

**MOREHEAD STATE UNIVERSITY**

**Single Audit Reports Under Uniform Guidance**

*As of and for the Years Ended June 30, 2016 and 2015  
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, 2016. 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 \$322 million versus \$300 million at June 30, 2015. The increase is primarily related to an increase in capital assets of \$28 million and an increase in deferred outflows for pensions of \$15.6 million. This was offset by a decrease in cash and cash equivalents of \$17.2 million which related to expenditures of the 2015 Series A bond proceeds for the new student residential facilities as part of the Comprehensive Housing Master Plan.

# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis, continued

- Total liabilities and deferred inflows of resources were \$346 million versus \$322 million at June 30, 2015. The increase is primarily related to increases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability which increased to \$219 million versus \$195 million at June 30, 2015.
- Total net position was (\$24.0) million at June 30, 2016 and (\$21.6) million at June 30, 2015.

### Using the Annual Report

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

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

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

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



University's financial condition these statements should be reviewed as a whole and not individually. Further important information can be found in the Notes to the Financial Statements, beginning on page 23 of the Financial Statements. The Notes to the Financial Statements contain policies, explanations and schedules that should be reviewed before, during and after reviewing the Financial Statements in order to get a complete understanding.

# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis, continued

### **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**

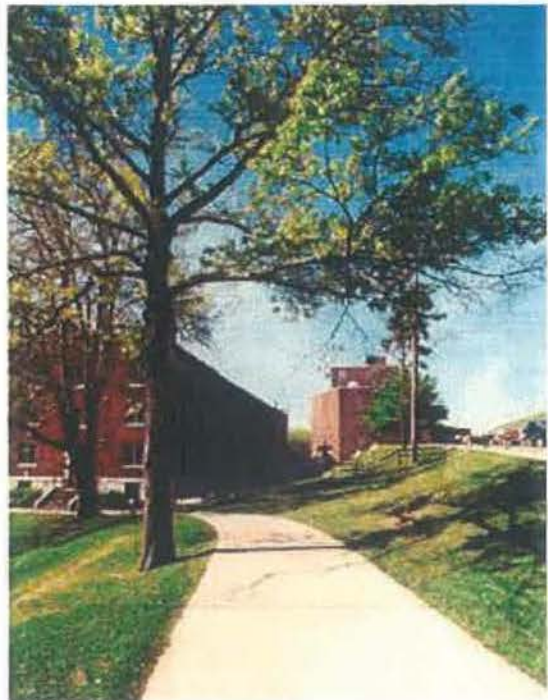
This statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. GASB 35 requires state appropriations and gifts to be classified as non-operating revenues. Accordingly, the University will generate a net operating loss prior 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>2016</u>	<u>2015</u>
<b><u>Assets</u></b>		
Current assets	\$ 54,238	\$ 75,061
Capital assets	228,637	200,210
Other noncurrent assets	<u>15,255</u>	<u>16,646</u>
Total assets	<u>298,130</u>	<u>291,917</u>
Deferred outflows of resources	<u>23,948</u>	<u>8,370</u>
Total assets and deferred outflows of resources	<u>322,078</u>	<u>300,287</u>
<b><u>Liabilities</u></b>		
Current liabilities	20,545	17,384
Net pension liability	219,469	194,699
Other noncurrent liabilities	<u>96,243</u>	<u>96,591</u>
Total liabilities	<u>336,257</u>	<u>308,674</u>
Deferred inflows of resources	<u>9,884</u>	<u>13,231</u>
Total liabilities and deferred inflows of resources	<u>346,141</u>	<u>321,905</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	128,029	100,113
Restricted, expendable	21,516	39,189
Restricted, nonexpendable	11,351	12,904
Unrestricted	<u>(184,959)</u>	<u>(173,824)</u>
Total net position	<u>\$ (24,063)</u>	<u>\$ (21,618)</u>

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis, continued

#### Assets and deferred outflows of resources

As of June 30, 2016, the University's total assets and deferred outflows of resources were approximately \$322 million versus \$300 million at June 30, 2015. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$228 million compared to \$200 million at June 30, 2015. Cash and investments, totaling \$55 million at June 30, 2016 and \$74 million at June 30, 2015, were the University's next largest asset. Total assets and deferred outflows of resources increased by \$22 million during the year ended June 30, 2016. The principal areas of change were:

- Cash and cash equivalents decreased approximately \$17.2 million, due to the expenditure of the 2015 Series A bond proceeds to construct new student residential facilities as part of the Campus Housing Master Plan.
- Capital assets, net of accumulated depreciation, increased approximately \$28 million.
- Deferred outflows of resources pensions increased \$15.6 million, due to changes of assumptions used in the calculation by the actuaries.

#### Liabilities and deferred inflows of resources

At June 30, 2016, the University's total liabilities and deferred inflows of resources were approximately \$346 million versus \$322 million in the previous year. Net pension liability represented \$219 million of this amount at June 30, 2016. Bonds and capital lease obligations for capital assets represented \$98 million at June 30, 2016 and June 30, 2015. Total liabilities and deferred inflows of resources increased by \$24 million during the year ended June 30, 2016. This increase was primarily due to the following:

- Net pension liability increased \$24 million due to increases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability.

