

MOREHEAD STATE UNIVERSITY

Single Audit Reports Under OMB Circular A-133

*As of and for the Years Ended June 30, 2015 and 2014
with Report of Independent Auditors*

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MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis



MANAGEMENT'S DISCUSSION AND ANALYSIS

Morehead State University's (the University) Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial performance of the University for the year ended June 30, 2015. 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

- Financial operations were conducted in accordance with the approved budget plan, which continues to demonstrate the University's commitment to advance the University's mission by focusing on the goals and objectives as defined in the *ASPIRE 2014-2018 Strategic Plan*.
- Total assets and deferred outflows of resources were \$300 million versus \$266 million at June 30, 2014. The increase is primarily related to an increase in cash and cash equivalents of \$28 million, as a result of the issuance of the 2015 Series A General Receipts Bonds for the construction of a new 550 bed residence hall on campus and a new 50 bed residence hall at the Derrickson Agricultural Complex.
- Total liabilities and deferred inflows of resources were \$322 million versus \$88 million at June 30, 2014. The increase is primarily related to the implementation of GASB 68 which required Morehead

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

State University to record its proportionate share of the Commonwealth of Kentucky's net pension liability in the amount of \$195 million. The increase is also related to the issuance of \$28 million in General Receipts bonds to fund new student residential facilities as part of the Comprehensive Housing Master Plan.

- Total net position was (\$22) million at June 30, 2015 and \$178 million at June 30, 2014. The decrease is primarily the result of the implementation of GASB 68 which required Morehead State University to record its proportionate share of the Commonwealth of Kentucky's net pension liability.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These financial statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

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

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

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



University's financial condition these statements should be reviewed as a whole and not individually. Further important information can be found in the Notes to the Financial Statements, beginning on page 24 of the Financial Statements. The Notes to the Financial Statements contain policies, explanations and schedules that

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

should be reviewed before, during and after reviewing the Financial Statements in order to get a complete understanding.

The Statement of Net Position

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

The Statement of Revenues, Expenses and Changes in Net Position

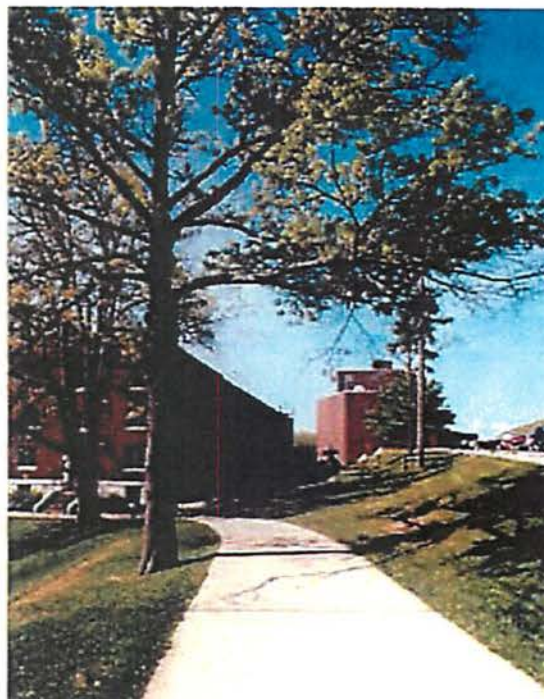
This statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. GASB 35 requires state appropriations and gifts to be classified as non-operating revenues. Accordingly, the University will generate a net operating loss prior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

The Statement of Cash Flows

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

Reporting Entity

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



MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Condensed Financial Information
Statements of Net Position (in thousands)

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Current assets	\$ 75,061	\$ 45,602
Capital assets	200,210	202,974
Other noncurrent assets	<u>16,646</u>	<u>17,581</u>
Total assets	<u>291,917</u>	<u>266,157</u>
Deferred outflows of resources	<u>8,370</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>300,287</u>	<u>266,157</u>
<u>Liabilities</u>		
Current liabilities	17,384	18,565
Net pension liability	194,699	-
Other noncurrent liabilities	<u>96,591</u>	<u>69,336</u>
Total liabilities	<u>308,674</u>	<u>87,901</u>
Deferred inflows of resources	<u>13,231</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>321,905</u>	<u>87,901</u>
<u>Net Position</u>		
Net investment in capital assets	100,113	132,585
Restricted, expendable	39,189	6,452
Restricted, nonexpendable	12,904	12,873
Unrestricted	<u>(173,824)</u>	<u>26,346</u>
Total net position	<u>\$ (21,618)</u>	<u>\$ 178,256</u>

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Assets and deferred outflows of resources

As of June 30, 2015, the University's total assets and deferred outflows of resources were approximately \$300 million versus \$266 million at June 30, 2014. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$200 million compared to \$203 million at June 30, 2014. Cash and investments, totaling \$74 million at June 30, 2015 and \$47 million at June 30, 2014, were the University's next largest asset. Total assets and deferred outflows of resources increased by \$34 million during the year ended June 30, 2015. The principal areas of change were:

- Cash and cash equivalents increased approximately \$28 million, due to the issuance of the 2015 Series A General Receipts Bonds.
- Capital assets, net of accumulated depreciation, decreased approximately \$2.7 million.
- Deferred outflows of resources pensions increased \$8.4 million due to the implementation of GASB 68.

Liabilities and deferred inflows of resources

At June 30, 2015, the University's total liabilities and deferred inflows of resources were approximately \$322 million versus \$88 million in the previous year. Net pension liability represented \$195 million of this amount. Bonds and capital lease obligations for capital assets represented \$98 million versus \$70 million at June 30, 2014. Total liabilities and deferred inflows of resources increased by \$234 million during the year ended June 30, 2015. This increase was primarily due to the following:

- Net pension liability increased \$195 million due to the implementation of GASB 68 which required Morehead State University to record its proportionate share of the Commonwealth of Kentucky's net pension liability.
- Bonds and capital lease obligations increased \$27 million. This increase was due to the issuance of \$28 million in General Receipts' bonds in March 2015 for the construction of new student residential facilities as part of the Comprehensive Housing Master Plan. These bonds were issued at a premium of \$2.8 million which will be amortized over the life of the bonds. The University also issued \$27.5 million in General Receipts Refunding bonds to advance refund \$29.7 million of outstanding 2009 and 2010 General Receipts Build America Bonds and Series M Consolidated Education Bonds to achieve debt service savings. Capital leases also increased by \$3 million for the IT Infrastructure project and increased by \$400 thousand to purchase the

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Caudill Property. The University made debt service payments in the amount of \$5.0 million and also reduced debt by \$2.2 million through the refunding.

- Deferred inflows of resources increased \$13 million. \$2.5 million of this increase related to the deferred bond refunding premium on the advance refunding of the Consolidated Education Series M bonds and the 2009 and 2010 Build America Bonds. Deferred inflows also include an increase of \$10.7 million in pension liability as part of the implementation of GASB 68.

Net Position

Net position at June 30, 2015 totaled approximately (\$22) million compared to \$178 million at June 30, 2014. Net investment in capital assets, totaled \$100 million versus \$133 million at June 30, 2014. Restricted net position totaled \$52 million compared to \$19 million at June 30, 2014. Unrestricted net position totaled (\$174) million versus \$26 million at June 30, 2014. Total net position decreased by \$200 million during the year ended June 30, 2015. This decrease was primarily due to the implementation of GASB 68 and due to budgeted increases in operating expenses for strategic investments in employees, facility renovations, and scholarship commitments.

Net Investment in Capital Assets

Net investment in capital assets includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net investment in capital assets decreased by \$33 million. This decrease is related to the issuance of the 2015 Series A General Receipts Bonds and the short-term financing of the IT Infrastructure project.

Restricted Net Position

Restricted net position is subject to stipulations made by entities external to the University that govern the use of these funds. Restricted net position increased by \$33 million. Restricted net position was increased by the unspent proceeds from the issuance of the 2015 series A Bonds, the IT Infrastructure Project and the Parking Garage/Dining Commons Project.

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Management's Discussion and Analysis, continued

Unrestricted Net Position

Unrestricted net position decreased by \$200 million from the previous year to (\$174) million. This decrease is primarily related to the implementation of GASB 68 and the \$195 million net pension liability required to be recorded. Unrestricted net position is not subject to externally imposed restrictions. However, substantially all of the unrestricted net position is used for the support of academic programs and other initiatives, the completion of capital projects, or working capital requirements.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

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

	<u>2015</u>	<u>2014</u>
<u>Operating Revenues</u>		
Student tuition and fees, net	\$ 36,058	\$ 38,075
Federal grants and contracts	11,296	12,299
State and local grants and contracts	1,447	1,283
Nongovernmental grants and contracts	806	660
Sales and services of educational activities	2,557	2,150
Auxiliary enterprises	19,811	19,297
Other operating revenues	<u>5,563</u>	<u>4,474</u>
Total operating revenues	<u>77,538</u>	<u>78,238</u>
<u>Operating Expenses</u>		
Educational and general	129,343	126,308
Auxiliary enterprises	14,155	14,058
Depreciation	11,847	9,789
Other operating loss	<u>2,513</u>	<u>391</u>
Total operating expenses	<u>157,858</u>	<u>150,546</u>
Operating loss	<u>(80,320)</u>	<u>(72,308)</u>
<u>Non-operating Revenues (Expenses)</u>		
Grants and contracts	26,384	25,493
State appropriations	41,097	42,124
Private construction appropriations	6,000	-
Investment income, net	141	199
Interest on capital assets – debt related	<u>(2,763)</u>	<u>(3,433)</u>
Net non-operating revenues	<u>70,859</u>	<u>64,383</u>
Loss before capital appropriations	(9,461)	(7,925)
Capital appropriations	<u>3,805</u>	<u>2,542</u>
Decrease in net position	(5,656)	(5,383)
Cumulative effect of change in accounting principle	<u>(194,218)</u>	<u>-</u>
Total decrease in net position	(199,874)	(5,383)
Net position, beginning of year	<u>178,256</u>	<u>183,639</u>
Net position, end of year	<u>\$ (21,618)</u>	<u>\$ 178,256</u>

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Revenues

Total operating revenues were approximately \$77 million for the year ended June 30, 2015 and approximately \$78 million for the year ended June 30, 2014. The most significant sources of operating revenues for the University are net student tuition and fees \$36 million, federal grants and contracts \$11 million, and auxiliary enterprises revenue \$20 million.

- Net student tuition and fees revenue decreased \$2 million. This was primarily due to the increase in financial aid scholarship allowances. Scholarship allowances were \$35.7 million at June 30, 2015 as compared to \$32.4 million for the year ended June 30, 2014.
- Other operating revenues increased \$1.1 million. This was primarily due to increases in transfers from the MSU Foundation for projects that included the Craft Academy, facility renovations and departmental equipment purchases.

