</u>	<u>(71,531)</u>
<u>Non-operating Revenues (Expenses)</u>		
Grants and contracts	20,954	18,531
State appropriations	43,032	45,831
Investment income, net	349	662
Interest on capital assets – debt related	<u>(2,454)</u>	<u>(1,193)</u>
Net non-operating revenues	<u>61,881</u>	<u>63,831</u>
Loss before other revenues, expenses, gains or losses	(5,370)	(7,700)
Capital appropriations	<u>18,413</u>	<u>22,388</u>
Increase in net assets	13,043	14,688
Net assets, beginning of year	<u>155,319</u>	<u>140,631</u>
Net assets, end of year	<u>\$ 168,362</u>	<u>\$ 155,319</u>

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Revenues

Total operating revenues were approximately \$73 million for the year ended June 30, 2010 and approximately \$65 million for the year ended June 30, 2009. The most significant sources of operating revenue for the University are net student fees \$34 million, federal grants and contracts \$17 million, auxiliary enterprises \$13 million, state and local grants \$2 million and other revenues including, private grants and sales and services of educational activities, \$7 million.

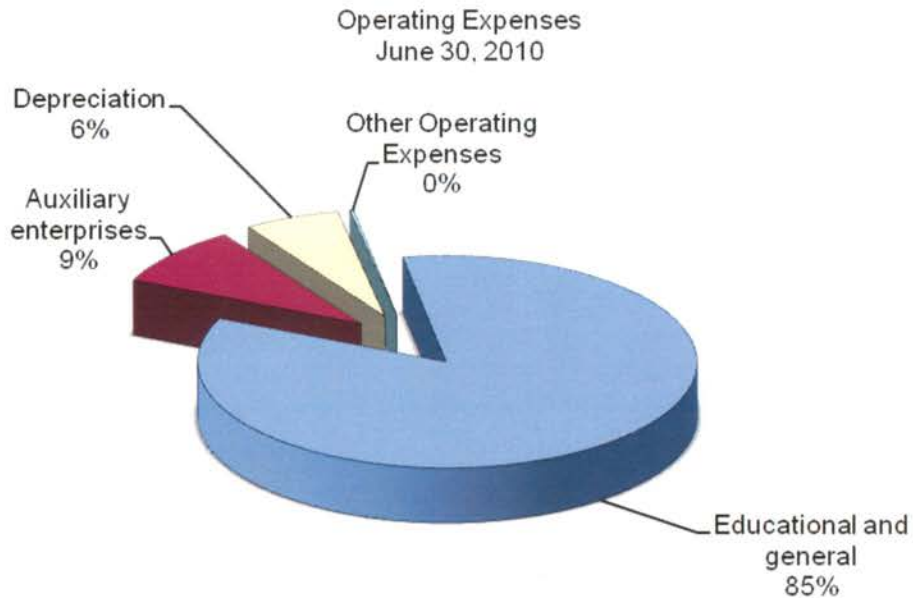


MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Expenses

Operating expenses totaled approximately \$141 million compared to \$137 million at June 30, 2009. Of this amount, approximately \$119 million was used for educational and general expenses related to functions such as instruction, research and public service.



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>2010</u>	<u>2009</u>
Cash (Used In) Provided By:		
Operating activities	\$ (54,508)	\$ (71,775)
Noncapital financing activities	63,986	64,362
Capital and related financing activities	17,641	(10,418)
Investing activities	<u>36</u>	<u>754</u>
Net increase (decrease) in cash	27,155	(17,077)
Cash, beginning of the year	<u>10,504</u>	<u>27,581</u>
Cash, end of the year	<u>\$ 37,659</u>	<u>\$ 10,504</u>

Major sources of funds included in operating activities are student tuition and fees, \$26.8 million versus \$20.4 million the previous year and grants and contracts, \$18.7 million compared to \$13.5 million the previous year. The largest cash payments for operating activities were made to employees \$60.8 million versus \$60.3 million the previous year and suppliers \$57.4 million compared to \$57.8 million the previous year.



The largest cash receipt in the noncapital financing activities group is the operating appropriation from the Commonwealth of Kentucky of \$43.0 million versus \$45.8 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

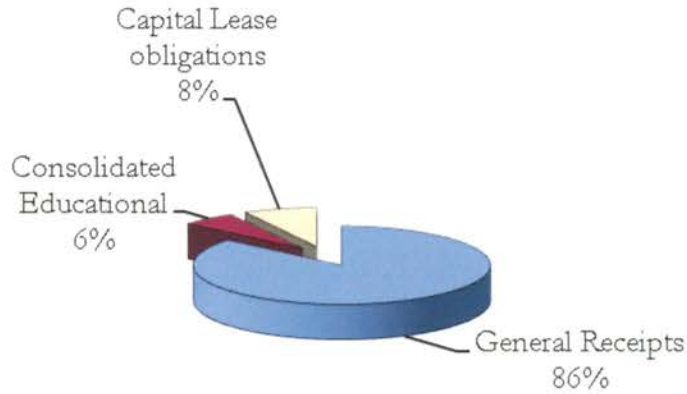
Capital assets, net of accumulated depreciation (but not of related debt), totaled approximately \$172.0 million at June 30, 2010 versus \$151.2 million at June 30, 2009. This represents a net increase of 20.8 million over June 30, 2009. Significant changes to capital assets during fiscal 2009 - 2010 included:

Buildings and structures	\$ 27.8	million
Library additions, equipment and vehicles	3.3	million
Net change in construction in progress	(2.9)	million
Increase in accumulated depreciation, net	7.4	million

Debt

At year-end, the University had \$57.8 million in outstanding debt versus \$26.3 million the previous year. This includes \$53.4 million in bond payable compared to \$21.2 million at June 30, 2009. In addition, the University had capital lease obligations of \$4.4 million compared to \$5.1 million the previous year-end.

Outstanding Debt
June 30, 2010



MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, concluded

Debt, continued

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

	June 30,	
	<u>2010</u>	<u>2009</u>
General Receipts bonds	\$ 49,695	\$ 16,665
Consolidated Educational buildings revenue bonds	3,660	4,610
Capital lease obligations	<u>4,425</u>	<u>5,064</u>
	<u>\$ 57,780</u>	<u>\$ 26,339</u>

Debt outstanding increased approximately \$31.4 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, 2011 totaling \$129 million.
- Under the 2010-11 tuition model, all students will be assessed tuition on a per credit hour basis. The 2010-11 tuition rate includes a 5% increase in the undergraduate resident per credit hour rate with a 60% discount on undergraduate hours enrolled above 12.

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, 2010 and 2009, 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, 2010 and 2009, 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 November 3, 2010, 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 56 through 57 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.

November 3, 2010
Lexington, Kentucky

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

MOREHEAD STATE UNIVERSITY

Statement of Net Assets

June 30, 2010 and 2009

Assets	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 37,659,368	\$ 10,503,628
Accounts, grants and loans receivable, net	14,770,254	18,314,200
Prepaid interest	124,649	124,649
Inventories	1,404,776	1,352,497
Other current assets	<u>6,918</u>	<u>8,446</u>
Total current assets	53,965,965	30,303,420
Noncurrent assets:		
Accounts, grants and loans receivable, net	3,809,125	3,687,184
Prepaid interest	351,488	476,137
Investments	13,370,600	13,057,687
Capital assets, net	<u>171,963,970</u>	<u>151,169,028</u>
Total noncurrent assets	<u>189,495,183</u>	<u>168,390,036</u>
Total assets	<u>243,461,148</u>	<u>198,693,456</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	8,065,040	8,398,720
Deferred revenue	4,177,568	3,874,099
Other current liabilities	973,018	914,028
Bonds, notes and capital lease obligations, current portion	<u>4,224,982</u>	<u>3,259,128</u>
Total current liabilities	17,440,608	16,445,975
Long-term liabilities:		
Bonds, notes and capital lease obligations, noncurrent portion	53,555,123	23,080,105
Advances from federal government for student loans	3,813,100	3,848,297
Deferred revenue	<u>290,235</u>	<u>-</u>
Total long-term liabilities	<u>57,658,458</u>	<u>26,928,402</u>
Total liabilities	<u>75,099,066</u>	<u>43,374,377</u>
Net assets:		
Invested in capital assets, net of related debt	114,660,002	125,430,581
Restricted:		
Expendable	24,043,875	3,383,660
Nonexpendable	12,012,338	11,722,020
Unrestricted	<u>17,645,867</u>	<u>14,782,818</u>
Total net assets	<u>\$ 168,362,082</u>	<u>\$ 155,319,079</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statement of Financial Position