#### Net Position

Net position at June 30, 2016 totaled approximately (\$24.0) million compared to (\$21.6) million at June 30, 2015. Net investment in capital assets, totaled \$128 million versus \$100 million at June 30, 2015. Restricted net position totaled \$33 million compared to \$52 million at June 30, 2015. Unrestricted net position totaled (\$185) million versus (\$174) million at June 30, 2015. Total net position decreased by approximately \$2.4 million during the year ended June 30, 2016.

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis, continued

#### 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 increased by \$28 million. This increase is primarily related to increases in construction in progress for the new student residential facilities, parking garage/dining commons, renovation/expansion of the student services facility and IT infrastructure projects. There was also an increase for the acquisition of the Rowan County Board of Education building.

#### Restricted Net Position

Restricted net position is subject to stipulations made by entities external to the University that govern the use of these funds. Restricted net position decreased by \$19 million. Restricted net position was decreased due to expenditures for new student residential facilities, parking garage/dining commons, renovation/expansion of the student services facility and IT infrastructure projects.

#### Unrestricted Net Position

Unrestricted net position decreased by \$11 million from the previous year to (\$185) million. This decrease is primarily related to the increase in the University's proportionate share of the Commonwealth of Kentucky's net pension liability and increased expenditures for debt service and construction/renovation projects. 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>2016</u>	<u>2015</u>
<b><u>Operating Revenues</u></b>		
Student tuition and fees, net	\$ 36,094	\$ 36,058
Federal grants and contracts	12,292	11,296
State and local grants and contracts	1,245	1,447
Nongovernmental grants and contracts	593	806
Sales and services of educational activities	2,201	2,557
Auxiliary enterprises	19,614	19,811
Other operating revenues	<u>5,262</u>	<u>5,563</u>
Total operating revenues	<u>77,301</u>	<u>77,538</u>
<b><u>Operating Expenses</u></b>		
Educational and general	131,745	129,343
Auxiliary enterprises	13,469	14,155
Depreciation	10,109	11,847
Other operating loss	<u>57</u>	<u>2,513</u>
Total operating expenses	<u>155,380</u>	<u>157,858</u>
<b>Operating loss</b>	<u>(78,079)</u>	<u>(80,320)</u>
<b><u>Non-operating Revenues (Expenses)</u></b>		
Grants and contracts	26,026	26,384
State appropriations	43,396	41,097
Private construction appropriations	4,000	6,000
Investment income, net	337	141
Interest on capital assets – debt related	<u>(3,360)</u>	<u>(2,763)</u>
Net non-operating revenues	<u>70,399</u>	<u>70,859</u>
<b>Loss before capital appropriations</b>	(7,680)	(9,461)
Capital appropriations	<u>5,235</u>	<u>3,805</u>
<b>Decrease in net position</b>	(2,445)	(5,656)
Cumulative effect of change in accounting principle	( - )	(194,218)
<b>Total decrease in net position</b>	(2,445)	(199,874)
Net position, beginning of year	<u>(21,618)</u>	<u>178,256</u>
<b>Net position, end of year</b>	<u>\$ (24,063)</u>	<u>\$ (21,618)</u>

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis, continued

#### Revenues

Total operating revenues were approximately \$77 million for the year ended June 30, 2016 and for the year ended June 30, 2015. The most significant sources of operating revenues for the University are net student tuition and fees \$36 million, federal grants and contracts \$12 million, and auxiliary enterprises revenue \$20 million.

- Net student tuition and fees revenue remained level. There was an \$878 thousand increase in gross tuition and fees revenue due to a 2.9% increase in student tuition and fee rates. This increase was offset by an \$843 thousand increase in the financial aid scholarship allowance, which reduces student tuition and fees revenue. Scholarship allowances were \$36.5 million at June 30, 2016 as compared to \$35.7 million for the year ended June 30, 2015.

#### Expenses

Operating expenses totaled approximately \$155 million compared to \$158 million at June 30, 2015. Approximately \$132 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 \$3 million decrease in operating expenses was primarily related to a decrease in other operating losses and a decrease in depreciation expense. There was a change in estimates and capitalization thresholds made in the prior year for building improvements, which resulted in additional operating loss and depreciation expense at June 30, 2015. These decreases were offset by increases in scholarship commitments, insurance premiums, and employee retirement benefits and pension expense.

- Depreciation expense decreased \$1.7 million and other operating losses decreased \$2.5 million due to a change in estimates and capitalization thresholds relating to building improvements which occurred in the prior year.
- Institutionally funded construction/renovation projects and equipment purchases decreased \$1.7 million.
- Pension expense increased \$3 million primarily due to increases in MSU's proportionate share of the Commonwealth of Kentucky's net pension expense.
- Institutional financial aid increased \$1.3 million primarily due to scholarship expenses related to the Craft Academy.

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Provided By (Used In):</b>		
Operating activities	\$ (55,470)	\$ (65,558)
Noncapital financing activities	68,556	67,482
Capital and related financing activities	(32,182)	25,044
Investing activities	<u>1,890</u>	<u>922</u>
Net (decrease) increase in cash	(17,206)	27,890
Cash, beginning of the year	<u>60,995</u>	<u>33,105</u>
<b>Cash, end of the year</b>	<u>\$ 43,789</u>	<u>\$ 60,995</u>

Major sources of funds included in operating activities are student tuition and fees, \$36 million in both years and grants and contracts, \$15 million versus \$13 million in the previous year. The largest cash payments for operating activities were made to suppliers \$73 million versus \$77 million in the previous year and to employees in the amount of \$62 million compared to \$65 million in the previous year.