Expenses

Operating expenses totaled approximately \$158 million compared to \$151 million at June 30, 2014. Approximately \$129 million of this amount was used for educational and general expenses related to functions such as instruction, research, public service, academic support, student services and operation and maintenance of plant. The \$7 million increase in operating expenses is primarily the result of increases in strategic investments in plant and equipment, employee retirement benefits, implementation of GASB 68, and a change in estimate regarding some building improvements that resulted in increased depreciation expense and other operating losses.

- Total personnel costs increased approximately \$3 million, which included increases in retirement contributions to KERS and KTRS and increases in pension expense recorded due to the implementation of GASB 68.
- Strategic investment in equipment and plant renovation/construction projects increased \$1.2 million.
- Depreciation expense increased \$2 million and other operating losses increased \$2 million due to a change in estimates and capitalization thresholds relating to building improvements.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Cash Flows

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

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

Statements of Cash Flows (In Thousands)
Year ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Provided By (Used In):		
Operating activities	\$ (65,558)	\$ (58,285)
Noncapital financing activities	67,482	67,617
Capital and related financing activities	25,044	(7,805)
Investing activities	<u>922</u>	<u>100</u>
Net increase in cash	27,890	1,627
Cash, beginning of the year	<u>33,105</u>	<u>31,478</u>
Cash, end of the year	<u>\$ 60,995</u>	<u>\$ 33,105</u>

Major sources of funds included in operating activities are student tuition and fees, \$36 million versus \$39 million in the previous year and grants and contracts, \$13 million in both years. The largest cash payments for operating activities were made to suppliers \$77 million versus \$75 million in the previous year and to employees in the amount of \$65 million compared to \$63 million in the previous year.

The largest cash receipt in noncapital financing activities was the operating appropriation from the Commonwealth of Kentucky of \$41 million compared to \$42 million in the previous year. Cash provided by capital and related financing activities was due to the issuance of new bonds for the construction 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 \$200 million at June 30, 2015 versus \$203 million at June 30, 2014. This represents a net decrease of \$3.0 million from June 30, 2014. Significant changes to capital assets during fiscal 2014 - 2015 included:

Buildings and land improvements	\$ 4.4	million
Library additions, equipment and vehicles	1.7	million
Net change in construction in progress	(0.3)	million
Increase in accumulated depreciation, net	(8.8)	million

Debt

At year-end, the University had \$98 million in outstanding debt versus \$70 million in the previous year. This includes \$84 million in bonds payable compared to \$58.6 million at June 30, 2014. In addition, the University had capital lease obligations of \$14 million compared to \$11.8 million in the previous year.

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

	June 30,	
	<u>2015</u>	<u>2014</u>
General Receipts bonds	\$ 83,976	\$ 58,120
Consolidated Educational buildings revenue bonds	-	495
Capital lease obligations	<u>13,595</u>	<u>11,774</u>
	<u>\$ 97,571</u>	<u>\$ 70,389</u>

The University issued \$28 million in General Receipt's bonds in March 2015 for the construction of new student residential facilities as part of the Comprehensive Housing Master Plan. These bonds were issued at a premium of \$2.8 million which will be amortized over the life of the bonds. The University also issued \$27.5 million in General Receipts Refunding bonds to advance refund \$29.7 million of outstanding 2009 and 2010 General Receipts Build America Bonds and Series M Consolidated Education Bonds to achieve debt service savings. Capital leases also increased by \$3 million for the IT Infrastructure project and increased by \$400 thousand to purchase the Caudill Property. The University made debt service payments in the amount of \$5.0 million and also reduced debt by \$2.2 million through the refunding.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

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, 2016 totaling \$157.8 million.
- The 2015-16 budget includes a 2.9% increase in student tuition and fees and a 7.0% increase in residence hall rates.
- State appropriations increased by \$2.3 million in 2015/2016 to support the new Craft Academy. The Craft Academy for Excellence in Science and Mathematics opened in August 2015 as a dual-credit residential high school for academically exceptional Kentucky students. The academy is housed on the campus of Morehead State University and enrolled 60 high school juniors for the 2015/2016 academic year. The enrollment will increase by 60 students in August 2016 with the addition of a new junior class.
- The University will continue the initiatives of the University Technology Plan to improve campus network infrastructure through short term financing not to exceed \$10 million over the next 18 months.
- In August 2015, Morehead State University Foundation liquidated the Institution-Building Endowment Fund quasi-endowment which was established by Morehead State University on June 29, 1999. The principal and earnings from the Building Endowment fund totaling \$1,784,897 will be used to help fund the new Parking Garage/Dining Commons project.

Report of Independent Auditors

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

Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Morehead State University (the University) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Morehead State University as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1–12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of Morehead State University. The supplemental information contained on pages 63 through 68 and the Schedule of Expenditures of Federal Awards, on pages 69 through 76 as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements.

The supplemental information contained on pages 63 through 68 and the Schedule of Expenditures of Federal Awards, on pages 69 through 76 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2015 on our consideration of Morehead State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

September 24, 2015
except for supplementary information on pages 69 – 76 and 79 - 82, which is as of October 26, 2015
Lexington, Kentucky

MOREHEAD STATE UNIVERSITY

Statements of Net Position

June 30, 2015 and 2014

Assets and Deferred Outflows	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 60,994,989	\$ 33,105,168
Accounts, grants and loans receivable, net	11,085,363	10,694,100
Inventories	1,634,810	1,671,286
Other current assets	<u>1,345,389</u>	<u>131,180</u>
Total current assets	75,060,551	45,601,734
Noncurrent assets:		
Accounts, grants and loans receivable, net	3,730,926	3,885,589
Investments	12,915,194	13,695,872
Capital assets, net	<u>200,210,449</u>	<u>202,974,277</u>
Total noncurrent assets	216,856,569	220,555,738
Total assets	<u>291,917,120</u>	<u>266,157,472</u>
Deferred outflows of resources:		
Pensions	<u>8,370,393</u>	-
Total deferred outflows of resources	<u>8,370,393</u>	-
Total assets and deferred outflows of resources	<u>300,287,513</u>	<u>266,157,472</u>
 Liabilities, Deferred Inflows and Net Position 		
Current liabilities:		
Accounts payable and accrued liabilities	7,795,791	9,188,183
Unearned revenue	3,920,531	3,752,480
Other current liabilities	999,407	774,011
Bonds and capital lease obligations, current portion	<u>4,668,602</u>	<u>4,850,549</u>
Total current liabilities	17,384,331	18,565,223
Long-term liabilities:		
Bonds and capital lease obligations, noncurrent portion	92,902,596	65,538,212
Advances from federal government for student loans	3,397,769	3,507,148
Unearned revenue	290,235	290,235
Net pension liability	<u>194,699,258</u>	-
Total long-term liabilities	<u>291,289,858</u>	<u>69,335,595</u>
Total liabilities	<u>308,674,189</u>	<u>87,900,818</u>
Deferred inflows of resources:		
Deferred bond reoffering premium	2,526,389	-
Pensions	<u>10,704,804</u>	-
Total deferred inflows of resources	<u>13,231,193</u>	-
 Net position:		
Net investment in capital assets	100,112,862	132,585,516
Restricted:		
Expendable	39,188,678	6,452,375
Nonexpendable	12,904,506	12,872,770
Unrestricted	<u>(173,823,915)</u>	<u>26,345,993</u>
Total net position	<u>\$ (21,617,869)</u>	<u>\$ 178,256,654</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current assets:		
Cash	\$ 2,207,340	\$ 1,424,084
Accrued interest receivable	2,372	2,752
Accounts receivable	50,000	60,000
Current portion of pledges receivable	1,019,933	1,726,224
Current portion of net investment in capital leases	<u>49,187</u>	<u>78,623</u>
Total current assets	<u>3,328,832</u>	<u>3,291,683</u>
Noncurrent assets:		
Investments, at fair value	43,293,270	43,894,298
Cash surrender value – life insurance	113,381	107,228
Property and equipment, net	231,660	227,131
Pledges receivable, net of current portion	3,731,893	3,739,012
Net investment in capital leases, net of current portion	<u>301,534</u>	<u>350,721</u>
Total noncurrent assets	<u>47,671,738</u>	<u>48,318,390</u>
Total assets	<u>\$ 51,000,570</u>	<u>\$ 51,610,073</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of annuities payable	\$ 219,448	\$ 215,448
Due to Morehead State University	<u>1,610,408</u>	<u>131,180</u>
Total current liabilities	1,829,856	346,628
Long-term liabilities:		
Funds held in trust for Morehead State University	12,014,828	12,014,828
Annuities payable, net of current portion	<u>960,620</u>	<u>1,019,312</u>
Total long-term liabilities	<u>12,975,448</u>	<u>13,034,140</u>
Total liabilities	<u>14,805,304</u>	<u>13,380,768</u>
Net assets:		
Unrestricted	(2,860,452)	(1,515,236)
Temporarily restricted	18,492,341	20,525,078
Permanently restricted	<u>20,563,377</u>	<u>19,219,463</u>
Total net assets	<u>36,195,266</u>	<u>38,229,305</u>
Total liabilities and net assets	<u>\$ 51,000,570</u>	<u>\$ 51,610,073</u>

See accompanying notes

MOREHEAD STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$35,685,305 and \$32,404,111)	\$ 36,057,694	\$ 38,074,620
Federal grants and contracts	11,296,162	12,299,433
State and local grants and contracts	1,447,000	1,283,161
Nongovernmental grants and contracts	805,820	659,562
Sales and services of educational activities	2,557,288	2,149,927
Auxiliary enterprises:		
Residence halls (net of scholarship allowances of \$198,851 and \$165,826)	12,369,591	11,924,509
Bookstore	5,128,879	5,102,910
Other auxiliaries	2,312,344	2,269,904
Other operating revenues	<u>5,563,076</u>	<u>4,473,963</u>
Total operating revenues	77,537,854	78,237,989
Operating expenses:		
Education and general:		
Instruction	46,454,685	46,025,933
Research	1,478,683	1,559,471
Public service	7,294,524	6,092,974
Library	3,553,591	3,306,975
Academic support	11,535,679	12,286,903
Student services	15,022,345	16,964,312
Institutional support	17,286,929	15,058,426
Operation and maintenance of plant	12,055,136	10,704,103
Depreciation	11,847,075	9,789,361
Student aid	14,660,931	14,308,722
Auxiliary enterprises:		
Residence halls	7,956,203	7,788,900
Bookstore	4,302,888	4,426,705
Other auxiliaries	1,896,136	1,842,351
Other operating loss	<u>2,513,396</u>	<u>391,025</u>
Total operating expenses	<u>157,858,201</u>	<u>150,546,161</u>
Operating loss	(80,320,347)	(72,308,172)