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash	\$ 561,871	\$ 104,344
Accounts receivable	11,748	-
Accrued interest receivable	12,488	14,068
Pledges receivable, net	297,951	313,832
Net investment in capital leases, current	<u>76,097</u>	<u>88,706</u>
Total current assets	960,155	520,950
Noncurrent assets:		
Investments	27,338,067	23,150,575
Cash surrender value – life insurance	102,299	93,723
Property and equipment, net	218,731	357,695
Pledges receivable, net	364,262	325,512
Net investment in capital leases	<u>957,995</u>	<u>1,097,959</u>
Total noncurrent assets	<u>28,981,354</u>	<u>25,025,464</u>
 Total assets	 <u>\$ 29,941,509</u>	 <u>\$ 25,546,414</u>
Liabilities and Net Assets		
Current liabilities:		
Other current liabilities	-	21,500
Annuities payable	117,581	112,582
Due to Morehead State University	<u>6,828</u>	<u>8,446</u>
Total current liabilities	124,409	142,528
Long-term liabilities:		
Funds held in trust for Morehead State University	11,619,827	11,329,592
Annuities payable	<u>508,119</u>	<u>445,015</u>
Total long-term liabilities	<u>12,127,946</u>	<u>11,774,607</u>
 Total liabilities	 <u>12,252,355</u>	 <u>11,917,135</u>
Net assets:		
Unrestricted	(155,102)	(139,683)
Temporarily restricted	4,254,520	621,210
Permanently restricted	<u>13,589,736</u>	<u>13,147,752</u>
Total net assets	<u>17,689,154</u>	<u>13,629,279</u>
 Total liabilities and net assets	 <u>\$ 29,941,509</u>	 <u>\$ 25,546,414</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY

Statement of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$23,463,658 and \$21,575,110)	\$ 33,583,447	\$ 32,187,077
Federal grants and contracts	17,491,129	11,725,610
State and local grants and contracts	1,998,904	1,939,422
Nongovernmental grants and contracts	831,344	691,853
Sales and services of educational activities	2,662,646	2,708,906
Auxiliary enterprises:		
Residence halls (net of scholarship allowances of \$882,761 and \$955,623)	7,300,451	6,945,499
Bookstore	4,406,378	4,364,059
Other auxiliaries	1,301,744	1,155,433
Other operating revenues	<u>3,785,943</u>	<u>3,810,981</u>
Total operating revenues	73,361,986	65,528,840
Operating expenses:		
Education and general:		
Instruction	45,168,444	45,398,891
Research	1,994,360	1,607,834
Public service	7,113,856	7,349,513
Library	3,270,233	3,116,931
Academic support	11,754,564	10,563,258
Student services	13,581,906	12,698,870
Institutional support	14,369,726	14,643,930
Operation and maintenance of plant	8,728,863	8,558,027
Depreciation	8,712,643	7,866,764
Student aid	12,867,825	12,680,934
Auxiliary enterprises:		
Residence Halls	7,741,597	6,541,670
Bookstore	3,819,171	3,826,276
Other auxiliaries	1,149,809	1,154,696
Other operating expenses	<u>339,436</u>	<u>1,052,784</u>
Total operating expenses	<u>140,612,433</u>	<u>137,060,378</u>
Operating loss	(67,250,447)	(71,531,538)

MOREHEAD STATE UNIVERSITY

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

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Nonoperating revenues (expenses):		
Grants and contracts	20,954,221	18,531,568
State appropriations	43,031,646	45,830,676
Investment income (net of investment expense of \$129 and \$1,654)	349,418	662,212
Interest on capital asset-related debt	<u>(2,454,652)</u>	<u>(1,192,779)</u>
Net nonoperating revenues	<u>61,880,633</u>	<u>63,831,677</u>
Loss before capital appropriations	(5,369,814)	(7,699,861)
Capital appropriations	<u>18,412,817</u>	<u>22,387,804</u>
Increase in net assets	13,043,003	14,687,943
Net assets, beginning of year	<u>155,319,079</u>	<u>140,631,136</u>
Net assets, end of year	<u>\$ 168,362,082</u>	<u>\$ 155,319,079</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statement of Activities

Year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 282,273	\$ 2,195,910	\$ 441,984	\$ 2,920,167
Other revenue and gains:				
Investment income:				
Interest and dividend income, net	28,983	781,604	-	810,587
Realized and unrealized gains	22,585	2,901,441	-	2,924,026
In-kind contributed services	101,288	-	-	101,288
Other income	705	471,132	-	471,837
Annuities payable adjustment	(40,016)	-	-	(40,016)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>2,716,777</u>	<u>(2,716,777)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	3,112,595	3,633,310	441,984	7,187,889
Expenses:				
Program expenses:				
Contributions to Morehead State				
University for:				
Academic programs	1,312,849	-	-	1,312,849
Athletics	294,619	-	-	294,619
University support:				
Operations and materials	808,749	-	-	808,749
Student financial aid	421,789	-	-	421,789
Athletics	<u>57,466</u>	<u>-</u>	<u>-</u>	<u>57,466</u>
Total program expenses	2,895,472	-	-	2,895,472
General and administrative	155,057	-	-	155,057
Fundraising	<u>77,485</u>	<u>-</u>	<u>-</u>	<u>77,485</u>
Total expenses	<u>3,128,014</u>	<u>-</u>	<u>-</u>	<u>3,128,014</u>
Change in net assets	(15,419)	3,663,310	441,984	4,059,875
Net assets, beginning of year	<u>(139,683)</u>	<u>621,210</u>	<u>13,147,752</u>	<u>13,629,279</u>
Net assets, end of year	<u>\$ (155,102)</u>	<u>\$ 4,254,520</u>	<u>\$ 13,589,736</u>	<u>\$ 17,689,154</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statement of Activities

Year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 247,549	\$ 1,175,322	\$ 441,299	\$ 1,864,170
Other revenue and gains (losses):				
Investment income (loss):				
Interest and dividend income, net	37,241	1,193,300	-	1,230,541
Realized and unrealized gains (loss)	(20,038)	(6,184,779)	-	(6,204,817)
In-kind contributed services	94,667	-	-	94,667
Other income	7,462	455,223	-	462,685
Annuities payable adjustment	(61,964)	-	-	(61,964)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>2,463,537</u>	<u>(2,463,537)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	2,768,454	(5,824,471)	441,299	(2,614,718)
Expenses:				
Program expenses:				
Contributions to Morehead State				
University for:				
Academic programs	1,114,031	-	-	1,114,031
Athletics	151,614	-	-	151,614
University support:				
Operations and materials	500,978	-	-	500,978
Student financial aid	582,036	-	-	582,036
Athletics	<u>36,468</u>	<u>-</u>	<u>-</u>	<u>36,468</u>
Total program expenses	2,385,127	-	-	2,385,127
General and administrative	181,136	-	-	181,136
Fundraising	<u>69,945</u>	<u>-</u>	<u>-</u>	<u>69,945</u>
Total expenses	<u>2,636,208</u>	<u>-</u>	<u>-</u>	<u>2,636,208</u>
Change in net assets	132,246	(5,824,471)	441,299	(5,250,926)
Net assets, beginning of year	<u>(271,929)</u>	<u>6,445,681</u>	<u>12,706,453</u>	<u>18,880,205</u>
Net assets, end of year	<u>\$ (139,683)</u>	<u>\$ 621,210</u>	<u>\$ 13,147,752</u>	<u>\$ 13,629,279</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY

Statement of Cash Flows

Years ended June 30, 2010 and 2009

	<u>2010</u>	2009
Cash flows from operating activities:		
Tuition and fees	\$ 26,839,692	\$ 20,352,366
Grants and contracts	18,730,248	13,498,911
Payments to suppliers	(57,367,081)	(57,761,428)
Payments to employees	(60,858,247)	(60,327,810)
Capital appropriations, not yet funded	(1,695,799)	(7,234,916)
Loans issued to students	(669,191)	(724,457)
Collection of loans issued to students	609,098	658,227
Auxiliary enterprises:		
Residence halls	7,688,773	7,896,709
Bookstore	4,466,087	4,180,661
Other auxiliaries	1,299,730	1,166,536
Sales and services of educational activities	2,662,646	2,708,906
Other receipts	<u>3,785,944</u>	<u>3,810,981</u>
Net cash used in operating activities	(54,508,100)	(71,775,314)
Cash flows from noncapital financing activities:		
Nonoperating grants and contracts	20,954,221	18,531,568
State appropriations	<u>43,031,646</u>	<u>45,830,676</u>
Net cash provided by noncapital financing activities	63,985,867	64,362,244
Cash flows from capital and related financing activities:		
Capital appropriations	18,412,817	22,387,804
Purchase of capital assets	(29,847,021)	(28,544,454)
Decrease in advances from federal government for student loan	(35,197)	(8,206)
Issuance of new bonds	34,700,000	-
Principal paid on capital debt and leases	(3,259,128)	(3,184,962)
Interest paid on capital debt and leases	<u>(2,330,003)</u>	<u>(1,068,130)</u>
Net cash provided by (used in) capital and related financing activities	17,641,468	(10,417,948)
Cash flows from investing activities:		
Interest received on investments, net	349,418	662,212
Changes in investments, net	<u>(312,913)</u>	<u>91,378</u>
Net cash provided by investing activities	<u>36,505</u>	<u>753,590</u>
Net increase (decrease) in cash and cash equivalents	27,155,740	(17,077,428)
Cash and cash equivalents, beginning of year	<u>10,503,628</u>	<u>27,581,056</u>
Cash and cash equivalents, end of year	<u>\$ 37,659,368</u>	<u>\$ 10,503,628</u>