The largest cash receipt in noncapital financing activities was the operating appropriation from the Commonwealth of Kentucky of \$43 million compared to \$41 million in the previous year. Cash used in capital and related financing activities was due to the expenditure of bond proceeds 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 \$228 million at June 30, 2016 versus \$200 million at June 30, 2015. This represents a net increase of \$28 million from June 30, 2015. Significant changes to capital assets during fiscal 2015 - 2016 included:

Buildings and land improvements	\$ 2.3	million
Net change in construction in progress	34.9	million
Increase in accumulated depreciation, net	(8.7)	million

#### Debt

At year-end, the University had \$98.3 million in outstanding debt versus \$97.6 million in the previous year. This includes \$80 million in bonds payable and premium amortization compared to \$84 million at June 30, 2015. In addition, the University had capital lease obligations of \$17.8 million compared to \$13.6 million in the previous year.

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

	June 30,	
	<u>2016</u>	<u>2015</u>
General Receipts bonds	\$ 77,895	\$ 81,140
Premium Amortization	2,694	2,836
Capital lease obligations	<u>17,793</u>	<u>13,595</u>
	<u>\$ 98,382</u>	<u>\$ 97,571</u>

The University issued \$3,280,000 in General Receipt's bonds in March 2016 to achieve debt service savings of approximately \$191 thousand and to reduce cash flow needed for future debt service payments. The net proceeds were used to pay issuance costs and advance refund the University's General Receipts, 2007 Series A bonds maturing on and after November 1, 2019, which had total outstanding principal in the amount of \$3,065,000. Capital leases also increased by \$4 million for the IT Infrastructure project and increased by \$2 million for the purchase of the Rowan County Board of Education building and property. The University made debt service payments in the amount of \$5.3 million.

# 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, 2017 totaling \$150.9 million.
- The 2016-17 budget includes a 5.33% rate increase in undergraduate student tuition and fees and a 4.0% increase in residence hall rates.
- 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.
- State Appropriations for the 2016-17 fiscal year will decrease to \$41.9 million from \$43.4 million in the previous fiscal year.

## 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, 2016 and 2015, 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, 2016 and 2015, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of Morehead State University. The supplemental information contained on pages 65 through 70 and the Schedule of Expenditures of Federal Awards, on pages 71 through 78 as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 65 through 70 and the Schedule of Expenditures of Federal Awards, on pages 71 through 78 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 30, 2016 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 30, 2016

except for supplementary information on pages 71 - 78 and 81- 84, which is as of November 2, 2016  
Lexington, Kentucky



**MOREHEAD STATE UNIVERSITY**

Statements of Net Position

June 30, 2016 and 2015

<b>Assets and Deferred Outflows</b>	<u>2016</u>	<u>2015</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 43,789,074	\$ 60,994,989
Accounts, grants and loans receivable, net	8,768,838	11,085,363
Prepaid Interest	16,083	-
Inventories	1,445,256	1,634,810
Other current assets	<u>218,390</u>	<u>1,345,389</u>
Total current assets	54,237,641	75,060,551
<b>Noncurrent assets:</b>		
Accounts, grants and loans receivable, net	3,716,419	3,730,926
Prepaid Interest	176,911	-
Investments	11,361,541	12,915,194
Capital assets, net	<u>228,637,326</u>	<u>200,210,449</u>
Total noncurrent assets	<u>243,892,197</u>	<u>216,856,569</u>
Total assets	<u>298,129,838</u>	<u>291,917,120</u>
<b>Deferred outflows of resources:</b>		
Pensions	<u>23,948,232</u>	<u>8,370,393</u>
Total deferred outflows of resources	<u>23,948,232</u>	<u>8,370,393</u>
Total assets and deferred outflows of resources	<u>322,078,070</u>	<u>300,287,513</u>
<b>Liabilities, Deferred Inflows and Net Position</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	8,814,447	7,795,791
Unearned revenue	4,885,020	3,920,531
Other current liabilities	991,715	999,407
Bonds and capital lease obligations, current portion	<u>5,853,329</u>	<u>4,668,602</u>
Total current liabilities	20,544,511	17,384,331
<b>Long-term liabilities:</b>		
Bonds and capital lease obligations, noncurrent portion	92,529,016	92,902,596
Advances from federal government for student loans	3,423,702	3,397,769
Unearned revenue	290,235	290,235
Net pension liability	<u>219,469,445</u>	<u>194,699,258</u>
Total long-term liabilities	<u>315,712,398</u>	<u>291,289,858</u>
Total liabilities	<u>336,256,909</u>	<u>308,674,189</u>
<b>Deferred inflows of resources:</b>		
Deferred bond reoffering premium	2,418,551	2,526,389
Pensions	<u>7,465,708</u>	<u>10,704,804</u>
Total deferred inflows of resources	<u>9,884,259</u>	<u>13,231,193</u>
<b>Net position:</b>		
Net investment in capital assets	128,029,424	100,112,862
Restricted:		
Expendable	21,516,082	39,188,678
Nonexpendable	11,350,575	12,904,506
Unrestricted	<u>(184,959,179)</u>	<u>(173,823,915)</u>
Total net position	<u>\$ (24,063,098)</u>	<u>\$ (21,617,869)</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position