MOREHEAD STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Nonoperating revenues (expenses):		
Grants and contracts	26,384,270	25,493,030
State appropriations	41,097,324	42,123,780
Private construction appropriations	6,000,000	-
Investment income, net	141,311	199,212
Interest on capital asset-related debt	<u>(2,763,584)</u>	<u>(3,433,019)</u>
Net nonoperating revenues	<u>70,859,321</u>	<u>64,383,003</u>
Loss before capital appropriations	(9,461,026)	(7,925,169)
Capital appropriations	<u>3,805,234</u>	<u>2,542,591</u>
Decrease in net position before cumulative effect of change in accounting principle	(5,655,792)	(5,382,578)
Cumulative effect of change in accounting principle	<u>(194,218,731)</u>	<u>-</u>
Total decrease in net position	(199,874,523)	(5,382,578)
Net position, beginning of year	<u>178,256,654</u>	<u>183,639,232</u>
Net position, end of year	<u>\$ (21,617,869)</u>	<u>\$ 178,256,654</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 263,490	\$ 1,543,186	\$ 1,343,914	\$ 3,150,590
Other revenue and gains:				
Investment income:				
Interest and dividend income, net	18,341	434,389	-	452,730
Realized and unrealized gains (losses)	2,875	(560,336)	-	(557,461)
In-kind contributed services	81,276	-	-	81,276
Development activities	455,528	281,315	-	736,843
Other income	62,118	38,361	-	100,479
Annuities payable adjustment	(142,526)	-	-	(142,526)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>3,769,652</u>	<u>(3,769,652)</u>	-	-
Total revenues and other support	4,510,754	(2,032,737)	1,343,914	3,821,931
Expenses:				
Program expenses:				
Contributions to Morehead State				
University for:				
Academic programs	3,763,372	-	-	3,763,372
Athletics	256,990	-	-	256,990
University support:				
Operations and materials	857,062	-	-	857,062
Student financial aid	533,965	-	-	533,965
Athletics	<u>123,307</u>	-	-	<u>123,307</u>
Total program expenses	5,534,696	-	-	5,534,696
General and administrative	237,855	-	-	237,855
Fundraising	<u>83,419</u>	-	-	<u>83,419</u>
Total expenses	<u>5,855,970</u>	-	-	<u>5,855,970</u>
Change in net assets	(1,345,216)	(2,032,737)	1,343,914	(2,034,039)
Net assets, beginning of year	<u>(1,515,236)</u>	<u>20,525,078</u>	<u>19,219,463</u>	<u>38,229,305</u>
Net assets, end of year	<u>\$ (2,860,452)</u>	<u>\$ 18,492,341</u>	<u>\$ 20,563,377</u>	<u>\$ 36,195,266</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2014

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

See accompanying notes.

MOREHEAD STATE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Tuition and fees	\$ 36,115,719	\$ 39,110,043
Grants and contracts	13,257,929	13,071,614
Payments to suppliers	(77,362,166)	(75,420,807)
Payments to employees	(64,536,523)	(62,883,852)
Loans issued to students	(399,145)	(765,078)
Collection of loans issued to students	609,398	587,242
Auxiliary enterprises:		
Residence halls	12,369,591	11,924,509
Bookstore	5,074,193	5,280,598
Other auxiliaries	2,292,313	2,177,352
Sales and services of educational activities	1,343,079	2,050,675
Other receipts	<u>5,677,396</u>	<u>6,582,509</u>
Net cash used in operating activities	(65,558,216)	(58,285,195)
Cash flows from noncapital financing activities:		
Nonoperating grants and contracts	26,384,270	25,493,030
State appropriations	<u>41,097,324</u>	<u>42,123,780</u>
Net cash provided by noncapital financing activities	67,481,594	67,616,810
Cash flows from capital and related financing activities:		
Capital appropriations	3,805,234	2,542,591
Private construction appropriations	6,000,000	-
Purchase of capital assets	(8,196,643)	(11,703,010)
(Decrease) increase in advances from federal government for student loans	(109,379)	91,006
Issuance of new bonds	58,480,829	9,475,000
Bond refunding premium	2,526,389	-
Principal paid on capital debt and leases	(34,698,392)	(4,879,830)
Interest paid on capital debt and leases	<u>(2,763,584)</u>	<u>(3,330,827)</u>
Net cash provided by (used in) capital and related financing activities	25,044,454	(7,805,070)
Cash flows from investing activities:		
Interest received on investments, net	141,311	199,212
Changes in investments, net	<u>780,678</u>	<u>(98,918)</u>
Net cash provided by investing activities	<u>921,989</u>	<u>100,294</u>
Net increase in cash and cash equivalents	27,889,821	1,626,839
Cash and cash equivalents, beginning of year	<u>33,105,168</u>	<u>31,478,329</u>
Cash and cash equivalents, end of year	<u>\$ 60,994,989</u>	<u>\$ 33,105,168</u>

MOREHEAD STATE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (80,320,347)	\$ (72,308,172)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	11,847,075	9,789,361
Loss on disposal of capital assets	2,513,396	389,168
Bad debt expense	1,963,686	1,265,799
Changes in assets and liabilities:		
Receivables, net	(2,200,286)	1,028,702
Inventories	36,476	(47,643)
Other current assets	(1,214,209)	(99,252)
Accounts payable and accrued liabilities	(1,392,392)	2,179,891
Unearned revenue	168,051	(307,898)
Deferred outflows/inflows	2,334,411	-
Other liabilities	<u>705,923</u>	<u>(175,151)</u>
Net cash used in operating activities	<u>\$ (65,558,216)</u>	<u>\$ (58,285,195)</u>
Supplemental disclosures of cash flow information:		
Capital and related financing transactions:		
Capital leases	<u>\$ 3,400,000</u>	<u>\$ 875,000</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

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

Reporting Entity

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

Basis of Presentation

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

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

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Basis of Presentation, continued

- **Restricted:**

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

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

- **Unrestricted:** Net position whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

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

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

Allowance for Doubtful Accounts

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

Inventories

University store inventories representing approximately 56% and 57% of total inventories at June 30, 2015 and 2014, respectively, are stated at the lower of cost (retail inventory method) or market. The remainder of the inventories is stated at the lower of moving-average-cost or market.

Investments

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Investments, continued

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

Capital Assets

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

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

Accrued Vacation Pay

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

Unearned Revenue

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

Advances from Federal Government for Student Loans

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Pensions

The University participates in the Kentucky Teachers Retirement System and the Kentucky Employee Retirement System. These are cost sharing, multiple employer defined benefit pension plans, which cover all eligible full-time employees and provides for retirement, disability and death benefits to plan members.

Effective July 1, 2014, the University adopted Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions (Statement 68). In accordance with Statement 68, cost-sharing governmental employers, such as the University, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to or deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

All governments participating in the defined benefit pension plan also are required to disclose various information in the footnotes to the financial statements – see Note 7.

The University has elected to utilize the cumulative effect of a change in accounting principle option permitted by Statement 68 as the University has determined that restatement of all prior periods presented is not practical.

Restricted Asset Spending Policy

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

Operating Activities

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Use of Estimates

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

Income Taxes

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

Recent Accounting Pronouncements

In February 2015 the GASB approved Statement 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value of measurement for financial report purposes and guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Governments will be required to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. This Statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value. Investments will generally be required to be measured at fair value. This Statement also requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015. The University is currently evaluating the effects of this Statement on its financial statements.

Subsequent Events

In August 2015, the Foundation liquidated the Institution-Building Endowment Fund quasi-endowment which was established by Morehead State University on June 29, 1999. The principal and earnings from the Building Endowment fund totaling \$1,784,897 will be used to help fund the new Parking Garage/Dining Commons project.

2. Cash, Cash Equivalents and Investments

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

2. Cash, Cash Equivalents and Investments, continued

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. 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, 2015 and 2014, the University had petty cash funds totaling \$44,815 and deposits as reflected by bank balances as follows:

	<u>2015</u>	<u>2014</u>
Insured, commercial banks	\$ 259,833	\$ 259,827
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	13,084,708	14,375,642
Maintained by Commonwealth of Kentucky	<u>47,605,633</u>	<u>18,424,884</u>
	<u>\$ 60,950,174</u>	<u>\$ 33,060,353</u>

As of June 30, 2015 and 2014, investments consisted of:

	<u>2015</u>	<u>2014</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	\$ 10,687	\$ 823,102
Equity mutual funds	<u>777,486</u>	<u>746,420</u>
	788,173	1,569,522
Certificate of deposit	112,193	111,522
Restricted assets held by the Morehead State University Foundation, Inc.	<u>12,014,828</u>	<u>12,014,828</u>
Total investments	<u>\$ 12,915,194</u>	<u>\$ 13,695,872</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, 2015 and 2014, are invested as follows:

	<u>2015</u>	<u>2014</u>
Percentage of pool invested in:		
Registered investment companies fixed income funds	25%	22%
Registered investment companies equity fund	41%	42%
Registered investment companies alternative investments	<u>34%</u>	<u>36%</u>
	<u>100%</u>	<u>100%</u>

Interest Rate Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

3. Accounts, Grants and Loans Receivable

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

	<u>2015</u>	2014
Student tuition and fees	\$ 4,005,781	\$ 4,636,345
Laptop lease	14,800	119,300
Financing and interest	559,865	672,200
Scholarship receivable	334,669	-
Student loans	3,811,632	3,970,243
Grants and contracts	7,212,738	6,633,566
Auxiliary enterprises	346,367	290,476
Other	<u>276,276</u>	<u>295,380</u>
	16,562,128	16,617,510
Allowance for doubtful accounts	<u>(1,745,839)</u>	<u>(2,037,821)</u>
	14,816,289	14,579,689
Current portion	<u>(11,085,363)</u>	<u>(10,694,100)</u>
Noncurrent portion	<u>\$ 3,730,926</u>	<u>\$ 3,885,589</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net

Capital assets as of June 30, 2015, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 22,621,719	\$ 400,000	139,426	\$ 22,882,293
Buildings	274,738,746	9,505,646	5,272,146	278,972,246
Library books	26,705,081	167,994	-	26,873,075
Vehicles	2,018,030	114,206	134,752	1,997,484
Equipment and livestock	23,499,779	1,722,336	97,634	25,124,481
Datatel	4,202,200	-	-	4,202,200
Art collection	978,155	37,650	22,950	992,855
Construction in progress	<u>6,715,863</u>	<u>9,943,331</u>	<u>10,248,620</u>	<u>6,410,574</u>
	361,479,573	21,891,163	15,915,528	367,455,208
<u>Accumulated Depreciation</u>				
Land improvements	8,351,143	571,236	135,765	8,786,614
Buildings	106,055,163	8,299,180	2,812,960	111,541,383
Library books	21,759,640	953,297	-	22,712,937
Vehicles	1,772,982	101,410	98,933	1,775,459
Equipment and livestock	16,366,389	1,920,792	59,954	18,227,227
Datatel	<u>4,199,979</u>	<u>1,160</u>	<u>-</u>	<u>4,201,139</u>
	<u>158,505,296</u>	<u>11,847,075</u>	<u>3,107,612</u>	<u>167,244,759</u>
Capital assets, net	<u>\$ 202,974,277</u>	<u>\$ 10,044,088</u>	<u>\$ 12,807,916</u>	<u>\$ 200,210,449</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net, continued