MOREHEAD STATE UNIVERSITY

Statement of Cash Flows, concluded

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (67,250,447)	\$ (71,531,538)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	8,712,643	7,866,764
Loss on disposal of capital assets	339,436	1,052,784
Bad debt expense	1,277,212	2,106,969
Changes in assets and liabilities:		
Receivables, net	2,144,793	(12,513,277)
Inventories	(52,279)	322,364
Other current assets	1,528	109,849
Accounts payable and accrued liabilities	(333,680)	(25,672)
Deferred revenue	593,704	731,643
Other current liabilities	<u>58,990</u>	<u>104,800</u>
Net cash used in operating activities	<u>\$ (54,508,100)</u>	<u>\$ (71,775,314)</u>

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 (the Commonwealth) 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 the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

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 50% and 47% of total inventories at June 30, 2010 and 2009, 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.

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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Capital Assets

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

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

Accrued Vacation Pay

Accrued vacation pay is included in accounts payable and accrued liabilities in the statement of net 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. Deferred revenue also includes tuition billed on or before June 30th for future terms.

Advances from Federal Government for Student Loans

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

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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

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 non-operating revenues, in accordance with GASB No. 35.

Use of Estimates

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

Income Taxes

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

Reclassifications

Certain reclassifications have been made to the 2009 Statement of Revenues, Expenses and Changes in Net Assets presentation to correspond to the current year classification. Total net assets and total changes in net assets are unchanged as a result of these reclassifications.

Recent Accounting Pronouncements

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The University is currently evaluating the effects of this statement on its financial statements.

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, 2010 and 2009, the University had petty cash funds totaling \$55,358 and \$91,839, respectively and deposits as reflected by bank balances as follows:

	<u>2010</u>	<u>2009</u>
Insured, commercial banks	\$ 266,251	\$ 274,656
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	13,139,905	8,572,505
Maintained by Commonwealth of Kentucky	<u>24,197,854</u>	<u>1,564,628</u>
	<u>\$ 37,604,010</u>	<u>\$ 10,411,789</u>

As of June 30, 2010 and 2009, investments consisted of:

	<u>2010</u>	<u>2009</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	\$ 1,358,256	\$ 1,335,439
Equity mutual funds	288,241	293,085
Money market funds	<u>703</u>	<u>931</u>
	1,647,200	1,629,455
Certificate of deposit	103,573	98,640
Restricted assets held by the Morehead State University Foundation, Inc.	<u>11,619,827</u>	<u>11,329,592</u>
Total investments	<u>\$ 13,370,600</u>	<u>\$ 13,057,687</u>

Restricted investments for capital purposes are comprised of amounts invested for sinking fund and debt service reserves. The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in equity securities.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

2. Cash, Cash Equivalents and Investments, continued

University investments held by the Foundation are comprised of the Regional University Excellence Trust Fund endowment and other similar endowments (see Note 13). Assets held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

The assets in the Foundation investment pool at June 30, 2010 and 2009, are invested as follows:

	<u>2010</u>	<u>2009</u>
Percentage of pool invested in:		
Registered investment companies fixed income funds	61%	39%
Registered investment companies equity funds	32%	61%
Registered investment companies alternative investments	<u>7%</u>	<u>-</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>2010</u>	<u>2009</u>
Student tuition and fees	\$ 3,663,564	\$ 5,136,532
Laptop lease	1,324,000	-
Financing and interest	2,548,977	2,481,088
Capital appropriations	1,695,799	7,234,916
Student loans	3,896,386	3,778,359
Grants and contracts	5,125,171	3,795,116
Auxiliary enterprises	389,066	835,083
Other	<u>251,350</u>	<u>215,548</u>
	18,894,313	23,476,642
Allowance for doubtful accounts	<u>(314,934)</u>	<u>(1,475,258)</u>
	18,579,379	22,001,384
Current portion	<u>(14,770,254)</u>	<u>(18,314,200)</u>
Noncurrent portion	<u>\$ 3,809,125</u>	<u>\$ 3,687,184</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net

Capital assets as of June 30, 2010, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 18,347,884	\$ 829,864	\$ 549,133	\$ 18,628,615
Buildings	191,320,618	27,567,190	-	218,887,808
Library books	21,530,262	1,140,009	-	22,670,271
Vehicles	2,455,612	44,897	508,756	1,991,753
Equipment and livestock	17,319,469	3,155,517	551,283	19,923,703
Datatel	4,197,690	-	-	4,197,690
Art collection	796,825	27,945	200	824,570
Construction in progress	<u>13,620,551</u>	<u>24,605,459</u>	<u>27,523,860</u>	<u>10,702,150</u>
	269,588,911	57,370,881	29,133,232	297,826,560
<u>Accumulated Depreciation</u>				
Land improvements	6,003,580	507,878	262,211	6,249,247
Buildings	79,938,811	4,359,061	-	84,297,872
Library books	16,776,826	969,902	-	17,746,728
Vehicles	2,072,810	139,210	507,599	1,704,421
Equipment and livestock	10,315,878	1,989,436	500,126	11,805,188
Datatel	<u>3,311,978</u>	<u>747,156</u>	<u>-</u>	<u>4,059,134</u>
	<u>118,419,883</u>	<u>8,712,643</u>	<u>1,269,936</u>	<u>125,862,590</u>
Capital assets, net	<u>\$ 151,169,028</u>	<u>\$ 48,658,238</u>	<u>\$ 27,863,296</u>	<u>\$ 171,963,970</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net, continued

Capital assets as of June 30, 2009, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 17,148,975	\$ 1,408,909	\$ 210,000	\$ 18,347,884
Buildings	169,274,638	25,172,361	3,126,381	191,320,618
Library books	20,419,259	1,111,003	-	21,530,262
Vehicles	2,199,257	256,355	-	2,455,612
Equipment and livestock	16,653,040	1,702,835	1,036,406	17,319,469
Datatel	4,191,145	6,545	-	4,197,690
Art collection	781,825	15,000	-	796,825
Construction in progress	<u>14,288,240</u>	<u>23,620,874</u>	<u>24,288,563</u>	<u>13,620,551</u>
	244,956,379	53,293,882	28,661,350	269,588,911
<u>Accumulated Depreciation</u>				
Land improvements	5,500,736	502,844	-	6,003,580
Buildings	78,462,097	3,674,080	2,197,366	79,938,811
Library books	15,850,995	925,831	-	16,776,826
Vehicles	1,925,149	147,661	-	2,072,810
Equipment and livestock	9,200,070	1,777,580	661,772	10,315,878
Datatel	<u>2,473,210</u>	<u>838,768</u>	<u>-</u>	<u>3,311,978</u>
	<u>113,412,257</u>	<u>7,866,764</u>	<u>2,859,138</u>	<u>118,419,883</u>
Capital assets, net	<u>\$ 131,544,122</u>	<u>\$ 45,427,118</u>	<u>\$ 25,802,212</u>	<u>\$ 151,169,028</u>

5. Accounts Payable and Accrued Liabilities

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

	<u>2010</u>	<u>2009</u>
Payable to vendors and contractors	\$ 1,395,499	\$ 2,142,178
Accrued vacation	2,184,052	2,207,159
Accrued salaries and other liabilities	<u>4,485,489</u>	<u>4,049,383</u>
	<u>\$ 8,065,040</u>	<u>\$ 8,398,720</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

6. Long-Term Liabilities

Long-term liabilities at June 30, 2010, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Consolidated Educational Building Revenue Bonds	\$ 4,610,000	\$ -	\$ 950,000	\$ 3,660,000	\$ 990,000	\$ 2,670,000
General Receipts Bonds	16,665,000	34,700,000	1,670,000	49,695,000	2,565,000	47,130,000
Capital lease obligations	<u>5,064,233</u>	<u>-</u>	<u>639,128</u>	<u>4,425,105</u>	<u>669,982</u>	<u>3,755,123</u>
Total bonds, notes and capital lease obligations	26,339,233	34,700,000	3,259,128	57,780,105	4,224,982	53,555,123
Federal refundable grants	<u>3,848,297</u>	<u>-</u>	<u>35,197</u>	<u>3,813,100</u>	<u>-</u>	<u>3,813,100</u>
Total long-term Liabilities	<u>\$ 30,187,530</u>	<u>\$ 34,700,000</u>	<u>\$ 3,294,325</u>	<u>\$ 61,593,205</u>	<u>\$ 4,224,982</u>	<u>\$ 57,368,223</u>