June 30, 2016 and 2015

<b>Assets</b>	<u>2016</u>	<u>2015</u>
<b>Current assets:</b>		
Cash	\$ 415,395	\$ 2,207,340
Accrued interest receivable	2,087	2,372
Accounts receivable	25,000	50,000
Current portion of pledges receivable	711,769	1,019,933
Current portion of net investment in capital leases	<u>45,876</u>	<u>49,187</u>
<b>Total current assets</b>	<b><u>1,200,127</u></b>	<b><u>3,328,832</u></b>
<b>Noncurrent assets:</b>		
Investments, at fair value	41,769,160	43,293,270
Cash surrender value – life insurance	114,372	113,381
Property and equipment, net	245,861	231,660
Pledges receivable, net of current portion	2,426,357	3,731,893
Net investment in capital leases, net of current portion	<u>255,657</u>	<u>301,534</u>
<b>Total noncurrent assets</b>	<b><u>44,811,407</u></b>	<b><u>47,671,738</u></b>
<b>Total assets</b>	<b><u>\$ 46,011,534</u></b>	<b><u>\$ 51,000,570</u></b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Current portion of annuities payable	\$ 252,662	\$ 219,448
Accrued liabilities	27,208	-
Due to Morehead State University	<u>218,390</u>	<u>1,610,408</u>
<b>Total current liabilities</b>	<b>498,260</b>	<b>1,829,856</b>
<b>Long-term liabilities:</b>		
Funds held in trust for Morehead State University	10,427,195	12,014,828
Annuities payable, net of current portion	<u>871,252</u>	<u>960,620</u>
<b>Total long-term liabilities</b>	<b><u>11,298,447</u></b>	<b><u>12,975,448</u></b>
<b>Total liabilities</b>	<b><u>11,796,707</u></b>	<b><u>14,805,304</u></b>
<b>Net assets:</b>		
Unrestricted	(1,846,855)	(2,860,452)
Temporarily restricted	15,145,168	18,492,341
Permanently restricted	<u>20,916,514</u>	<u>20,563,377</u>
<b>Total net assets</b>	<b><u>34,214,827</u></b>	<b><u>36,195,266</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 46,011,534</u></b>	<b><u>\$ 51,000,570</u></b>

See accompanying notes

MOREHEAD STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$36,527,851 and \$35,685,305)	\$ 36,093,603	\$ 36,057,694
Federal grants and contracts	12,291,574	11,296,162
State and local grants and contracts	1,244,944	1,447,000
Nongovernmental grants and contracts	593,429	805,820
Sales and services of educational activities	2,200,709	2,557,288
Auxiliary enterprises:		
Residence halls (net of scholarship allowances of \$675,530 and \$198,851)	12,801,110	12,369,591
Bookstore	4,885,863	5,128,879
Other auxiliaries	1,927,994	2,312,344
Other operating revenues	<u>5,262,035</u>	<u>5,563,076</u>
Total operating revenues	77,301,261	77,537,854
Operating expenses:		
Education and general:		
Instruction	46,762,383	46,454,685
Research	2,067,977	1,478,683
Public service	7,871,431	7,294,524
Library	3,581,845	3,553,591
Academic support	10,858,492	11,535,679
Student services	15,606,236	15,022,345
Institutional support	17,700,622	17,286,929
Operation and maintenance of plant	12,607,268	12,055,136
Depreciation	10,109,102	11,847,075
Student aid	14,688,405	14,660,931
Auxiliary enterprises:		
Residence halls	7,112,243	7,956,203
Bookstore	4,349,078	4,302,888
Other auxiliaries	2,008,362	1,896,136
Other operating loss	<u>56,955</u>	<u>2,513,396</u>
Total operating expenses	<u>155,380,399</u>	<u>157,858,201</u>
Operating loss	(78,079,138)	(80,320,347)