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

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

5. Accounts Payable and Accrued Liabilities

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

	<u>2015</u>	<u>2014</u>
Payable to vendors and contractors	\$ 593,168	\$ 1,071,574
Accrued vacation	2,298,905	2,258,269
Accrued sick leave liability	789,660	784,477
Accrued salaries and other liabilities	<u>4,114,058</u>	<u>5,073,863</u>
	<u>\$ 7,795,791</u>	<u>\$ 9,188,183</u>

6. Long-Term Liabilities

Long-term liabilities at June 30, 2015, 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	\$ 495,000	\$ -	\$ 495,000	\$ -	\$ -	\$ -
General Receipts Bonds	58,120,000	58,480,829	32,625,000	83,975,829	3,561,791	80,414,038
Capital lease obligations	2,505,890	3,400,000	842,661	5,063,229	351,388	4,711,841
Energy Savings Capital Lease	<u>9,267,871</u>	<u>-</u>	<u>735,731</u>	<u>8,532,140</u>	<u>755,423</u>	<u>7,776,717</u>
Total bonds and capital lease obligations	70,388,761	61,880,829	34,698,392	97,571,198	4,668,602	92,902,596
Federal refundable grants	<u>3,507,148</u>	<u>-</u>	<u>109,379</u>	<u>3,397,769</u>	<u>-</u>	<u>3,397,769</u>
Total long-term liabilities	<u>\$ 73,895,909</u>	<u>\$ 61,880,829</u>	<u>\$ 34,807,771</u>	<u>\$ 100,968,967</u>	<u>\$ 4,668,602</u>	<u>\$ 96,300,365</u>

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

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

6. Long-Term Liabilities, continued

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

	<u>2015</u>	<u>2014</u>
2.00-3.625% Consolidated Educational Building Revenue Bonds, Series M advance refunded July 2014	\$ -	\$ 495,000
4.00% General Receipts Bonds, 2007 Series A, repayable in semi-annual installments with the final installment due November, 2027	4,105,000	4,340,000
3.00-3.80% General Receipts Bonds, 2008 Series A, repayable in semi-annual installments with the final installment due November, 2022	5,245,000	5,980,000
2.00-6.00% General Receipts Bonds, 2009 Taxable Series A, advance refunded July 2014	-	24,125,000
1.27-5.75% General Receipts Bonds, 2010 Taxable Series A, advance refunded July 2014	-	5,030,000
2.00-4.125% General Receipts Bonds, 2011 Series A Improvement Bonds, repayable in semi-annual installments with the final installment due November, 2030	4,445,000	4,665,000
2.00-3.625% General Receipts Bonds, 2012 Series A Tax Exempt Bonds, repayable in semi-annual installments with the final installment due November, 2031	4,635,000	4,850,000
1.00-4.375% General Receipts Bonds, 2013 Series A Tax Exempt Bonds, repayable in semi-annual installments with the final installment due April, 2033	8,755,000	9,130,000
2.00-5.00% General Receipts Refunding Bonds, 2014 Series A, repayable in semi-annual installments with the final installment due October, 2028	21,205,000	-
1.00-5.00% General Receipts Refunding Bonds, 2014 Series B, repayable in semi-annual installments with the final installment due October, 2029	4,565,000	-
3.00-5.00% General Receipts Bonds, 2015 Series A, repayable in semi-annual installments with the final installment due April, 2035	28,185,000	-
General Receipts Bonds, 2015 Series A Reoffering Premium, amortized over semi-annual installments with the final installment amortized April 2035	2,835,829	-
5.00% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due February, 2019	63,292	78,637
9.40% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due March, 2023	280,707	304,690
4.19% Capital lease obligation with a finance corporation, repayable in semi-annual installments with final installment due October, 2019	670,416	803,158
3.58% Capital lease obligation with a finance corporation, repayable in semi-annual installments with final installment paid June, 2015	-	452,179
4.47% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due August, 2015	6,721	46,017
2.65% Capital lease obligation with JP Morgan/Chase, repayable in quarterly installments with the final installment due June, 2025	8,532,140	9,267,871
4.50% Capital lease obligation for land acquisition, repayable in monthly installments with the final installment due December, 2020	709,936	821,209

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

6. Long-Term Liabilities, continued

6.139% Capital lease obligation for land acquisition, repayable in annual installments with the final installment due November, 2020	332,157	-
2.92% Capital lease obligation with Kentucky Bank, repayable in monthly installments with the final installment due December, 2027	<u>3,000,000</u>	<u>-</u>
	<u>\$ 97,571,198</u>	<u>\$ 70,388,761</u>

Current Refunding

On July 24, 2014, the University issued General Receipts Refunding Bonds, 2014 Series A, in the amount of \$22,620,000 and General Receipts Refunding Bonds, 2014 Series B, in the amount of \$4,840,000. The bonds sold at net interest costs of 2.95% and 3.01% respectively. The bonds consist of serial bonds bearing various fixed rates ranging from 1.0% to 5.0% with annual maturities from October 2014 through October 2029.

The combined net proceeds of \$30,053,898 (inclusive of original issue premium totaling \$2,707,182 and the balance in the debt service reserve account totaling \$64,781 and less issuance costs of \$113,284) were used to pay issuance costs and currently refund the University's Consolidated Educational Buildings Refunding and Improvement Revenue Bonds, Series M, and the University's General Receipts, Taxable Build America Bonds 2009 and 2010 Series A bonds which had total outstanding principal in the amount of \$29,650,000 and interest rates ranging from 2.76% to 6.00%.

The current refundings were done to achieve debt service savings and to reduce cash flow needed for future debt service payments. The refundings decreased the University's total debt service cash flow payments by approximately \$2.5 million over the approximate 15 year life of the General Receipts Refunding Bonds 2014 Series A and B. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of approximately \$2.0 million which will be amortized as a reduction in interest expense throughout the term of the General Receipts Refunding Bonds 2014 Series A and B.

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

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

	<u>2015</u>	<u>2014</u>
Real estate and equipment	\$ 18,668,869	\$ 17,745,334
Construction in progress	3,000,000	-
Less: accumulated depreciation	<u>(5,756,857)</u>	<u>(5,166,011)</u>
	<u>\$ 15,912,012</u>	<u>\$ 12,579,323</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

6. Long-Term Liabilities, continued

The following is a schedule by years of future minimum payments required for the capital lease obligations as of June 30, 2015:

Year ending June 30,	
2016	\$ 1,518,172
2017	1,627,053
2018	1,742,693
2019	1,736,383
2020	1,641,256
Thereafter	<u>7,540,416</u>
Total minimum lease payments	15,805,973
Less: amounts representing interest	<u>(2,210,604)</u>
Present value of minimum lease payments	<u>\$ 13,595,369</u>

The principal and interest repayment requirements relating to the outstanding bonds at June 30, 2015, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2016	3,561,791	3,207,978	6,769,769
2017	3,701,791	3,076,001	6,777,792
2018	3,826,791	2,948,669	6,775,460
2019	3,976,791	2,805,295	6,782,086
2020	4,221,791	2,653,063	6,874,854
2021-2035	<u>64,686,874</u>	<u>17,032,888</u>	<u>81,719,762</u>
	<u>\$ 83,975,829</u>	<u>\$ 31,723,894</u>	<u>\$ 115,699,723</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans

Kentucky Teachers Retirement System

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

The Kentucky Teachers Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868 or by calling (502) 848-8500.

Funding for the plan for the year ended June 30, 2014 was provided from eligible employees who contributed 7.16% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributed 14.84% of currently eligible employees' salaries to the KTRS through appropriations to the University. Contribution requirements of the plan members and the University are established by Kentucky Revised Statute and the KTRS Board of Trustees.

The University's contributions to KTRS for the year ended June 30, 2014 were \$4,770,111.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the University reported a liability for its proportionate share of the net pension liability. The amount recognized by the University as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the University is as follows:

University's proportionate share of the net pension liability	\$132,575,258
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>15,043,138</u>
Total	\$147,618,396

The net pension liability was measured as of June 30, 2014 (Measurement Date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating University's and the State, actuarially determined. At June 30, 2015, the University's proportion was 0.614 percent.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

For the year ended June 30, 2015, the University recognized pension expense of \$6,496,331. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	1,793,903
Net difference between projected and actual earnings on pension plan investments	-	7,992,901
Changes in proportion and differences between University contributions and proportionate share of contributions	-	-
University contributions subsequent to the measurement date	<u>4,861,457</u>	<u>-</u>
Total	<u>\$ 4,861,457</u>	<u>\$ 9,786,804</u>

\$4,861,457 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended June 30:	
2016	\$(2,371,952)
2017	(2,371,952)
2018	(2,371,952)
2019	(2,371,952)
2020	(298,996)
Thereafter	-

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.00-8.20 percent
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010 adopted by KTRS on December 19, 2011.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%

Discount rate. The discount rate used to measure the Total Pension Liability (TPL) as of the Measurement Date was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2036 plan year. Therefore, the long-term expected rate of return of 7.50% on plan investments was applied to periods before 2036 and the Municipal Bond Index Rate of 4.27% was applied to periods on or after 2036, resulting in a Single Equivalent Interest Rate (SEIR) of 5.16%.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate. The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 5.23 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.23 percent) or 1-percentage-point higher (6.23 percent) than the current rate:

	1% Decrease (4.23%)	Current Discount Rate (5.23%)	1% Increase (6.23%)
Morehead State University's proportionate share of the Collective Net Pension Liability	\$ 166,527,095	\$ 132,575,258	\$ 104,547,508

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial reports.

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 defined benefit pension plan. 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 retirement, disability, 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 for the year ended June 30, 2014 was provided from eligible hazardous and non-hazardous employees who contributed 8.00% and 5.00% for members prior to September 1, 2008 and 9.00% and 6.00% for members after September 1, 2008, respectively, of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 32.21% and 26.79%, respectively of current eligible hazardous and non-hazardous employees' salaries to the KERS through appropriations to the University. University contribution rates are determined by the Kentucky Revised Statue and the Board of Trustees of the Kentucky Retirement Systems each biennium.

The University's contributions to KERS for the year ended June 30, 2014 were \$3,199,422.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the University reported a liability of \$62,124,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 (Measurement Date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating University's and the State, actuarially determined. At June 30, 2015, the University's proportion was 0.67 percent.