Long-term liabilities at June 30, 2009, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Consolidated Educational Building Revenue Bonds	\$ 5,530,000	\$ -	\$ 920,000	\$ 4,610,000	\$ 950,000	\$ 3,660,000
General Receipts Bonds	18,320,000	-	1,655,000	16,665,000	1,670,000	14,995,000
Capital lease obligations	<u>5,674,195</u>	<u>-</u>	<u>609,962</u>	<u>5,064,233</u>	<u>639,128</u>	<u>4,425,105</u>
Total bonds, notes and capital lease obligations	29,524,195	-	3,184,962	26,339,233	3,259,128	23,080,105
Federal refundable grants	<u>3,856,503</u>	<u>-</u>	<u>8,206</u>	<u>3,848,297</u>	<u>-</u>	<u>3,848,297</u>
Total long-term Liabilities	<u>\$ 33,380,698</u>	<u>\$ -</u>	<u>\$ 3,193,168</u>	<u>\$ 30,187,530</u>	<u>\$ 3,259,128</u>	<u>\$ 26,928,402</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>2010</u>	<u>2009</u>
2.00 – 4.50% Consolidated Educational Building Revenue Bonds, Series L and M repayable in semi-annual installments with the final installment due May, 2024	\$ 3,660,000	\$4,610,000
4.00% General Receipts Bonds, 2007 Series A, repayable in semi-annual installments with the final installment due November, 2027	5,740,000	6,100,000
3.00 – 3.80% General Receipts Bonds, 2008 Series A, payable in semi-annual installments with the final installment due November, 2022	8,715,000	9,350,000
4.00 – 4.50% General Receipts Bonds, 2008 Taxable Series B, repayable in semi-annual installments with the final installment due May, 2013	540,000	1,215,000
2.00 – 6.00% General Receipts Bonds, 2009 Taxable Series A, repayable in semi-annual installments with the final installment due November, 2028	28,930,000	-
1.27 – 5.75% General Receipts Bonds, 2010 Taxable Series A, repayable in semi-annual installments with the final installment due November, 2029	5,770,000	-
5.00% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due February, 2019	132,901	144,857
5.75% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due May, 2013	333,388	427,550
9.40% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due March, 2023	381,015	396,031
4.19% Capital lease obligation with a finance corporation in semi-annual payments with final installment due October, 2019	1,282,353	1,390,239
3.58% Capital lease obligation with a finance corporation in semi-annual payments with final installment due June, 2015	2,108,661	2,487,330
4.47% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due August, 2015	<u>186,787</u>	<u>218,226</u>
	<u>\$ 57,780,105</u>	<u>\$ 26,339,233</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, 2010 and 2009, 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, 2010 and 2009.

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>2010</u>	<u>2009</u>
Equipment	\$ 7,722,742	\$ 7,722,742
Less: accumulated depreciation	<u>(4,472,416)</u>	<u>(3,624,191)</u>
	<u>\$ 3,250,326</u>	<u>\$ 4,098,551</u>

The following is a schedule by years of future minimum payments required for the capital lease obligations as of June 30, 2010:

Year ending June 30,	
2011	\$ 870,653
2012	870,653
2013	863,403
2014	740,869
2015	740,869
Thereafter	<u>1,216,507</u>
Total minimum lease payments	5,302,954
Less: amounts representing interest	<u>(877,849)</u>
Present value of minimum lease payments	<u>\$ 4,425,105</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, 2010, are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 3,555,000	\$ 2,298,548	\$ 5,853,548
2012	3,605,000	2,226,549	5,831,549
2013	3,210,000	2,112,740	5,322,740
2014	3,015,000	2,010,293	5,025,293
2015	2,530,000	1,903,585	4,433,585
2016-2030	<u>37,440,000</u>	<u>13,918,756</u>	<u>51,358,756</u>
	<u>\$ 53,355,000</u>	<u>\$ 24,470,471</u>	<u>\$ 77,825,471</u>

7. Pension Plan

Kentucky Teachers Retirement System

All faculty and exempt employees required to hold a degree and occupying full-time positions, defined as seven-tenths (7/10) of normal full-time service on a daily or weekly basis, are required by state law to participate in the Kentucky Teachers Retirement System (KTRS). KTRS, a cost sharing, multiple-employer, public employee retirement system, provides retirement benefits based on an employee's final average salary and number of years 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, 2010 and 2009 were \$4,369,477 and \$4,392,051, respectively, equal to the required contributions for each year.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plan, continued

Kentucky Employee Retirement System

Substantially all other full-time University employees are required by law to participate in the Kentucky Employees Retirement System (KERS), a cost sharing, multiple-employer, public employee retirement system. KERS provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age sixty-five, or has less than twenty-seven years of service. The plan also provides for disability retirement, death and survivor benefits and medical insurance.

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

Funding for the plan is provided from eligible hazardous and non-hazardous employees who contribute 8.00% and 5.00%, respectively of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 24.69% and 11.61%, 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.

The University's contributions to KERS for the years ending June 30, 2010 and 2009 were \$1,481,704 and \$1,251,239 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 5.10% to the retirement company and 8.74% 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, 2010 and 2009 were \$918,782 and \$839,837, 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 \$687,000 and \$699,000 in 2010 and 2009, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

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, 2010.

The University has made certain commitments related to the completion of various construction projects in progress totaling approximately \$17,379,334. Such construction is principally financed by appropriations from the Commonwealth of Kentucky and proceeds from bonds.

10. Self-Insurance Program

The University maintains a self-insurance program for employees' dental insurance. The University funds the plan at the single rate for all permanent full-time employees with the employees paying the difference between the single plan and the family plan, if applicable. Expenses incurred to cover claims paid by the University under the plan for fiscal year ending June 30, 2010 and 2009 totaled \$305,908 and \$360,583, 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 \$347 per month to a high of \$790. Payments for employee health insurance for fiscal years ending June 30, 2010 and 2009 were \$6,743,482 and \$6,188,146, 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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

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.

13. Endowment Trust Funds

The Foundation holds endowment investments for the University, the majority of which are associated with the Regional University Excellence Trust Fund (RUETF). The RUETF was created by the Kentucky General Assembly with the passage of the Postsecondary Education Improvement Act of 1997 ("House Bill 1"). The RUETF Endowment Match Program, also known as "Bucks for Brains", provides state funds on a dollar-for-dollar basis. Funds are endowed for the purposes of supporting endowed chairs and professorships.

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

The fair market value of Morehead State University endowment funds held by the Foundation as of June 30, 2010 and 2009 was \$27,492,673 and \$23,804,637, respectively. The portion of the endowments representing the value of the funding received from the Kentucky General Assembly was \$11,329,592 for the years ended June 30, 2010 and 2009, and is included in investments held by the Foundation. The portion of the endowments representing the value of the funding received from the Technology Endowment Program was \$290,235 for the year ended June 30, 2010, and is included in investments held by the Foundation.

14. Related Parties

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

14. Related Parties, continued

Related party transactions and funds held by the Foundation on behalf of the University are as follows during 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 101,288	\$ 94,667
Funds held by the Foundation on behalf or for the benefit of the University	11,619,827	11,329,592
Funds due to the University by the Foundation	6,828	8,446

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. Amounts disclosed above as funds disbursed by the University on behalf of the Foundation for employee salaries and benefits are net of the \$79,908 per year for the fiscal years ended June 30, 2010 and 2009.

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

15. Morehead State University Foundation, Inc

A. Description of Organization

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc, continued

B. Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 168). SFAS No. 168 established the FASB Accounting Standards Codification (ASC) as the only source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The Foundation adopted the provisions of SFAS No. 168 during the year ended June 30, 2010, and the adoption did not have a material impact on the financial statement disclosures.

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 GAAP. Under these standards net assets and revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

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

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

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 1.79% and 2.54% for the years ended June 30, 2010 and 2009, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc, continued

B. Summary of Significant Accounting Policies, continued

Pledges Receivable, continued

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.

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, 2010 and 2009, the Foundation held \$11,619,827 and \$11,329,592 respectively, for the University's investment purposes.

Income Taxes

The Foundation adopted the provisions of FASB ASC 740-10 relating to uncertainty in income taxes on June 30, 2009. The implementation included evaluating the tax positions taken on all income tax returns that remain open to examination by the respective taxing authorities. The Foundation does not believe that those returns include any uncertain positions required to be reflected in the financial statements under FASB ASC 740-10.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc, continued

B. Summary of Significant Accounting Policies, continued

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, 2010 and 2009 were \$113,563 and \$102,623, respectively.