MOREHEAD STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Nonoperating revenues (expenses):		
Grants and contracts	26,026,474	26,384,270
State appropriations	43,396,121	41,097,324
Private construction appropriations	4,000,000	6,000,000
Investment income, net	336,543	141,311
Interest on capital asset-related debt	<u>(3,359,921)</u>	<u>(2,763,584)</u>
Net nonoperating revenues	<u>70,399,217</u>	<u>70,859,321</u>
Loss before capital appropriations	(7,679,921)	(9,461,026)
Capital appropriations	<u>5,234,692</u>	<u>3,805,234</u>
Decrease in net position before cumulative effect of change in accounting principle	(2,445,229)	(5,655,792)
Cumulative effect of change in accounting principle	<u>-</u>	<u>(194,218,731)</u>
Total decrease in net position	(2,445,229)	(199,874,523)
Net position, beginning of year	<u>(21,617,869)</u>	<u>178,256,654</u>
Net position, end of year	<u>\$ (24,063,098)</u>	<u>\$ (21,617,869)</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 474,696	\$ 2,953,176	\$ 353,512	\$ 3,781,384
Other revenue and gains:				
Investment income:				
Interest and dividend income, net	57,266	492,202	-	549,468
Realized and unrealized gains (losses)	70,378	(1,202,681)	-	(1,132,303)
In-kind contributed services	122,720	-	-	122,720
Development activities	438,665	265,741	-	704,406
Other income	59,818	36,238	-	96,056
Annuities payable adjustment	(90,302)	-	-	(90,302)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>4,673,478</u>	<u>(4,673,478)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	5,806,719	(2,128,802)	353,512	4,031,429
Expenses:				
Program expenses:				
Contributions to Morehead State				
University for:				
Academic programs	1,995,969	-	-	1,995,969
Athletics	365,598	-	-	365,598
University support:				
Operations and materials	779,890	-	-	779,890
Student financial aid	758,028	-	-	758,028
Athletics	<u>119,687</u>	<u>-</u>	<u>-</u>	<u>119,687</u>
Total program expenses	4,019,172	-	-	4,019,172
General and administrative	298,761	-	-	298,761
Bad debt expense	409,366	1,218,371	375	1,628,112
Fundraising	<u>65,823</u>	<u>-</u>	<u>-</u>	<u>65,823</u>
Total Expenses	<u>4,793,122</u>	<u>1,218,371</u>	<u>375</u>	<u>6,011,868</u>
Change in net assets	1,013,597	(3,347,173)	353,137	(1,980,439)
Net assets, beginning of year	<u>(2,860,452)</u>	<u>18,492,341</u>	<u>20,563,377</u>	<u>36,195,266</u>
Net assets, end of year	<u>\$ (1,846,855)</u>	<u>\$ 15,145,168</u>	<u>\$ 20,916,514</u>	<u>\$ 34,214,827</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	\$ 270,780	\$ 1,563,018	\$ 1,343,914	\$ 3,177,712
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>	<u>-</u>	<u>-</u>
Total revenues and other support	4,518,044	(2,012,905)	1,343,914	3,849,053
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>-</u>	<u>-</u>	<u>123,307</u>
Total program expenses	5,534,696	-	-	5,534,696
General and administrative	237,855	-	-	237,855
Bad debt expense	7,290	19,832	-	27,122
Fundraising	<u>83,419</u>	<u>-</u>	<u>-</u>	<u>83,419</u>
Total expenses	<u>5,863,260</u>	<u>19,832</u>	<u>-</u>	<u>5,883,092</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

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Tuition and fees	\$ 35,723,237	\$ 36,115,719
Grants and contracts	14,951,459	13,257,929
Payments to suppliers	(72,539,764)	(77,362,166)
Payments to employees	(62,203,118)	(64,536,523)
Loans issued to students	(596,859)	(399,145)
Collection of loans issued to students	679,639	609,398
Auxiliary enterprises:		
Residence halls	12,801,110	12,369,591
Bookstore	4,454,623	5,074,193
Other auxiliaries	2,017,252	2,292,313
Sales and services of educational activities	3,420,530	1,343,079
Other receipts	<u>5,821,900</u>	<u>5,677,396</u>
Net cash used in operating activities	(55,469,991)	(65,558,216)
<b>Cash flows from noncapital financing activities:</b>		
Nonoperating grants and contracts	26,026,474	26,384,270
State appropriations	<u>42,529,321</u>	<u>41,097,324</u>
Net cash provided by noncapital financing activities	68,555,795	67,481,594
<b>Cash flows from capital and related financing activities:</b>		
Capital appropriations	5,234,692	3,805,234
Private construction appropriations	4,000,000	6,000,000
Purchase of capital assets	(37,292,934)	(8,196,643)
Increase (decrease) in advances from federal government for student loans	25,933	(109,379)
Issuance of new bonds	3,280,000	58,480,829
Issuance of new debt	4,704,750	-
Bond refunding premium	79,035	2,526,389
Principal paid on capital debt and leases	(8,331,812)	(34,698,392)
Interest paid on capital debt and leases	<u>(3,881,579)</u>	<u>(2,763,584)</u>
Net cash (used in) provided by capital and related financing activities	(32,181,915)	25,044,454
<b>Cash flows from investing activities:</b>		
Interest received on investments, net	336,543	141,311
Changes in investments, net	<u>1,553,653</u>	<u>780,678</u>
Net cash provided by investing activities	<u>1,890,196</u>	<u>921,989</u>
Net (decrease) increase in cash and cash equivalents	(17,205,915)	27,889,821
Cash and cash equivalents, beginning of year	<u>60,994,989</u>	<u>33,105,168</u>
Cash and cash equivalents, end of year	<u>\$ 43,789,074</u>	<u>\$ 60,994,989</u>

MOREHEAD STATE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (78,079,138)	\$ (80,320,347)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	10,109,102	11,847,075
Loss on disposal of capital assets	56,955	2,513,396
Bad debt expense	1,128,188	1,963,686
Changes in assets and liabilities:		
Receivables, net	2,069,644	(2,200,286)
Inventories	189,554	36,476
Other current assets	1,126,999	(1,214,209)
Accounts payable and accrued liabilities	1,018,656	(1,392,392)
Unearned revenue	964,489	168,051
Deferred outflows/inflows	(18,816,935)	2,334,411
Net pension liability	24,770,187	-
Other liabilities	<u>(7,692)</u>	<u>705,923</u>
Net cash used in operating activities	<u>\$ (55,469,991)</u>	<u>\$ (65,558,216)</u>
<b>Supplemental disclosures of cash flow information:</b>		
Noncapital financing transactions:		
State appropriations	<u>\$ 866,800</u>	<u>\$ -</u>
Capital and related financing transactions:		
Capital leases	<u>\$ 1,300,000</u>	<u>\$ 3,400,000</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 comprehensive public university with robust undergraduate and graduate programs, emerging doctoral programs, and an emphasis on regional engagement. MSU aspires to be the best public regional university in the South through a commitment to academic excellence, student success, building productive partnerships, improving infrastructure, enhancing resources, and improving enrollment and retention. 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 52% and 56% of total inventories at June 30, 2016 and 2015, 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 elected to utilize the cumulative effect of a change in accounting principle option permitted by Statement 68 as the University determined that restatement of all prior periods presented was not practical upon implementation of Statement 68.