For the year ended June 30, 2015, the University recognized pension expense of \$4,689,000. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	918,000
Changes in proportion and differences between University contributions and proportionate share of contributions	-	-
University contributions subsequent to the measurement date	<u>3,508,936</u>	<u>-</u>
Total	<u>\$ 3,508,936</u>	<u>\$ 918,000</u>

\$3,508,936 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended June 30:	
2016	\$(229,500)
2017	(229,500)
2018	(229,500)
2019	(229,500)
2020	-
Thereafter	-

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the KERS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log – normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumptions is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.5%
Private Equity	7%	11.25%
Real Estate	5%	7%
Core U.S. Fixed Income	10%	5.25%
High Yield U.S. Fixed Income	5%	7.25%
Non U.S. Fixed Income	5%	5.5%
Commodities	5%	7.75%
TIPS	5%	5%
Cash	1%	3.25%
Total	<u>100%</u>	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payment of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate. The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 7.75 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Morehead State University's proportionate share of the Collective Net Pension Liability	\$ 70,106,000	\$ 62,124,000	\$ 54,942,000

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued KERS financial report.

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, TIAA/CREF, Fidelity and Voya Financial. Under these plans the employee's contribution is 7.68% of their gross salary and the University's contribution is 8.74% to the retirement company and 5.10% to Kentucky Teachers Retirement System. The University's contributions under these plans to these plans for the years ended June 30, 2015 and 2014 were \$1,149,233 and \$1,111,916 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 \$725,000 and \$693,000 in 2015 and 2014, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

9. Contingencies and Commitments

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

The University receives financial assistance from federal and state agencies in the form of grants and awards. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. The University has had no disallowed claims in the past. In the opinion of management, such potential disallowed claims, if any, would not have a material adverse effect on the overall financial position of the University at June 30, 2015.

The University has made certain commitments related to the completion of various construction projects in progress totaling approximately \$47,182,140. 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 which has two plan options between a Preferred (PPO) and Premier (Indemnity). The University funds the plan at the single rate for all permanent full-time employees with the employees paying the difference between the preferred (PPO) single plan and the premier, two person or family plans, if applicable. Expenses incurred to cover claims paid by the University under the plan for fiscal years ended June 30, 2015 and 2014 totaled \$276,650 and \$315,683, 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 \$412 per month to a high of \$715. Payments for employee health insurance for fiscal years ended June 30, 2015 and 2014 were \$5,638,208 and \$6,004,065 respectively.

11. Risk Management

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

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

11. Risk Management, continued

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

12. Friends of Kentucky Folk Art Center, Inc.

The Friends of Kentucky Folk Art Center, Inc. (KFAC) provides educational opportunities, benefits and programs to the public to enhance the awareness of and foster an appreciation and understanding of contemporary folk art. Under an operating agreement, the University provides office space and certain administrative services to the KFAC at no charge. For each of the fiscal years ended June 30, 2015 and 2014, KFAC received State Appropriations in the amount of \$176,554. KFAC is an affiliate of the University in accordance with the provisions of KRS 164A.610. The financial statements of this affiliated corporation are reported upon separately. However, the assets, liabilities and net assets of KFAC have been included in the University's financial statements.

13. Endowment Trust Funds

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

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

The fair market value of Morehead State University endowment funds held by the Foundation as of June 30, 2015 and 2014 was \$43,731,281 and \$44,200,399, respectively. The portion of the endowments representing the value of the funding received from the Kentucky General Assembly was \$11,724,599 for the years ended June 30, 2015 and 2014, and is included in investments held by the Foundation. The portion of the endowments representing the value of the funding received from the Technology Endowment Program was \$290,229 for both years ended June 30, 2015 and 2014, 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 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 81,276	\$ 102,377
Funds held by the Foundation on behalf or for the benefit of the University	12,014,828	12,014,828
Funds due to the University by the Foundation	1,610,408	131,180

The University entered into an agreement with the Foundation where the University will provide personnel, office space, support equipment and other services that may be necessary to the operation of the Foundation. The Foundation reimburses the University for these services at an annual rate determined mutually by the two entities, \$181,868 for the year ended June 30, 2015 and \$179,503 for the year ended June 30, 2014. Amounts disclosed above as funds disbursed by the University on behalf of the Foundation for employee salaries and benefits are net of the annual rate for the fiscal years ended June 30, 2015 and 2014.

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

15. Morehead State University Foundation, Inc.

A. Description of Organization

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

B. Summary of Significant Accounting Policies

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Basis of Presentation

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

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

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

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

Cash

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

Revenue Recognition

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Pledges Receivable

Pledges receivable of amounts greater than \$500, less an appropriate allowance amount, are recorded at the net present value of estimated future cash flows using a discount rate commensurate with the risks involved. Net present value was computed using a discount rate of .72% and 5.25% depending on the age of the pledge and the expected timing of the payment.

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

Pledges receivable are presented net of an allowance for doubtful accounts (\$527,981 and \$607,248 as of June 30, 2015 and 2014, respectively). The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. The allowance represents an amount, which, in management's judgment, will be adequate to absorb probable losses on existing pledges that may become uncollectible.

Investments

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

Property and Equipment

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

Annuities Payable

The Foundation pays stipulated amounts periodically to individuals (annuitants) who have given to the Foundation certain assets and who have entered into agreements that such payments cease at the death of the annuitant. Total annuity payments for the years ended June 30, 2015 and 2014 were \$211,822 and \$200,233, respectively.

The June 30, 2015 and 2014 annuity liability balances of \$1,180,168 and \$1,234,760, respectively are the present values of the monthly, quarterly, or semiannual payments to the annuitants based on the life expectancies of the annuitants and interest rates ranging from .69% to 4.39%. The estimated remaining life expectancies of the annuitants ranged from 3.7 to 17.5 years and 4.0 to 18.2 years for the years ended June 30, 2015 and 2014, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Due to Morehead State University

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

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, 2015 and 2014, the Foundation held \$12,014,828 for the University's investment purposes.

Income Taxes

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

Contributions

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

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

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are recorded at the present value of estimated future cash flows. The resulting discount is computed using risk-free interest applicable to

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Contributions, continued

the years in which the promises are received. Amortization using the level-yield method is included in contribution revenue. Conditional gifts are not included as support until the conditions are substantially met.

Donated Materials and Property

Donated materials and property are recorded at their estimated fair value when received. The statements of activities for the years ended June 30, 2015 and 2014 include in-kind contributions of \$325,905 and \$406,118, respectively.

Functional Allocation of Expenses

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

Subsequent Events

Management has evaluated the period from July 1, 2015 to September 18, 2015, the date the Foundation financial statements were ready to be issued. Except as disclosed in Note L, there were no events occurring during the evaluation period that require recognition or disclosure in the financial statements.

C. Investments

Investments held as of June 30, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Mutual funds	\$ 28,378,486	\$ 28,059,163
Alternative investments	14,711,067	15,635,481
Corporate bonds and stock	53,919	54,219
Annuity investments	<u>149,798</u>	<u>145,435</u>
	<u>\$ 43,293,270</u>	<u>\$ 43,894,298</u>

Investment management fees were approximately \$95,500 and \$92,000 during the years ended June 30, 2015 and 2014, 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.

June 30, 2015	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Equity				
U.S. Large Cap	\$ 6,892,368	\$ 6,892,368	\$ -	\$ -
U.S. Small Cap	3,482,958	3,482,958	-	-
International	5,459,412	5,459,412	-	-
Global	1,699,926	1,699,926	-	-
Fixed income and cash:				
Cash	1,567,452	1,567,452	-	-
Core	6,512,938	6,512,938	-	-
Non-core/tactical	2,763,432	2,763,432	-	-
Alternative investments:				
Hedge funds	9,843,588	-	-	9,843,588
Real assets	4,319,020	-	-	4,319,020
Private equity	548,459	-	-	548,459
Corporate bonds and stocks	53,919	53,919	-	-
Annuity investment	149,798	149,798	-	-
Total assets	<u>\$43,293,270</u>	<u>\$ 28,582,203</u>	<u>\$ -</u>	<u>\$ 14,711,067</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

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

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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

Quantitative Information about Level 3 Fair Value Measurements

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

There have been no changes in the methodology used to determine the fair market value at June 30, 2015 and 2014.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

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

	Hedge Funds	Real Assets	Private Equity	Total
Balance, June 30, 2013	\$ 9,010,726	\$ 4,186,261	\$ 340,344	\$ 13,537,331
Additional investment	3,351,411	648,996	151,586	4,151,993
Funds sold	(3,440,717)	-	-	(3,440,717)
Realized gains	2,173	-	-	2,173
Unrealized gains	826,152	541,189	46,037	1,413,378
Fees	(19,060)	(8,828)	(789)	(28,677)
Balance, June 30, 2014	\$ 9,730,685	\$ 5,367,618	\$ 537,178	\$ 15,635,481
Additional investment	-	2,595,052	-	2,595,052
Funds sold	-	(2,723,934)	-	(2,723,934)
Realized losses	-	(50,388)	-	(50,388)
Unrealized gains (losses)	156,088	(857,627)	13,927	(687,612)
Fees	(43,185)	(11,701)	(2,646)	(57,532)
Balance, June 30, 2015	\$ 9,843,588	\$ 4,319,020	\$ 548,459	\$ 14,711,067

Donor-Designated Endowments

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

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

Donor-Designated Endowments, continued

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

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

The Foundation's investments include endowment investments for the University associated with the Technology Endowment Program and RUETF Endowment Match Program, also known as "Bucks for Brains". Funds held for the Technology Endowment Program are matched by the University of at least one dollar for every dollar of grant funds. As of both June 30, 2015 and 2014, the amount of funds included in the Foundation's investments held for the Technology Endowment Program was \$290,229. Funds held for the RUETF Endowment Match Program are endowed for the purposes of supporting endowed chairs and professorships, scholarships, fellowships, research funds, and mission support funds. As of June 30, 2015 and 2014, the amount of funds included in the Foundation's investments held for the RUETF Endowment Match Program was \$11,724,599 each year. These amounts are shown as funds held in trust for Morehead State University on the statements of financial position and are therefore not included in donor-designated endowment net assets.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

Donor-Designated Endowments, continued

Endowment net asset composition by fund type and changes in endowment net assets by fund type as of June 30, 2015 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	\$ -	\$ 12,966,108	\$ 19,219,463	\$ 32,185,571
Contributions	-	-	1,343,914	1,343,914
Interest and dividend income	-	355,125	-	355,125
Net depreciation	-	(560,336)	-	(560,336)
Amounts appropriated for expenditure	-	(525,593)	-	(525,593)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 12,235,304</u>	<u>\$ 20,563,377</u>	<u>\$ 32,798,681</u>

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

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

E. Pledges Receivable

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

Year ended June 30,			
2016	\$	1,287,593	
2017		1,104,699	
2018		845,550	
2019		799,712	
2020		753,190	
Thereafter		<u>756,723</u>	
		5,547,467	
Less: present value discount		(267,660)	
Less: allowance for uncollectible pledges		<u>(527,981)</u>	
Pledges receivable, net		4,751,826	
Less: current pledges receivable		<u>(1,019,933)</u>	
Noncurrent pledges receivable		<u>\$ 3,731,893</u>	

F. Property and Equipment

Property and equipment as of June 30, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 53,000	\$ 53,000
Furniture and equipment	158,555	158,616
Buildings	<u>175,000</u>	<u>175,000</u>
	386,555	386,616
Less: accumulated depreciation	<u>(154,895)</u>	<u>(159,485)</u>
	<u>\$ 231,660</u>	<u>\$ 227,131</u>

Depreciation expense was \$15,170 and \$13,013 for the years ended June 30, 2015 and 2014, respectively.