The June 30, 2010 and 2009 annuity liabilities balances of \$625,700 and \$557,597, respectively are the present values of the monthly, quarterly, or semiannual payments to the annuitants based on the life expectancies of the annuitants and interest rates ranging from 3.25% to 10%. The estimated remaining life expectancies of the annuitants range from 5.1 to 15.1 years and 5.4 to 8.7 years for the years ended June 30, 2010 and 2009, respectively.

Due to Morehead State University

A gift was pledged to the Foundation that the donor stipulated was specifically for the University. In accordance with GAAP, 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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc, continued

B. Summary of Significant Accounting Policies, continued

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, 2010 and 2009 includes in-kind contributions of \$529,477 and \$493,193, 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.

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.

C. Investments

Investments held as of June 30, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Certificates of deposit	\$ 1,051,941	\$ 1,464,243
Mutual funds	26,121,606	21,519,375
Corporate bonds and stocks	35,314	41,804
Annuity investments	<u>129,206</u>	<u>125,153</u>
Total investments at fair value	<u>\$ 27,338,067</u>	<u>\$ 23,150,575</u>

Investment management fees were approximately \$55,000 and \$52,000 during the years ended June 30, 2010 and 2009, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements

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

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2010				
Certificates of deposit	\$ 1,051,941	\$ 1,051,941	\$ -	\$ -
Mutual funds	26,121,606	26,121,606	-	-
Corporate bonds and stocks	35,314	35,314	-	-
Annuity investment	129,206	129,206	-	-
Total Assets	\$ 27,338,067	\$ 27,338,067	\$ -	\$ -

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2009				
Certificates of deposit	\$ 1,464,243	\$ 1,464,243	\$ -	\$ -
Mutual funds	21,519,375	21,519,375	-	-
Corporate bonds and stocks	41,804	41,804	-	-
Annuity investment	125,153	125,153	-	-
Total Assets	\$ 23,150,575	\$ 23,150,575	\$ -	\$ -

Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. All assets have been valued using a market approach.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

Donor-Designated Endowments

The Foundation follows the Uniform Management of Institutional Funds Act of 1972 (UMIFA) and its own governing documents. UMIFA requires the historical dollar amount of a donor-restricted endowment fund to be preserved. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under UMIFA. The Foundation's donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment funds.

Effective July 15, 2010, the Commonwealth of Kentucky adopted the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation is currently evaluating whether the adoption of UPMIFA will have a material impact on its investment activities.

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

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

The current financial management and investment policy establishes an annual maximum approved spending goal for distributions of up to 3.5% of endowment assets, a management fee used to support the annual operating budget which will not exceed 1%, the costs of managing the portfolio shall not be greater than 1% of the portfolio value, and therefore the long-term target minimum annual return shall be 5.5%. In order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed more than 10% of total, and no more than 25% of total should be invested in any one sector.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

Donor-Designated Endowments, continued

The Foundation's investments include endowment investments for the University associated with the Technology Endowment Program and RUETF Endowment Match Program, also known as "Bucks for Brains". Funds held for the Technology Endowment Program are matched by the University of at least one dollar for every dollar of grant funds. As of June 30, 2010, the amount of funds included in the Foundation's investments held for the Technology Endowment Program was \$290,235. Funds held for the RUETF Match Program are endowed for the purposes of supporting endowed chairs and professorships, scholarships, fellowships, research funds, and mission support funds. As of June 30, 2010 and 2009, the amount of funds included in the Foundation's investments held for the RUETF Match Program was \$11,329,592. These amounts are shown as Funds Held in Trust for Morehead State University on the Statement of Financial Position and are therefore not included in Donor-Designated Endowment Net Assets.

Endowment net asset composition by fund type and changes in endowment net assets by fund type as of June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ (672,707)	\$13,147,752	\$12,475,045
Contributions	-	-	441,984	441,984
Interest and dividend income	-	781,604	-	781,604
Amounts appropriated for Expenditure	-	(727,228)	-	(727,228)
Net appreciation	-	2,901,441	-	2,901,441
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,283,110</u>	<u>\$13,589,736</u>	<u>\$15,872,846</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

Donor-Designated Endowments, continued

Endowment net asset composition by fund type and changes in endowment net assets by fund type as of June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ -	\$ 4,447,274	\$12,706,453	\$17,153,727
Contributions	-	154,802	441,299	596,101
Interest and dividend income	-	1,112,434	-	1,112,434
Net depreciation	-	(6,184,779)	-	(6,184,779)
Amounts appropriated for expenditure	-	(202,438)	-	(202,438)
Endowment net assets, end of year	\$ -	\$ (672,707)	\$13,147,752	\$12,475,045

E. Pledges Receivable

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

Year ended June 30	
2011	\$ 363,880
2012	157,937
2013	78,900
2014	77,079
2015	52,400
Thereafter	78,851
	809,047
Less: present value discount	(65,929)
Less: allowance for uncollectible pledges	(80,905)
Pledges receivable, net	662,213
Less: current pledges receivable	(297,951)
Noncurrent pledges receivable	\$ 364,262

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

F. Property and Equipment

Property and equipment as of June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Land	\$ 53,000	\$ 170,000
Furniture and equipment	154,579	154,579
Buildings	<u>175,000</u>	<u>175,000</u>
	382,579	499,579
Less: accumulated depreciation	<u>(163,848)</u>	<u>(141,884)</u>
	<u>\$ 218,731</u>	<u>\$ 357,695</u>

G. Deferred Giving Program

The Foundation established a life insurance deferred giving program during 1983. The program consists of donors designating the Foundation as the owner and beneficiary of life insurance policies. There are twenty deferred giving programs with life insurance in effect totaling \$685,000 for both years ending June 30, 2010 and 2009, respectively. The cash surrender value of these policies as of June 30, 2010 and 2009 is \$102,299 and \$93,723, respectively.

H. Support for Morehead State University

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

I. Net Investment in Capital Leases

The Foundation's net investment in direct financing capital leases of real estate with the University as of June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Total minimum lease payments to be received	\$ 1,413,504	\$ 1,654,783
Less: unearned income	<u>(379,412)</u>	<u>(468,118)</u>
Net investment in capital leases	<u>\$ 1,034,092</u>	<u>\$ 1,186,665</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

I. 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:

2011	\$	241,279
2012		241,279
2013		234,030
2014		111,496
2015		111,496
Thereafter		<u>473,924</u>
	\$	<u>1,413,504</u>

J. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available at June 30, 2010 and 2009 for the following purposes:

	<u>2010</u>	<u>2009</u>
Funds restricted for specific purposes	\$ 4,107,547	\$ 621,210
Scholarships	110,384	-
Athletics	<u>36,589</u>	<u>-</u>
	<u>\$ 4,254,520</u>	<u>\$ 621,210</u>

Permanently restricted net assets at June 30, 2010 and 2009 consist of endowment funds.

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

	<u>2010</u>	<u>2009</u>
Pledges receivable	\$ 374,455	\$ 381,549
Investments	3,033,109	(672,707)
Buildings	146,252	153,252
Net investment in capital leases	<u>700,704</u>	<u>759,116</u>
	<u>\$ 4,254,520</u>	<u>\$ 621,210</u>

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

	<u>2010</u>	<u>2009</u>
Pledges receivable	\$ 227,989	\$ 173,513
Investments	12,975,359	12,493,690
Land	53,000	53,000
Net investment in capital leases	<u>333,388</u>	<u>427,549</u>
	<u>\$ 13,589,736</u>	<u>\$ 13,147,752</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

K. Related-Party Transactions

The University entered into an agreement with the Foundation where the University will provide personnel, office space, support equipment and other services that may be necessary to the operation of the Foundation. The Foundation reimburses the University for these services at a rate determined mutually by the two entities of \$79,908 per year. GAAP requires recognition of professional services received if those services (a) create long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Those services in excess of \$79,908 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 \$79,908 effective March 1, 2009, from the previous amount of \$78,000.

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

L. 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. Effective May 20, 2009, FDIC insurance temporarily increased from \$100,000 to \$250,000 for each individual account through December 31, 2013. Cash deposits in excess of the federally insured limits total \$850,588 and \$623,880 as of June 30, 2010 and 2009, respectively.

M. Funds Held for Agencies

The Foundation is acting as an agent for another organization related to the University. Included in cash and other current liabilities is \$21,500 of agency funds.