#### 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 issued Statement No. 72 *"Fair Value Measurement and Application."* This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of the Statement are effective for reporting periods beginning after June 15, 2017. The University is currently evaluating the effects of this statement on its financial statements.

In June 2015, the GASB issued Statement No. 75 *"Accounting and Financial Reporting for Postemployment Benefits Other than Pensions."* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement requires reporting of the entity's OPEB liability on the face of the financial statements and more extensive note disclosures and required supplementary information about OPEB liabilities. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The University is currently evaluating the effects of this statement on its financial statements.

In March 2016, the GASB issued Statement No. 82 *"Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73."* The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *"Financial Reporting for Pension Plans"*, No. 68 *"Accounting and Financial Reporting for Pensions"*, and No. 73 *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68."* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

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

#### Recent Accounting Pronouncements, continued

for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The University is currently evaluating the effects of this statement on its financial statements.

#### Subsequent Events

Management evaluated the period from June 30, 2016 to September 30, 2016 (the date the financial statements were ready to be issued) for items requiring recognition or disclosure in the financial statements.

### 2. Cash, Cash Equivalents and Investments

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

The state treasurer requires that all state funds be insured by Federal Deposit Insurance Corporation (FDIC), collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. 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.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

At June 30, 2016 and 2015, the University had petty cash funds totaling \$31,815 and \$44,815 and deposits as reflected by bank balances as follows:

	<u>2016</u>	<u>2015</u>
Insured, commercial banks	\$ 257,703	\$ 259,833
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	11,270,448	13,084,708
Maintained by Commonwealth of Kentucky	<u>32,229,108</u>	<u>47,605,633</u>
	<u>\$ 43,757,259</u>	<u>\$ 60,950,174</u>

As of June 30, 2016 and 2015, investments consisted of:

	<u>2016</u>	<u>2015</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	\$ 10,966	\$ 10,687
Equity mutual funds	<u>810,680</u>	<u>777,486</u>
	821,646	788,173
Certificate of deposit	112,700	112,193
Restricted assets held by the Morehead State University Foundation, Inc.	<u>10,427,195</u>	<u>12,014,828</u>
Total investments	<u>\$ 11,361,541</u>	<u>\$ 12,915,194</u>

Restricted investments for capital purposes are comprised of amounts invested for cost of issuance fees 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, 2016 and 2015, are invested as follows:

	<u>2016</u>	<u>2015</u>
Percentage of pool invested in:		
Registered investment companies fixed income funds	25%	25%
Registered investment companies equity fund	42%	41%
Registered investment companies alternative investments	<u>33%</u>	<u>34%</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>2016</u>	2015
Student tuition and fees	\$ 5,093,146	\$ 4,005,781
Laptop lease	-	14,800
Financing and interest	-	559,865
State appropriations	866,800	-
Scholarship receivable	62,656	334,669
Student loans	3,796,025	3,811,632
Grants and contracts	3,351,512	7,212,738
Auxiliary enterprises	678,808	346,367
Other	<u>268,084</u>	<u>276,276</u>
	14,117,031	16,562,128
Allowance for doubtful accounts	<u>(1,631,774)</u>	<u>(1,745,839)</u>
	12,485,257	14,816,289
Current portion	<u>(8,768,838)</u>	<u>(11,085,363)</u>
Noncurrent portion	<u>\$ 3,716,419</u>	<u>\$ 3,730,926</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net

Capital assets as of June 30, 2016, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 22,882,293	\$ 535,500	\$ -	\$ 23,417,793
Buildings	278,972,246	1,847,304	60,000	280,759,550
Library books	26,873,075	302,050	-	27,175,125
Vehicles	1,997,484	154,264	54,970	2,096,778
Equipment and livestock	25,124,481	735,885	1,375,182	24,485,184
Datatel	4,202,200	-	-	4,202,200
Art collection	992,855	39,600	13,220	1,019,235
Construction in progress	<u>6,410,574</u>	<u>35,118,276</u>	<u>139,945</u>	<u>41,388,905</u>
	367,455,208	38,732,879	1,643,317	404,544,770
<u>Accumulated Depreciation</u>				
Land improvements	8,786,614	555,588	-	9,342,202
Buildings	111,541,383	6,954,258	60,000	118,435,641
Library books	22,712,937	877,921	-	23,590,858
Vehicles	1,775,459	103,892	54,969	1,824,382
Equipment and livestock	18,227,227	1,616,380	1,331,448	18,512,159
Datatel	<u>4,201,139</u>	<u>1,063</u>	<u>-</u>	<u>4,202,202</u>
	<u>167,244,759</u>	<u>10,109,102</u>	<u>1,446,417</u>	<u>175,907,444</u>
Capital assets, net	<u>\$ 200,210,449</u>	<u>\$ 28,623,777</u>	<u>\$ 196,900</u>	<u>\$ 228,637,326</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