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 \$928,042 and \$625,000 for the years ending June 30, 2015 and 2014, respectively. The cash surrender value of these policies as of June 30, 2015 and 2014 is \$113,381 and \$107,228, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

H. Support for Morehead State University

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

I. Net Investment in Capital Leases

The Foundation's net investment in direct financing capital leases of real estate with the University as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Total minimum lease payments to be received	\$ 473,925	\$ 585,419
Less: unearned income	<u>(123,204)</u>	<u>(156,075)</u>
Net investment in capital leases	<u>\$ 350,721</u>	<u>\$ 429,344</u>

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

2016	\$ 77,700
2017	70,941
2018	70,941
2019	64,631
2020	52,013
Thereafter	<u>137,699</u>
	<u>\$ 473,925</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

J. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available at June 30, 2015 and 2014 for the following purposes:

	<u>2015</u>	<u>2014</u>
Funds restricted for specific purposes	\$ 18,291,729	\$ 20,298,343
Scholarships	29,289	15,455
Athletics	<u>171,323</u>	<u>211,280</u>
	<u>\$ 18,492,341</u>	<u>\$ 20,525,078</u>

Permanently restricted net assets at June 30, 2015 and 2014 consist of endowment funds.

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

	<u>2015</u>	<u>2014</u>
Cash	\$ 818,517	\$ 1,295,349
Pledges receivable	4,159,047	4,892,022
Accounts receivable	50,000	60,000
Investments	12,985,304	13,716,111
Buildings	128,752	132,252
Net investment in capital leases	<u>350,721</u>	<u>429,344</u>
	<u>\$ 18,492,341</u>	<u>\$ 20,525,078</u>

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

	<u>2015</u>	<u>2014</u>
Cash	\$ 1,388,823	\$ 128,734
Pledges receivable	160,585	206,539
Investments	18,960,969	18,831,190
Land	<u>53,000</u>	<u>53,000</u>
	<u>\$ 20,563,377</u>	<u>\$ 19,219,463</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, \$181,868 and \$179,503 for the years ended June 30, 2015 and 2014, respectively. GAAP requires recognition of professional services received if those services (a) create long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Those services in excess of the agreed upon amount are considered in-kind contributed services and are treated as both revenue and expense to the Foundation.

Related party transactions and balances are as follows during 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 81,276	\$ 102,377
Funds due to the University by the Foundation	1,610,408	131,180

Transactions with the University include direct financing capital leases and support for the University as disclosed in Notes 15H and 15I.

L. Subsequent Events

In August 2015, the Foundation sold investments held within its endowment totaling \$1,784,897. The proceeds were transferred to Morehead State University to fund a capital project.

In September 2015, the Foundation was notified by a donor that their pledge would not be honored due to unforeseen circumstances. The net present value of the pledge receivable at June 30, 2015 was \$1,198,817. The Foundation has chosen to recognize this transaction as an expense during the year ending June 30, 2016.

SUPPLEMENTAL INFORMATION

MOREHEAD STATE UNIVERSITY

Schedule of Bonds and Capital Lease Obligations

June 30, 2015

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2014</u>	<u>Payments 2014-15</u>	<u>New Issues</u>	<u>Outstanding June 30, 2015</u>	<u>Interest Paid 2014-15</u>	<u>Debt Service Requirements 2015-16</u>	
									<u>Principal</u>	<u>Interest</u>
Consolidated Educational Building Revenue Bonds:										
Series M	01/01/04	\$ 5,620,000	2.00-3.625	\$ 495,000	\$ 495,000	\$ -	\$ -	\$ 5,179	\$ -	\$ -
Total educational buildings		5,620,000		495,000	495,000	-	-	5,179	-	-
General Receipts:										
2007 Series A Bonds	08/14/07	6,445,000	4.000	4,340,000	235,000	-	4,105,000	168,900	245,000	159,300
2008 Series A Bonds	06/10/08	10,000,000	3.00-3.800	5,980,000	735,000	-	5,245,000	197,641	765,000	173,266
2009 Series A Bonds	07/29/09	28,930,000	2.00-6.000	24,125,000	24,125,000	-	-	316,129	-	-
2010 Series A Bonds	06/29/10	5,770,000	1.27-5.750	5,030,000	5,030,000	-	-	57,109	-	-
2011 Series A Bonds	07/25/11	5,090,000	2.00-4.125	4,665,000	220,000	-	4,445,000	158,256	225,000	153,806
2012 Series A Bonds	06/15/12	5,060,000	2.00-3.625	4,850,000	215,000	-	4,635,000	138,931	220,000	134,581
2013 Series A Bonds	09/10/13	9,475,000	1.00-4.375	9,130,000	375,000	-	8,755,000	294,079	375,000	290,329
2014 Series A Bonds	07/24/14	22,620,000	2.00-5.00	-	1,415,000	22,620,000	21,205,000	638,616	1,140,000	906,000
2014 Series B Bonds	07/24/14	4,840,000	1.00-5.00	-	275,000	4,840,000	4,565,000	121,799	225,000	168,167
2015 Series A Bonds	03/25/15	28,185,000	3.00-5.00	-	-	28,185,000	28,185,000	-	225,000	1,222,529
2015 Reoffering Premium	03/25/15	<u>2,835,829</u>		<u>-</u>	<u>-</u>	<u>2,835,829</u>	<u>2,835,829</u>	<u>-</u>	<u>141,791</u>	<u>-</u>
Total General Receipts		129,250,829		58,120,000	32,625,000	58,480,829	83,975,829	2,091,460	3,561,791	3,207,978

MOREHEAD STATE UNIVERSITY

Schedule of Bonds and Capital Lease Obligations

June 30, 2015

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2014</u>	<u>Payments 2014-15</u>	<u>New Issues</u>	<u>Outstanding June 30, 2015</u>	<u>Interest Paid 2014-15</u>	<u>Debt Service Requirements 2015-16</u>	
									<u>Principal</u>	<u>Interest</u>
Lease Purchase Agreements:										
MSU Foundation, Inc.	03/01/99	240,000	5.000	78,637	15,345	-	63,292	3,583	16,130	2,798
MSU Foundation, Inc.	10/21/02	466,457	9.400	304,689	23,982	-	280,707	28,030	26,336	25,677
Citi Mortgage, Inc.	03/31/05	1,824,000	4.190	803,158	132,742	-	670,416	32,276	138,362	26,656
Suntrust Bank, Inc.	06/15/05	3,874,522	3.580	452,179	452,179	-	-	12,177	-	-
MSU Foundation, Inc.	09/01/05	327,764	4.470	46,017	39,296	-	6,721	1,259	6,721	38
JP Morgan/Chase	03/31/12	9,671,127	2.650	9,267,871	735,731	-	8,532,140	238,328	755,423	218,636
Mabry Property	12/19/13	875,000	4.500	821,210	111,274	-	709,936	34,678	116,386	29,566
IT Infrastructure (estimated)	06/19/15	3,000,000	2.92	-	-	3,000,000	3,000,000	-	-	87,600
Caudill Property	11/21/14	<u>400,000</u>	6.139	<u>-</u>	<u>67,843</u>	<u>400,000</u>	<u>332,157</u>	<u>-</u>	<u>47,453</u>	<u>20,390</u>
Total lease purchase		<u>20,678,870</u>		<u>11,773,761</u>	<u>1,578,392</u>	<u>3,400,000</u>	<u>13,595,369</u>	<u>350,331</u>	<u>1,106,811</u>	<u>411,361</u>
Total		<u>\$ 155,549,699</u>		<u>\$ 70,388,761</u>	<u>\$ 34,698,392</u>	<u>\$ 61,880,829</u>	<u>\$ 97,571,198</u>	<u>\$ 2,446,970</u>	<u>\$ 4,668,602</u>	<u>\$ 3,619,339</u>

**SCHEDULE OF MOREHEAD STATE UNIVERSITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Kentucky Teachers Retirement System**

Last 10 Fiscal Years
(Dollar amounts in thousands)

	<u>2014</u>
University's proportion of the net pension liability (asset)	0.614%
University's proportionate share of the net pension liability (asset)	132,575
University's covered-employee payroll	44,381
University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	298.72%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

SCHEDULE OF MOREHEAD STATE UNIVERSITY'S CONTRIBUTIONS

Kentucky Teachers Retirement System

Last 10 Fiscal Years
(Dollar amounts in thousands)

	<u>2014</u>
Contractually required contribution	4,770
Contributions in relation to the contractually required contribution	(4,770)
Contribution deficiency (excess)	-
University's covered-employee payroll	44,381
Contributions as a percentage of covered-employee payroll	10.75%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

SCHEDULE OF MOREHEAD STATE UNIVERSITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Kentucky Employees Retirement System

Last 10 Fiscal Years
 (Dollar amounts in thousands)

	<u>2014</u>
University's proportion of the net pension liability (asset)	0.67%
University's proportionate share of the net pension liability (asset)	62,124
University's covered-employee payroll	11,898
University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	522.14%
Plan fiduciary net position as a percentage of the total pension liability	25.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

SCHEDULE OF MOREHEAD STATE UNIVERSITY'S CONTRIBUTIONS

Kentucky Employees Retirement System

Last 10 Fiscal Years

(Dollar amounts in thousands)