N. Subsequent Events

The Foundation has evaluated subsequent events for items requiring recognition or disclosure in the financial statements through September 29, 2010, the date that the financial statements were available to be issued. There were no events occurring during the evaluation period that would require recognition or disclosure in the financial statements

SUPPLEMENTAL INFORMATION

MOREHEAD STATE UNIVERSITY

Schedule of Bonds, Notes and Capital Lease Obligations

June 30, 2010

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2009</u>	<u>Payments 2009-10</u>	<u>New Issues</u>	<u>Outstanding June 30, 2010</u>	<u>Interest Paid 2009-10</u>	<u>Debt Service Requirements 2010-11</u>	
									<u>Principal</u>	<u>Interest</u>
Consolidated Educational Building Revenue Bonds:										
Series L	12/01/01	\$ 4,875,000	2.25-4.30	\$ 1,360,000	\$ 430,000	\$ -	\$ 930,000	\$ 57,823	\$ 455,000	\$ 39,763
Series M	01/01/04	<u>5,620,000</u>	2.00-4.50	<u>3,250,000</u>	<u>520,000</u>	<u>-</u>	<u>2,730,000</u>	<u>112,223</u>	<u>535,000</u>	<u>96,622</u>
Total educational buildings		10,495,000		4,610,000	950,000	-	3,660,000	170,046	990,000	136,385
General Receipts:										
2007 Series A Bonds	08/14/07	6,445,000	4.00	6,100,000	360,000	-	5,740,000	236,800	375,000	222,100
2008 Series A Bonds	06/10/08	10,000,000	3.00-3.80	9,350,000	635,000	-	8,715,000	304,672	655,000	285,323
2008 Series B Bonds	06/10/08	1,875,000	4.00-4.50	1,215,000	675,000	-	540,000	49,475	365,000	22,475
2009 Series A Bonds	07/29/09	28,930,000	2.00-6.00	-	-	28,930,000	28,930,000	1,084,040	1,170,000	1,423,059
2010 Series A Bonds	06/29/10	<u>5,770,000</u>	1.27-5.75	<u>-</u>	<u>-</u>	<u>5,770,000</u>	<u>5,770,000</u>	<u>-</u>	<u>-</u>	<u>209,207</u>
Total General Receipts		53,020,000		16,665,000	1,670,000	34,700,000	49,695,000	1,674,987	2,565,000	2,162,164

MOREHEAD STATE UNIVERSITY

Schedule of Bonds, Notes and Capital Lease Obligations, concluded

June 30, 2010

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2009</u>	<u>Payments 2009-10</u>	<u>New Issues</u>	<u>Outstanding June 30, 2010</u>	<u>Interest Paid 2009-10</u>	<u>Debt Service Requirements 2010-11</u>	
									<u>Principal</u>	<u>Interest</u>
Lease Purchase Agreements:										
MSU Foundation, Inc.	03/01/99	240,000	5.0	144,857	11,956	-	132,901	6,971	12,568	6,360
MSU Foundation, Inc.	07/15/02	990,000	5.75	427,550	94,162	-	333,388	35,623	103,250	26,534
MSU Foundation, Inc.	10/21/02	466,457	9.4	396,031	15,016	-	381,015	36,996	16,491	35,522
Citi Mortgage, Inc.	03/31/05	1,824,000	4.19	1,390,239	107,886	-	1,282,353	57,133	112,453	52,565
Suntrust Bank, Inc	06/15/05	3,874,522	3.58	2,487,330	378,669	-	2,108,661	85,686	392,347	72,009
MSU Foundation, Inc.	09/01/05	<u>327,764</u>	4.47	<u>218,226</u>	<u>31,439</u>	<u>-</u>	<u>186,787</u>	<u>9,116</u>	<u>32,873</u>	<u>7,681</u>
Total lease purchase		<u>7,722,743</u>		<u>5,064,233</u>	<u>639,128</u>	<u>-</u>	<u>4,425,105</u>	<u>231,525</u>	<u>669,982</u>	<u>200,671</u>
Total		<u>\$ 71,237,743</u>		<u>\$ 26,339,233</u>	<u>\$ 3,259,128</u>	<u>\$34,700,000</u>	<u>\$ 57,780,105</u>	<u>\$ 2,076,558</u>	<u>\$ 4,224,982</u>	<u>\$ 2,499,220</u>

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<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 Department of Education:			
Direct Programs:			
Student Financial Aid Cluster:			
National Science and Mathematics Access to Retain Talent Grant Program		84.375	\$204,744
Academic Competitiveness Grant Program		84.376	154,439
ARRA – Federal Work Study		84.033	169,906
Federal Work Study		84.033	802,971
Federal Pell Grant Program		84.063	13,961,391
Federal Supplemental Educational Opportunity Grants Program		84.007	344,004
Federal Perkins Loan Program		84.038	632,961
Federal Direct Loans Program		84.268	37,583,663
Teach Grant		84.379	<u>104,904</u>
			53,958,983
TRIO Cluster:			
CEOC - NE 04/07		84.066	102,023
CEOC - SE 07-10		84.066	197,318
CEOC - NE 09/14		84.066	371,513
Student Support Services 06-07		84.042	313,094
Talent Search 07-11		84.044	506,946
Talent Search II 07-11		84.044	301,013
Upward Bound Math/Science 08-12		84.047	235,547
Upward Bound East		84.047	280,280
Upward Bound Central 09/10		84.047	<u>509,187</u>
			2,816,921
Gear-up IRAPP 08-14		84.334	1,690,103
Oddis-Magnets 09/10		84.116	9,325
Patrick-SI 05-06		84.031	<u>457,716</u>
			2,157,144
Passed through Kentucky Education and Workforce Development Cabinet - Department for Workforce Investment:			
DEMOSS-CTE-PERKINS NAHS 09/10	P02 513 1000001120 1	84.048	21,833
DEMOSS-CTE-PERKINS RS 09/10	P02 513 1000001120 1	84.048	25,000
PLATT-FOOD-KEC 10	P02 531 1000004169 1	84.048	588
STUBBS-MATH CTE-KDE 09/10	P02 531 0900024824 1	84.048	66,698
STUBBS-TITLE 1C ET 09/10	P02 531 0900024691 1	84.048	38,158
STUBBS-TITLE 1C RS 09/10	P02 531 0900024691 1	84.048	26,856

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
STUBBS-TITLE 1C AAS 09/10	P02 531 0900024691 1	84.048	38,259
STUBBS-TITLE 1C NAHS 09/10	P02 531 0900024691 1	84.048	33,255
STUBBS-TITLE 1C IS 09/10	P02 531 0900024691 1	84.048	16,344
STUBBS-TITLE 1C DEAN 09/10	P02 531 0900024691 1	84.048	8,056
MATTINGLY-CDP REHAB 08/10	PO2 531 0800016952 1	84.346	756,031
WILLIS-FIRST COACH-KDE 08/09	PO2 540 0800016666 1	84.357	23,898
WILLIS-FIRST COACH 09/10	PO2 540 0900023727 1	84.357	<u>243,058</u>
			1,298,034
Passed through Kentucky Education and Workforce Development Cabinet - Department of Education:			
DEMOSS MSP CAP 08/09	PO2 540 0800016686 1	84.366	24,201
DEMOSS-MSP CAP 09/10	PO2 540 0900024282 1	84.366	133,241
PRICE-KDE-CTL MATH/SCI 08/09	PO2 540 0900012560 1	84.366	<u>30,011</u>
			187,453
Passed through Kentucky Council on Postsecondary Education:			
GUNN-CPE-MATH & SCIENCE II 10/11		84.367	19,427
Gunn-CPE-Math & Science 09/10	PO2 415 07000128561	84.367	62,735
BARTON-USED-CPE-READINESS 10/11		84.367	20,900
DEMOSS-TEACHER-EDUCATORS 09/10	PO2 531 0900023961 1	84.367	7,010
DEMOSS-PREP TEACHERS 09/10	PO2 531 0900023961 1	84.367	14,367
KY Gear Up I 09/10	PO2 415 0800019454 2	84.334	164,665
TOBIN-WL-ADULT LC-CPE 08/09		84.002	4,103
TOBIN-WL-ADULT LC-CPE 09/10		84.002	190,791
HARR-CPE-FISCAL AGENT 09/10		84.002	47,258
HENDERSON-MSU-ADULT LC-CPE 09/10		84.002	160,445
CANIPE-MSU ADULT LC-CPE 08/09	PO2 415 0800020206	84.002	<u>16</u>
			691,717
Passed through National Writing Project Corporation:			
NWP #13 05-06	94-KY07	84.928	<u>54,510</u>
Total U.S. Department of Education			<u>61,164,762</u>