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

**5. Accounts Payable and Accrued Liabilities**

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

	<u>2016</u>	<u>2015</u>
Payable to vendors and contractors	\$ 667,206	\$ 593,168
Accrued vacation	2,490,349	2,298,905
Accrued sick leave liability	811,093	789,660
Accrued salaries and other liabilities	<u>4,845,799</u>	<u>4,114,058</u>
	<u>\$ 8,814,447</u>	<u>\$ 7,795,791</u>

**6. Long-Term Liabilities**

Long-term liabilities at June 30, 2016, 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>
General Receipts Bonds	\$ 81,140,000	\$ 3,280,000	\$ 6,525,000	\$ 77,895,000	\$ 3,595,000	\$ 74,300,000
Premium amortization	2,835,829	-	141,791	2,694,038	141,792	2,552,246
Capital lease obligations	5,063,229	6,004,750	1,051,389	10,016,590	1,340,896	8,675,694
Energy Savings Capital Lease	<u>8,532,140</u>	<u>-</u>	<u>755,423</u>	<u>7,776,717</u>	<u>775,641</u>	<u>7,001,076</u>
Total bonds and capital lease obligations	97,571,198	9,284,750	8,473,603	98,382,345	5,853,329	92,529,016
Federal refundable grants	<u>3,397,769</u>	<u>25,933</u>	<u>-</u>	<u>3,423,702</u>	<u>-</u>	<u>3,423,702</u>
Total long-term liabilities	<u>\$ 100,968,967</u>	<u>\$ 9,310,683</u>	<u>\$ 8,473,603</u>	<u>\$ 101,806,047</u>	<u>\$ 5,853,329</u>	<u>\$ 95,952,718</u>

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	55,645,000	32,625,000	81,140,000	3,420,000	77,720,000
Premium amortization	-	2,835,829	-	2,835,829	141,791	2,694,038
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>

**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>2016</u>	<u>2015</u>
4.00% General Receipts Bonds, 2007 Series A, partially advance refunded with issuance of 2016 Series A Bonds, remaining principle is repayable in semi-annual installments with the final installment due November, 2018	795,000	4,105,000
3.00-3.80% General Receipts Bonds, 2008 Series A, repayable in semi-annual installments with the final installment due November, 2022	4,480,000	5,245,000
2.00-4.125% General Receipts Bonds, 2011 Series A Improvement Bonds, repayable in semi-annual installments with the final installment due November, 2030	4,220,000	4,445,000
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	4,415,000	4,635,000
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	8,380,000	8,755,000
2.00-5.00% General Receipts Refunding Bonds, 2014 Series A, repayable in semi-annual installments with the final installment due October, 2028	20,065,000	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	4,340,000	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	27,960,000	28,185,000
1.00-3.00% General Receipts Refunding Bonds, 2016 Series A, repayable in semi-annual installments with the final installment due November, 2027	3,240,000	-
General Receipts Bonds, 2015 Series A Reoffering Premium, amortized over semi-annual installments with the final installment amortized April 2035	2,694,038	2,835,829
5.00% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due February, 2019	47,161	63,292
9.40% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due March, 2023	254,371	280,707
4.19% Capital lease obligation with a finance corporation, repayable in semi-annual installments with final installment due October, 2019	532,054	670,416
4.47% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due August, 2015	-	6,721
2.65% Capital lease obligation with JP Morgan/Chase, repayable in quarterly installments with the final installment due June, 2025	7,776,717	8,532,140
4.50% Capital lease obligation for land acquisition, repayable in monthly installments with the final installment due December, 2020	593,550	709,936
6.139% Capital lease obligation for land acquisition, repayable in annual installments with the final installment due November, 2020	284,704	332,157
2.92% Capital lease obligation with Kentucky Bank, repayable in monthly installments with the final installment due December, 2027	7,004,750	3,000,000

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

0.00% Capital lease obligation with Rowan Co. Board of Education, repayable in annual installments with the final installment due July, 2018	<u>1,300,000</u>	<u>-</u>
	<u>\$ 98,382,345</u>	<u>\$ 97,571,198</u>

**Advance Refunding**

On March 22, 2016, the University issued General Receipts Refunding Bonds, 2016 Series A, in the amount of \$3,280,000. The bonds sold at net interest costs of 2.33%. The bonds consist of serial bonds bearing various fixed rates ranging from 1.0% to 3.0% with annual maturities from May 2016 through November 2027.

The combined net proceeds of \$3,315,312 (inclusive of original issue premium totaling \$79,035 and less underwriter's discount of \$43,723) were used to pay issuance costs and advance refund the University's General Receipts, 2007 Series A bonds maturing on and after November 1, 2019, which had total outstanding principal in the amount of \$3,065,000 and interest rates of 4.00%.

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

The advance refunding was done to achieve debt service savings and to reduce cash flow needed for future debt service payments. The refunding decreased the University's total debt service cash flow payments by \$191,410 over the approximate thirteen year life of the 2016 Series A General Receipts Refunding Bonds. The transaction resulted in present value savings of \$172,740.