	<u>2014</u>
Contractually required contribution	3,199
Contributions in relation to the contractually required contribution	3,199
Contribution deficiency (excess)	-
University's covered-employee payroll	11,898
Contributions as a percentage of covered-employee payroll	26.89%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
US Department of Education			
Direct Programs:			
Student Financial Aid Cluster:			
Federal Work Study		84.033	\$ 851,230
Federal Pell Grant Program		84.063	16,372,788
Federal Supplemental Educational Opportunity Grants Program		84.007	299,985
Federal Perkins Loan Program		84.038	399,145
Federal Direct Loan Program		84.268	46,885,534
Teacher Educational Assistance for College and Higher Education Grant		84.405	39,908
			<hr/> 64,848,590
TRIO Cluster:			
CEOC-NE 09/14		84.066	107,935
CEOC-NE 14/19		84.066A	339,172
ROWLAND-USED-CEOC-SE 12/17		84.066A	197,165
STUDENT SUPPORT 10/15		84.042	339,257
TALENT SEARCH 11/16		84.044A	428,110
TALENT SEARCH II 11/16		84.044A	247,288
UPWARD BOUND CENTRAL 13/14		84.047A	548,244
UPWARD BOUND EAST 12/13		84.047A	300,151
UPWARD BOUND MATH/SCI 12/13		84.047	276,249
			<hr/> 2,783,571
GEAR UP IRAPP 08/14		84.334A	497,768
MCLAREN-PEEAK 15/19		84.325K	34,395
			<hr/> 532,163
Passed through Kentucky Council on Postsecondary Education			
HENDERSON-WL-PERFORM 14/15	PO2 415 1500001148	84.002	5,271
STEELE-ADULT ED-USED-CPE 14/15	PO2 415 1500006657 1	84.002	299,468
HEDNERSON-BATH-ADULT LC 14/15	PO2 415 1500001148	84.002	81,889
HENDERSON-BATH-USED-CPE 13/14	P02 415 1400000701 1	84.002	108
HENDERSON-MONTGOMERY LC 14/15	PO2 415 1500001148	84.002	156,750
HENDERSON-MSU-ADULT LC 14/15	PO2 415 1500001148	84.002	126,448
HENDERSON-POWELL-ADULT LC 14/1	PO2 415 1500001148	84.002	95,010
HENDERSON-POWELL-USED-CPE 13/1	P02 415 1400000701 1	84.002	2
HENDERSON-WL-ADULT LC 14/15	PO2 415 1500001148	84.002	138,830
HENDERSON-WOLFE-ADULT LC 14/15	PO2 415 1500001148	84.002	84,757
HENDERSON-WOLFE-USED-CPE 13/14	P02 415 1400000701 1	84.002	18
STEELE-ADULT ED-USED-CPE 13/14	PO2 415 1300006203 1	84.002	2,998
BARTON-USED-CPE-ALGEBRA 14/15	PO2 415 1400003505	84.367	85,693
CONNELL-USED-CPE-GEAR UP 14/15	PO2 415 1500001773 1	84.334S	47,657
CONNELL-USED-CPE-GEAR UP 13/14	PO2 415 1400000542 1	84.334S	45,836
BARTON-USED-CPE-ALGEBRA 12/14	PO2 415 1300003326 1	84.367B	8,187
BARTON-USED-CPE-READING 2 12/14	PO2 415 1300003285 1	84.367B	3,016
BARTON-USED-CPE-SCIENCE 15/16	PO2 415 1500002816 1	84.367B	16,107
HENDERSON-MONT-USED-CPE 13/14	P02 415 1400000701 1	84.002	6
HARR-CPE-ADULT PROF DEV 14/15	PO2 415 1500000686 1	84.002	13,607
			<hr/> 1,211,658
Passed through Kentucky Department of Education			
STUBBS-USED-KDE-FIELD BASED 14	PON2 540 1400003338 1	84.048	21,210
STUBBS-USED-KDE-PD 14/15	PON2 540 1400003444 1	84.048	4,067
			<hr/> 25,277
Passed through Kentucky Education and Workforce Development Cabinet			
STUBBS-TITLE 1C-DEAN 13/14	PON2 540 1300002845 1	84.048A	1,671
STUBBS-TITLE 1C-DEAN 14/15	PON2 540 1400003725 1	84.048	2,573
STUBBS-TITLE 1C-IMAGING 14/15	PON2 540 1400003725 1	84.048	14,617
STUBBS-TITLE 1C-NURSE 14/15	PON2 540 1400003725 1	84.048	17,850
STUBBS-TITLE 1C-VET 14/15	PON2 540 1400003725 1	84.048	18,440
MATTINGLY-CDP REHAB 14/16	PON2 531 1400002424 1	84.346	840,014
			<hr/> 895,165

*Items denoted with an asterisk are those included in the Research and Development Cluster

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Passed through National Writing Project Corp			
MASCLE-USED-NWP-HIGHNEED 14/15	94-KY07-SEED2012	84.367D	16,277
MASCLE-USED-NWP-SEED 14/16	94-KY07-SEED2012	84.928	14,300
			<u>30,577</u>
Passed through Kentucky Department of Juvenile Justice			
PETERSON-DJJ-GREYHOUND 15	TI TRAN 3134 T	84.013	13,129
			<u>13,129</u>
Total U.S. Department of Education			<u>70,340,130</u>
Appalachian Regional Commission			
Direct Programs			
BARTON-ARC-PARENT 14/15		23.002	192,707
DELLICARPINI-ARC-PLANNING 14/1		23.002	99,060
DEMOSS-ARC-DENTAL 13/14		23.002	47,869
DEMOSS-ARC-DENTAL 14/15		23.002	450,283
DEMOSS-ARC-PARENT 13/14		23.002	12,087
MARSHALL-ARC-DEVELOP 14/15		23.002	64,716
WALKER-ARC-KY AHED 13/14		23.001	211,254
			<u>1,077,976</u>
Passed through East Tennessee State			
HAIGHT-ARC-ETSU-ATP 14/15	220015-05	23.011	3,467
			<u>3,467</u>
Total Appalachian Regional Commission			<u>1,081,443</u>
Corporation for National and Community Service			
Direct Programs			
JUDD-CNCS-RSVP- 12/15		94.002	63,288
JUDD-CNCS-RSVP 15/18		94.002	20,213
			<u>83,501</u>
Passed through Kentucky Cabinet for Health and Family Services			
WILLIAMS-CNCS-CHFS-MSU CORPS	PO2 730 1300000045 3	94.006	37,568
WILLIAMS-CNCS-CHFS-MSU CORPS 1	PO2 730 1400006205 1	94.006	343,821
			<u>381,389</u>
Total Corporation for National and Community Service			<u>464,890</u>
Corporation for Public Broadcasting			
Direct Programs			
HITCHCOCK-CPB-RADIO 14/16		11.55	60,121
HITCHCOCK-CPB-RADIO CS 13/14		11.55	315
HITCHCOCK-CPB-RADIO CS 13/15		11.55	66,074
			<u>126,510</u>
Total Corporation for Public Broadcasting			<u>126,510</u>
Institute of Museum and Library Services			
Direct Programs			
COLLINSWORTH-OUTREACH 11/13		45.301	1,113
			<u>1,113</u>
Total Institute of Museum and Library Services			<u>1,113</u>

*Items denoted with an asterisk are those included in the Research and Development Cluster

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

<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 Aeronautics and Space Administration			
Direct Programs			
MALPHRUS-NASA-FLIGHT 14/16*		43.001	78,242
MALPHRUS-NASA-UH FEED SYSTEM 1*		43.001	16,833
			<u>95,075</u>
Passed through University of Kentucky Research Foundation			
JERDE-NASA-UKRF-SPACE WS 14	3048107336-14-106	43.001	4,375
PANNUTI-NASA-UKRF-FREQ 14*	3048107336-14-103	43.001	12,087
GRUPE-NASA-KSGC-WORKSHOP 15*	3048107336-15-139	43.001	2,352
			<u>18,814</u>
Passed through Northern Kentucky University Research Foundation			
REEDER-NASA-NKURF-STEM 13/15	4000972-S1	43.008	17,649
			<u>17,649</u>
Passed through Busek Company Inc.			
MALPHRUS-BCI-LUNAR CUBE 14*	S1071-SUB1	43.001	27,431
			<u>27,431</u>
Passed through Radiance Technologies			
MALPHRUS-DOD-RAD 14*	14S-3050	43.001	4,324
MALPHRUS-NASA-RAD-SBIR1 14*	W9132V-14-P-0006	43.001	18,380
			<u>22,704</u>
Passed through Smithsonian Astrophysical Observatory			
GRUPE-NASA-SAO-FLUX 15/16	DD5-16074X	43.001	4,758
			<u>4,758</u>
Total National Aeronautics and Space Administration			<u>186,431</u>
National Endowment for the Arts			
Direct Programs			
Collinsworth-NEA-Cornett 14/15		45.024	1,099
			<u>1,099</u>
Total National Endowment for the Arts			<u>1,099</u>
National Institute of Health			
Direct Programs:			
CARLSON-NIH 13/16*		93.865	112,670
GIBBS-NIH-EXPRESSION 14/17*		93.865	38,331
WHITE-NIH-AMPHETAMINE 11/14*		93.113	63,532
HARE-NIH-MOA OF UmuD 12/16*		93.113	71,524
			<u>286,057</u>
Passed through University of Louisville Research Foundation			
INBRE-KBRIN-CARLSON 14/15*		93.859	24,778
INBRE-KBRIN-Dennis-Lead 14/15*		93.859	22,787
INBRE-KBRIN-Hare-Bridge 14/15*		93.859	25,832
INBRE-KBRIN-Mattingly 14/15*		93.859	107,821
INBRE-KBRIN-Startup 14/15*		93.859	11,372
INBRE-KBRIN-CARLSON 15/16*		93.859	2,856
INBRE-KBRIN-COTTINGHAM 15/16*		93.859	7,263
INBRE-KBRIN-HARE-BRIDGE 15/16*		93.859	933
INBRE-KBRIN-MATTINGLY 15/16*		93.859	140,743
INBRE-KBRIN-DENNIS-LEAD 15/16*		93.859	7,830
			<u>352,215</u>
Total National Institute of Health			<u>638,272</u>

*Items denoted with an asterisk are those included in the Research and Development Cluster