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<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 Department of Health and Human Services:			
Direct Programs:			
BLUNT-HHS-RURAL HEALTH 08/11		93.912	182,360
Reagan-HHS-Rural Health 09/10		93.912	43,655
LILES-SCHOLARSHIP-HHS 09/10		93.925	58,908
ARRA - LILES-SCHOLARSHIP-HHS 09/10		93.407	19,418
HARDMAN-MARTIN COUNTY-HRSA 08/10		93.888	97,205
MAGNER-MARTIN COUNTY-HRSA 08/10		93.888	<u>157,570</u>
			559,116
Passed through Eastern Kentucky University:			
SLOAN-TRAINING RESOURCE 09/10		93.658	81,078
PCWCP-PRESTON 09/10		93.648	6,652
PCWCP-ASHLAND 09/10		93.648	6,641
PCWCP-MOREHEAD 09/10		93.658	6,687
PCWCP Pburg 08/09	451705-09-169	93.658	720
PCWCP Mt. Sterling 08/09	451705-09-74	93.648	<u>5,988</u>
			107,766
Passed through University of Kentucky			
Research Foundation:			
Nurse Practitioner 07-08	UKRF 4-63922-01-284	93.247	<u>30,993</u>
Total U.S. Department of Health and Human Services			<u>697,875</u>
U.S Department of Commerce:			
Direct Programs:			
SLOAN-HEIGHT MOD NOAA 08/09		11.400	<u>288,059</u>
Total U.S Department of Commerce			<u>288,059</u>
National Oceanic & Atmospheric Administration:			
Direct Programs:			
Welter Pride Club 10		11.469	500
Welter Pride 09/10		11.469	<u>3,475</u>
Total National Oceanic & Atmospheric Administration			<u>3,975</u>

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
National Science Foundation:			
Direct Programs:			
Xu-NFS-MRI 09/11		47.041	173,479
DENNIS-NSF-MSP 08/09		47.076	91,802
CSMS 03/07		47.076	<u>39,916</u>
			305,197
Passed through University of Kentucky Research Foundation			
Grise-NSF-UKRF 09/10	3048105113-09-184	47.070	4,413
Passed through Institute for Global Environmental Strategies:			
O'Keefe-NSF ESSEA 07-09	9055-001-45	47.050	10,354
Passed through University of Albany:			
Hare-NSF-Albany 08-09	08-23	47.075	<u>209</u>
Total National Science Foundation			<u>320,173</u>
Corporation for National and Community Service			
Direct Programs:			
RSVP 06-09		94.002	1,780
WILLIAMS-RSVP 09/12		94.002	<u>99,422</u>
			101,202
Passed through Northern Kentucky University Research Foundation			
CHEN-NKURF-SPORT 09	4000120-SL-008	94.005	2,680
PETERSON-GREYHOUND-NKURF 09	4000120-SL-014	94.005	3,537
HAWKINS-Service Learning-NKURF	4000120-SL-009	94.005	<u>2,849</u>
			<u>9,066</u>
Passed through Western Kentucky University Research Foundation			
HAIGHT-KUPEE 09/12	528101-10-001	94.005	17,858
Passed through CNCS			
PROMISE CORPS-CNCS 09/10	PO2 703 0800014292 3	94.006	<u>341,036</u>
Total Corporation for National and Community Service			<u>469,162</u>

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Corporation for Public Broadcasting			
Direct Programs:			
HITCHCOCK-CPB-CSG-RADIO 08/09		11.550	54,035
ARRA-HITCHCOCK-CPB 10		11.550	4,767
HITCHCOCK-CPB-Bonus 08/10		11.550	19,500
HITCHCOCK-CPB 09/11		11.550	<u>5,052</u>
Total Corporation for Public Broadcasting			<u>83,354</u>
Small Business Administration:			
Passed through University of Kentucky Research Foundation:			
SBDC Federal UKRF 08/09	6-603001-Z0018-25	59.037	39,614
SDBC Federal UKRF 09/10		59.037	<u>110,972</u>
Total Small Business Administration			<u>150,586</u>
U.S. Department of Justice:			
Passed through Kentucky State Police:			
WEBB-KY NETWORK-KSP 08/10	2008-AH-FX-0044	16.727	18,220
WEBB-KSP-JUSTICE 10/12	2010-AH-FX-0093-MS	16.727	<u>100</u>
			18,320
Passed through Justice & Public Safety Cabinet			
ARRA-WEBB-KY JUSTICE 10	2009-JAG ARRA MSU S-00574	16.803	<u>8,728</u>
Total U.S. Department of Justice			<u>27,048</u>
Appalachian Regional Commission:			
Direct Programs:			
KY-AHED-Duvall 04-09		23.001	178,448
WALKER-AHED-ARC-IEL 09/10		23.001	2,801
DEMOSS-ARC 09		23.001	<u>746,551</u>
Total Appalachian Regional Commission			927,800
U.S. Department of Housing and Urban Development:			
Passed Through U.S. Department of Housing and Urban Development			
Sloan - HUD Youthbuild 07-08		17.274	179,240
ARRA-Sloan-YOUTHBUILD-DOL-HUD 09/12		17.274	<u>377,867</u>
Total U.S. Department of HUD			<u>557,107</u>

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<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. Department of Labor			
Passed through Buffalo Trace Area Development District:			
REYNOLDS-TODAYS YOUTH 09/10	FY 10-5245	17.259	109,931
Total U.S. Department of Labor			109,931
National Aeronautics and Space Administration:			
Passed through Western Kentucky University:			
MALPHRUS-NASA-WKU-LUNAR 09/10	WKU 516171-10-160	43.001	20,960
BORAM-NAA-WKY 09/10	WKU 516171-10-162	43.001	23,411
THOMAS-NASA-WKU 09/10	WKU 516171-10-164	43.001	21,161
MALPHRUS-BROWN 09/10	WKU 516171-09-140	43.001	4,713
MALPHRUS-TRAVEL-WKU 09/10	WKU 616171-10-010	43.001	4,985
MALPHRUS-COURSE-NASA-KSGC 09/10	WKU 516171-09-142	43.001	19,096
MALPHRUS-O'BREIN 09/10	WKU 516171-09-141	43.001	5,000
OKEEFE-NASA_WKU 09/10	WKU 516171-09-161	43.001	22,155
ROACH-STEM-NASA-KSGC 09/10	WKU 516171-09-134	43.001	6,578
PANNUTI-NASA-WKY-Bluegrass 09/10	WKU 516171-09-137	43.001	11,020
PANNUTI-NASA-WKY-Nuclei & Blaz	WKU 516171-09-139	43.001	11,581
Malphrus-Travel 09	WKU 616171-09-007	43.001	1,894
Total National Aeronautics and Space Administration			152,554
U.S. Department of Agriculture:			
Direct Programs:			
JONES-DISTANCE LEARNING 08/09		10.855	43,064
MORLEY-USDA 08/10		10.769	52,368
			95,432
Passed through Kentucky Education and Workforce Development Cabinet - Department of Education:			
CADY-UPWARD BOUND FOOD 08/09	103-X30-999-SU	10.558	9,599
CADY-SUMMER FOOD 10	103-x30-999-SU	10.558	2,345
			11,944
Total U.S. Department of Agriculture			107,376
National Endowment for the Arts:			
Direct Programs:			
ARRA-COLLINSWORTH-NEA	1RGM085722-01A1	45.024	25,000
COLLINSWORTH-NEA-WILLIAMS 09/10		45.024	6,280
			31,280

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<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 Southern Arts Foundation:			
TOWELL-SARA Southern Arts 09/10	3675-2010	45.025	<u>3,060</u>
Total National Endowment for the Arts			<u>34,340</u>
National Endowment for the Humanities:			
Direct Programs:			
Baker-NEH-CCL 09/10		45.149	5,297
DAVIDSON-QUESTIONS-NEH 10/12		45.163	<u>1,691</u>
			6,988
Total National Endowment for the Humanities			<u>6,988</u>
U.S. Environmental Protection Agency:			
Passed through Kentucky Environmental and Public Protection Cabinet :			
ARRA- WRIGHT-LABORATORY CRT 08/10	08 00019604	66.468	90,053
WRIGHT-PRINCIPAL LAB 08/10	08 00019593	66.468	<u>29,928</u>
			119,981
Passed through Kentucky Division of Water:			
Haight-Triplett Creek 08/09	C9994861-08	66.460	<u>129,851</u>
Total U.S. Environmental Protection Agency			<u>249,832</u>
National Institute of Health:			
Direct Programs:			
DENNIS-NIH-BIOGENESIS 08/10		93.859	40,057
ARRA-DENNIS-NIH 09/10		93.701	20,647
HARE-NIH 09/12		93.859	48,047
White - NIH AMP 07/10		93.279	<u>50,884</u>
			159,635
Passed through University of Louisville Research Foundation:			
KBRIN-INBRE-Hare 09/10		93.389	63,526
KBRIN-INBRE-HARE 10/11		93.389	10,700
KBRIN-INBRE-DENNIS 09/10		93.389	31,935
KBRIN-INBRE-DENNIS FELLOW 09/10		93.389	68,898
KBRIN-INBRE-DENNIS 0/11		93.389	11,875
KBRIN-INBRE MATTINGLY 09/10		93.389	223,635
KBRIN-INBRE FULTZ 09/10		93.389	<u>34,842</u>
			445,411
Total National Institute of Health			<u>605,046</u>