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

<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 Oceanic and Atmospheric Administration			
Direct Programs			
HAIGHT-NOAA-CARBON PKT 14/15		11.431	2,669
			<u>2,669</u>
Total National Oceanic and Atmospheric Administration			<u>2,669</u>
National Science Foundation			
Direct Programs			
DENNIS-NSF-PERIPLASMIC 11/14*		47.074	27
SCHACK-NSF-NUMERACY 11/12*		47.076	7,424
SCHACK-NSF-TECHNO 14/17*		47.076	9,918
			<u>17,369</u>
Passed through Eastern Kentucky University			
RICK-NSF-EKU-DATABASE 14/16*	452944-15-218	47.074	11,580
			<u>11,580</u>
Total National Science Foundation			<u>28,949</u>
US Department of Health and Human Services			
Direct Programs:			
Barnett-HHS-Suicide Prevention		93.243	78,568
			<u>78,568</u>
Passed through Eastern Kentucky University			
Hesterberg-PCWCP-Ashland 14/15	PON2 736 1400001493 1	93.658	7,837
Hesterberg-PCWCP-Preston 14/15	PON2 736 1400001493 1	93.648	7,132
Wilson-Training Resource 14/15	452822-15-129	93.648	85,956
Geurin-PCWCP-Morehead 14/15	PON2 736 1400001493 1	93.658	6,604
Geurin-PCWCP-Mt. Sterling 14/15	PON2 736 1400001493 1	93.658	6,243
			<u>113,772</u>
Passed through KY Administrative Office of the Courts			
SHANNON-DOJ-AOC-STATEWIDE13/14	PON2-025-1200001315	93.243	14,234
SHANNON-HHS-AOC-CLARK/MAD 13/1	PON2-025-1400000391	93.243	15,971
Shannon-HHS-AOC-Clark/Mad 14/1	PON2-025-1400000391	93.243	47,130
SHANNON-HHS-AOC-FAYETTE 13/14	PON2-025-1400001526	93.243	17,948
Shannon-HHS-AOC-Fayette 14/15	PON2-025-1400001526	93.243	43,771
SHANNON-HHS-AOC-HOPKINS 13/14	PON2-025-1300002591	93.243	12,403
Shannon-HHS-AOC-Hopkins#2 14/1	PON2-025-1300002591	93.243	23,358
Shannon-HHS-AOC-Knott/Mag 14/1	PON2-025-1200002084	93.243	28,513
SHANNON-HHS-AOC-KNOTT/MAG13/14	PON2-025-1200002084	93.243	12,503
SHANNON-HHS-AOC-MCCRACKEN 13/1	PON2-025-1300001380	93.243	8,447
Shannon-HHS-AOC-McCracken 14/1	PON2-025-1300001380	93.243	39,785
SHANNON-HHS-AOC-WARREN 13/14	PON2-025-1300001507	93.243	13,792
Shannon-HHS-AOC-Warren 14/15	PON2-025-1300001507	93.243	45,504
SHANNON-HHS-COURT-DAVIESS12/13	PON2-025-1100001372	93.243	28,109
			<u>351,468</u>
Passed through Louisville Metro Government			
JUDD-HHS-CAPACITY BLDG 13/14	90SP0018/01	93.048	5,370
Judd-HHS-Capacity Bldg 14/15	90SP0058-01-00	93.048	9,690
Judd-KY Medicare 14/15	90MP0102-04-00	93.048	17,460
			<u>32,520</u>
Passed through Mountain Comprehensive Care Center			
Shannon-HHS-VOL-EVAL 14/15	1H79TI024834-01	93.243	40,371
			<u>40,371</u>
Passed through Southern California Alcohol Drug Programs			
Shannon-HHS-SCADP-La Casita 14	TI025554	93.243	9,362
			<u>9,362</u>

*Items denoted with an asterisk are those included in the Research and Development Cluster

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

<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 Volunteers of America of Los Angeles			
Shannon-HHS-VOALA-Barracks 14/	TI025601	93.243	7,977
SHANNON-HHS-VOALA-HIV 13/14	TI024433	93.243	11,042
Shannon-HHS-VOALA-HIV 14/15	TI024433	93.243	21,281
Shannon-HHS-VOALA-MAI 14/15	TI025799	93.243	10,117
SHANNON-HHS-VOL-EVAL 13/14	TI024834-01	93.243	4,096
SHANNON-HHS-VOALA-SAFE HAVEN 1	TI021268	93.243	13,145
			<u>67,658</u>
Total US Department of Health and Human Services			<u>693,719</u>
US Department of Agriculture			
Direct Programs:			
MORLEY-RURAL BUSINESS-USDA 14/		10.769	50,000
MORLEY-RURAL BUS-USDA 13/14		10.769	27,533
			<u>77,533</u>
Passed through Kentucky Department of Education			
Cady-Summer Food 14	VC0000098220	10.558	9,485
Cady-Summer Food 15		10.558	18,081
			<u>27,566</u>
Total US Department of Agriculture			<u>105,099</u>
US Department of Commerce			
Direct Programs:			
MARSHALL-COT-BROADBAND 14		11.558	67,774
			<u>67,774</u>
Passed through Commonwealth Office of Technology			
MARSHALL-COT-BROADBAND 13/14	PON2 079 140000658 1	11.558	31,144
			<u>31,144</u>
Total US Department of Commerce			<u>98,918</u>
US Department of Defense			
Passed through Eastern Kentucky University			
Besette-DOD-EKU-IC CAE 14/15	452952-15-230	12.598	104,685
			<u>104,685</u>
Total US Department of Defense			<u>104,685</u>
US Department of Justice			
Passed through Kentucky Administrative Office of the Courts			
Shannon-DOJ-AOC-Conf Eval 14/1	PON2-025-1400000813	93.243	3,615
Shannon-DOJ-AOC-DUI Cr. 15	PON2-025-1500001324	93.243	5,598
Shannon-DOJ-AOC-Fayette VTC 15	PON2-025-1500001325	93.243	4,579
SHANNON-DOJ-AOC-FLOYD 13/14	PON2-025-1400001527	93.243	1,589
Shannon-DOJ-AOC-Floyd 14/15	PON2-025-1400001527	93.243	5,146
Shannon-DOJ-AOC-Hardin Co Eval	PON2-025-1500001326	93.243	4,069
Shannon-DOJ-AOC-Hardin VTC 13/	PON2 025 1400000814	93.243	842
Shannon-DOJ-AOC-Hardin VTC 14/1	PON2-025-1400000814	93.243	12,284
Shannon-DOJ-AOC-Jefferson 14/1	PON2-025-1300001425	93.243	11,674
SHANNON-DOJ-AOC-JEFFERSON13/14	PON2-025-1300001425	93.243	830
Shannon-DOJ-AOC-Muhlenberg 15	PON2-025-1500001328	93.243	13,714
SHANNON-DOJ-AOC-PERRY 13/14	PON2 025 1400000892	93.243	2,387
Shannon-DOJ-AOC-Perry 14/15	PON2-025-1400000892	93.243	4,338
Shannon-DOJ-AOC-Statewide 14/1	PON2-025-1200001315	93.243	54,904
Shannon-DOJ-AOC-Conf. Eval. 13	PON2-025-1400000813	93.243	2,030
			<u>127,599</u>

*Items denoted with an asterisk are those included in the Research and Development Cluster

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

<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 Kentucky Justice & Public Safety Cabinet WILBURN-DOJ-RESPONSE 14	VAWA-2013-Morehead-00308	16.588	<u>7,855</u> 7,855
Total US Department of Justice			<u>135,454</u>
US Department of Labor			
Direct Programs:			
WILSON-DOL-YOUTHBUILD 12/13		17.274	<u>419,298</u> 419,298
Passed through Buffalo Trace Area Development District:			
REYNOLDS-TODAY'S YOUTH 13/14	FY14-5245	17.259	12
REYNOLDS-TODAY'S YOUTH 14/15	FY 15-5245	17.259	<u>120,788</u> 120,800
Total US Department of Labor			<u>540,098</u>
US Department of State			
Direct Programs:			
MASTERSON-DOS-READING RM 1213		19.7	<u>12,863</u> 12,863
Total US Department of State			<u>12,863</u>
US Department of Transportation			
Passed through Georgia Institute of Technology CORSO-GT-STRIDE 14/15*	RE59951	20.701	<u>32,248</u> 32,248
Total US Department of Transportation			<u>32,248</u>
US Environmental Protection Agency			
Passed through Kentucky Environmental and Public Protection Cabinet:			
GEARNER-PRINCIPAL LAB 14/16	PON2 129 1400001833 1	66.468	<u>40,458</u> 40,458
Passed through KY Division of Water:			
Haight-Triplett Creek 08/09*	C9994861-08	66.460	<u>135,102</u> 135,102
Passed through Kentucky Energy and Environment Cabinet:			
Haight-Triplett Creek 14/17	PON2 129 1400001224 1	66.605	<u>9,081</u> 9,081
Passed through Tetra Tech:			
REEDER-EPA-TT-HINKSTON CRK2 14*	C9994861-11	66.44	<u>6,748</u> 6,748
Total US Environmental Protection Agency			<u>191,389</u>
US Geological Survey			
HAIGHT-USGS-UKRF-WATERSHED 14/*	3048108119-14-157	15.805	<u>4,409</u> 4,409
Total US Geological Survey			<u>4,409</u>

*Items denoted with an asterisk are those included in the Research and Development Cluster

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
US Small Business Administration			
Passed through University of Kentucky Research Foundation:			
MORLEY-SBA-UKRF-SBDC 13/14	30448111056-14-090	59.037	30,183
MORLEY-SBA-UKRF-SBDC 14/15	3048112328-15-218	59.037	107,698
			<u>137,881</u>
Total US Small Business Administration			<u>137,881</u>
Total			<u>\$ 74,928,269</u>

*Items denoted with an asterisk are those included in the Research and Development Cluster

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, 2015 are summarized as follows:

Federal Perkins Loan Program:	
Loans disbursed	\$ 399,145
Federal Direct Loan Program:	
Federal Unsubsidized Loans	\$ 29,066,047
Federal Subsidized Loans	15,505,742
Federal Plus Loans	2,313,745

As of June 30, 2015, the University had loans outstanding, in the amount of \$3,390,070 with an allowance for doubtful accounts of \$80,706 under the Federal Perkins Loan Program.

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

Report of Independent Auditors

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Morehead State University (the University) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated September 24, 2015.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dean Dotson Allen Ford, PLLC

September 24, 2015
Lexington, Kentucky

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

Report of Independent Auditors

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of Morehead State University (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. The University's major federal programs are identified in the summary of auditors' results section of the accompanying *Schedule of Findings and Questioned Costs*.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

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

Dean Dotson Allen Ford, PLLC

October 26, 2015
Lexington, Kentucky

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

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

Financial Statements:

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

Federal Award:

- d. Internal control over major programs:
 - Material weaknesses: **No**
 - Significant deficiencies identified that are not considered to be material weaknesses: **None Noted**
- e. The type of report issued on compliance for major programs: **Unmodified Opinion**
- f. Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **No**
- g. Major programs:
 - Student Financial Aid Cluster:**
 - Federal Pell Grant, CFDA 84.063
 - Federal Work Study, CFDA 84.033
 - Federal Supplemental Educational Opportunity Grant, CFDA 84.007
 - Federal Perkins Loan, CFDA 84.038
 - Federal Direct Loan Program, CFDA 84.268
 - Teacher Education Assistance for College and Higher Education Grant, CFDA 84.405
 - TRIO Cluster:**
 - CEOC, CFDA 84.066
 - Student Support Services, CFDA 84.042
 - Talent Search, CFDA 84.044
 - Upward Bound, CFDA 84.047
 - Research and Development Cluster:**
 - Nonpoint Source Implementation Grants, CFDA 66.460
 - Biomedical Research and Research Training, CFDA 93.859
 - Child Health and Human Development Extramural Research, CFDA 93.865
 - Substance Abuse and Mental Health Services, CFDA 93.243**
 - Gear Up, CFDA 84.334**
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$302,390**
- i. Auditee qualified as a low-risk auditee: **Yes**

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2015

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

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

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

None Noted