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<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. Geological Survey:			
Direct Programs:			
Parkansky-USGS 07/11		15.808	76,379
Passed through America View, Inc.			
MCMICHAEL-AMERICA VIEW 08/09	AV08-KY01	15.808	11,667
MCMICHAEL-USGS-America View 09/10	AV08-KY01	15.808	<u>7,774</u>
			<u>19,441</u>
Total U.S. Geological Survey			<u>95,820</u>
U.S. Department of Homeland Security:			
Passed through University of Kentucky			
HAIL-NA-Trans-UK 09/12		97.000	<u>87,378</u>
Total U.S. Department of Homeland Security			<u>87,378</u>
Institute of Museum and Library Services:			
Direct Programs:			
Collins-MEP 07/08		45.301	<u>2,851</u>
Total Institute of Museum and Library Services			<u>2,851</u>
Passed through Kentucky Office of Governor			
ARRA-SFSF ARRA 2010	84.394A	84.394	<u>3,053,200</u>
Total Expenditures of Federal Awards			<u><u>\$69,195,217</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, 2010 are summarized as follows:

Federal Perkins Loan Program:		
Loans disbursed	\$	632,961
Federal Direct Loan Program:		
Federal Unsubsidized Stafford Loans	\$	19,139,857
Federal Subsidized Stafford Loans		16,688,307
Federal Plus Loans		1,755,499

As of June 30, 2010, the University had loans outstanding, in the amount of \$3,700,670 with an allowance for doubtful accounts of \$87,262 under the Federal Perkins Loan Program.

DEAN || DORTON || FORD
PSC**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, 2010 and 2009, and have issued our report thereon dated November 3, 2010. 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

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

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*.

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.

November 3, 2010
Lexington, Kentucky

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

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 Morehead State University's (the "University") compliance 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, 2010, 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 compliance requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2010, other than those requirements discussed in the following paragraph. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-01 and 10-02.

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). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. UAS's compliance with the requirements governing the functions that it performs for the University was 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 and Institution 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

Management of Morehead State University is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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.

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

Members of the Board of Regents and

Dr. Wayne D. Andrews, President

Page 2

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned cost as items 10-01 and 10-02. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

We noted certain other matters that we reported to management of the University in a separate letter dated November 3, 2010.

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

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.

November 3, 2010
Lexington, Kentucky

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

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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: **No**
- 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 Cluster:

- Federal Pell Grant, CFDA 84.063
- ARRA - Federal Work Study, CFDA 84.033
- Federal Work Study, CFDA 84.033
- Federal Supplemental Educational Opportunity Grant, CFDA 84.007
- Federal Perkins Loan, CFDA 84.038
- Federal Direct Loan Program, CFDA 84.268
- Academic Competitiveness Grant, CFDA 84.376
- National Science and Mathematics Access to Retain Talent Grant,
CFDA 84.375
- Teacher Education Assistance for College and Higher Education Grant, CFDA 84.379
- ARRA -State Fiscal Stabilization Fund, CFDA 84.394
- ARRA - Youth Build, CFDA 17.274
- ARRA - Capitalization Grants for Drinking Water, CFDA 66.468

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2010

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

- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$948,347**
- i. Auditee qualified as a low-risk auditee: **Yes**

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

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

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2010

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

Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: 10-01 and 10-02

Finding 10-01:

Federal Program: U.S. Department of Education
Federal Direct Loan Program, CFDA 84.268
Federal Pell Grant Program, CFDA 84.063

Condition:

During the audit, we noted several students who were determined to be unofficially withdrawn from the University had incorrect return calculations of Title IV funds. The University had used the midterm date as the 50% point in the semester for both Spring and Fall semesters rather than using the midpoint date, which takes the actual number of days in the semester divided by two. This resulted in a percentage of Title IV aid earned being slightly higher than 50 percent. When the University recalculated all unofficial withdrawal calculations, they needed to return additional Title IV funds to the federal government, which had exceeded the 45 day requirement period for returning funds. Per management, this affected 376 students and resulted in \$11,402 of Direct Loan and Pell Grant funds being returned outside the 45 day required period.

Criteria:

The University must comply with the provisions of § 668.22.

Cause:

The University misinterpreted the regulations and used the midterm date as the 50% point in the semester rather than using the midpoint date, which takes the actual number of days in the semester divided by two.

Effect:

Several Return of Title IV Funds calculations were incorrect in the current year due to the University using the midterm date instead of the midpoint date for unofficial withdrawals. This has caused some federal funds to not be returned timely.

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2010

Finding 10-01, continued:

Recommendation:

We recommend that the University establish an internal control to verify that the dates input into the system are properly calculating to 50% for unofficial withdrawals.

Management's Response:

We misinterpreted the regulations and used the midterm date as the 50% point in the semester rather than using the midpoint date, which takes the actual number of days in the semester divided by two. This resulted in percentages of Title IV aid earned being slightly higher than 50% (50.9% for Fall 2009 and 52.8% for Spring 2010). The University recalculated all unofficial withdrawals and returned the additional Title IV funds to the federal government. This was caught early enough to avoid this from repeating in the next fiscal year.

Finding 10-02:

Federal Program: U.S. Department of Education
TRIO Cluster
Talent Search Program
Federal CFDA 84.044

Condition:

We were notified by Management during the financial statement audit in August 2010 that an employee in the Talent Search program of the TRIO cluster had reported excessive hours on her timesheets. The University's Internal Auditor conducted an investigation and determined amounts exceeding \$11,000 to be unreasonable costs to the program, as the program received no benefit from those expenditures.

Criteria:

Per the OMB Circular A-133, auditors are required to report questioned costs. Unreasonable costs are defined as:

Unreasonable Costs – These are costs incurred that may not be consistent with the actions that a prudent person would take in the circumstances.

Cause:

The control in place that calls for review of the employee's weekly timesheets by a supervisor was not being properly performed as designed. Since the control was not effective, the irregularities were not identified and stopped in a timely fashion.

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2010

Finding 10-02, continued

Effect:

The grant was charged for salary and fringe expenditures that were not supported by actual time devoted to the grant as a result of incorrect timecards being submitted and approved.

Perspective Information:

The issue regarding the Talent Search program within the TRIO cluster was identified by the University, investigated internally, and brought to our attention during the financial statement audit. The TRIO cluster was not audited as a major program for the year ended June 30, 2010. However we did obtain supporting documents from the investigation performed by the University's Internal Auditor and performed certain procedures on those documents. We found that investigation to be very thorough. We also performed procedures to determine that this issue was isolated to the one employee in question. Due to the results of these procedures, we did not consider it necessary to audit the entire TRIO cluster. We audited the TRIO cluster as a major program in the 2009 audit and noted no instances of fraud within our testwork.

Recommendation:

We recommend that the supervisor of the Talent Search program ensure that the control around timecard approval be performed as intended. It appears that this issue could have been identified more timely if the control was being properly observed.

Management's Response:

We concur that the actual time devoted to the grant did not agree to the time submitted on the time sheet. The amount of questioned costs will be reduced from future payment requests from the Department of Education. All Trio Program overtime must now be approved by the Assistant VP for Adult Education and College Access.

MOREHEAD STATE UNIVERSITY

Summary Schedule of Prior Audit Findings

Year ended June 30, 2010

Finding 09-01:

Condition:

During our audit, we noted that Morehead State University has a laptop lease program where students can lease laptop computers from the University with the ability to purchase this laptop over the life of the lease. Currently the purchase of these laptops is being accounted for in auxiliary expenses and the lease revenue each semester is being recognized in auxiliary revenues. There are specific accounting pronouncements that set forth the appropriate way to account for these leases which recognize a receivable for future expected lease receipts and not recognizing any expenses. The only revenue that would be recognized would be the amount received by the University over the cost of the laptop.

Recommendation:

We recommend that the University review the accounting for these leases and determine the future expectations of this program and consider adjusting the financial statements accordingly.

Current Status:

We noted that this issue has been resolved and was not repeated during the current year audit.

Finding 09-02:

Condition:

During the audit, we noted that students not meeting one of the University's satisfactory academic progress (SAP) quantitative requirements were not being identified and properly placed on federal financial aid probation due to a system programming error. Once the programming error was corrected, management identified 97 students who were originally not picked up by the system as being on federal financial aid probation who should have been. Of these students, 10 received \$36,859 of federal funds during their summer term. After being notified they were being put on federal financial aid probation, all 10 students appealed their SAP probation and all were approved for mitigating circumstances.

Recommendation:

We noted that the University relies on its software to properly identify students who meet and those that fail the University's SAP requirement. We recommend that the University establish an internal control to verify that students who are not meeting the requirements are identified prior to the next disbursement of federal funds.

MOREHEAD STATE UNIVERSITY

Summary Schedule of Prior Audit Findings

Year ended June 30, 2010

Finding 09-02, continued:

Current Status:

During our audit, we did not note any instances of noncompliance within this area.