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>2016</u>	<u>2015</u>
Real estate and equipment	\$ 15,476,584	\$ 18,668,869
Construction in progress	5,975,154	3,000,000
Less: accumulated depreciation	<u>(1,878,916)</u>	<u>(5,756,857)</u>
	<u>\$ 19,572,822</u>	<u>\$ 15,912,012</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, 2016:

Year ending June 30,		
2017	\$	2,601,770
2018		2,768,372
2019		2,162,063
2020		2,066,935
2021		1,911,450
Thereafter		<u>8,821,557</u>
Total minimum lease payments		20,332,147
Less: amounts representing interest		<u>(2,538,840)</u>
Present value of minimum lease payments		<u>\$ 17,793,307</u>

The principal and interest repayment requirements relating to the outstanding bonds at June 30, 2016, are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,595,000	\$ 3,028,196	\$ 6,623,196
2018	3,720,000	2,900,514	6,620,514
2019	3,870,000	2,756,755	6,626,755
2020	4,110,000	2,606,913	6,716,913
2021	4,430,000	2,443,384	6,873,384
2022-2036	<u>58,170,000</u>	<u>14,426,880</u>	<u>72,596,880</u>
	<u>\$ 77,895,000</u>	<u>\$ 28,162,642</u>	<u>\$ 106,057,642</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 visiting the website at <http://ktrs.ky.gov>.

Funding for the plan for the year ended June 30, 2015 was provided from eligible employees who contributed 7.68% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributed 15.36% 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, 2015 were \$4,852,462.

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

At June 30, 2016, 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	\$150,685,690
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>15,323,327</u>
Total	\$166,009,017

The net pension liability was measured as of June 30, 2015 (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, 2016, the University's proportion was 0.617 percent.



**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension Plans, continued**

For the years ended June 30, 2016 and 2015, the University recognized pension expense of \$8,029,018 and \$6,496,331, respectively.

At June 30, 2016, 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	\$ -	\$ 1,645,157
Changes of assumptions	9,249,929	1,454,688
Net difference between projected and actual earnings on pension plan investments	-	3,797,467
Changes in proportion and differences between University contributions and proportionate share of contributions	2,794,454	-
University contributions subsequent to the measurement date	<u>4,957,283</u>	<u>-</u>
Total	<u>\$ 17,001,666</u>	<u>\$ 6,897,312</u>

\$4,957,283 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, 2017. 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:	
2017	\$ 632,130
2018	632,130
2019	632,130
2020	2,755,480
2021	495,201

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension Plans, continued**

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	-	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.

*Actuarial assumptions.* The total pension liability in the June 30, 2015 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.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension Plans, continued**

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 4.88%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. We assumed that Plan member contributions will be made at the current contribution rates and that 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 2039 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). There was a change in the Municipal Bond Index Rate from the Prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at the Measurement Date of 4.88% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.82%). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

*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 4.88 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 (3.88 percent) or 1-percentage-point higher (5.88 percent) than the current rate:

	1% Decrease (3.88%)	Current Discount Rate (4.88%)	1% Increase (5.88%)
Morehead State University's proportionate share of the Collective Net Pension Liability	\$ 187,544,920	\$ 150,685,690	\$ 120,184,091

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

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 7. Pension Plans, continued

#### Kentucky Employee Retirement System

Substantially all other full-time University employees are required by law to participate in the Kentucky Employees Retirement System (KERS), a cost sharing multiple-employer 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 visiting the website at <http://kyret.ky.gov>.

Funding for the plan for the year ended June 30, 2015 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 26.34% and 38.77%, respectively of current eligible hazardous and non-hazardous employees' salaries to the KERS through appropriations to the University. University contribution rates are determined by the Kentucky Revised Statute and the Board of Trustees of the Kentucky Retirement Systems each biennium.

The University's contributions to KERS for the year ended June 30, 2015 were \$3,586,839.

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

At June 30, 2016, the University reported a liability of \$68,783,755 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 (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, 2016, the University's proportion was 0.66 percent.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

For the years ended June 30, 2016 and 2015, the University recognized pension expense of \$6,161,293 and \$4,689,000, respectively. At June 30, 2016, 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	\$ 160,593	\$ -
Changes of assumptions	3,374,705	-
Net difference between projected and actual earnings on pension plan investments	199,951	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	568,396
University contributions subsequent to the measurement date	<u>3,211,317</u>	<u>-</u>
Total	<u>\$ 6,946,566</u>	<u>\$ 568,396</u>

\$3,211,317 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, 2017. 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:	
2017	1,323,712
2018	1,323,712
2019	343,580
2020	175,849

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

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	-	-
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.

*Actuarial assumptions.* The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.0 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

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 mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiple by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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 April 30, 2014. 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 assumption 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.

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>Non-Hazardous</u>		<u>Hazardous</u>	
	<u>Target Allocation</u>	<u>Long-Term Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Real Rate of Return</u>
Combined Equity	42%	5.40%	44%	5.40%
Combined Fixed Income	20%	1.50%	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%	10%	3.50%
Real Estate	3%	4.50%	5%	4.50%
Absolute Return	10%	4.25%	10%	4.25%
Private Equity	10%	8.50%	10%	8.50%
Cash Equivalent	5%	(0.25%)	2%	(0.25%)
Total	100%		100%	

*Discount rate.* The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Morehead State University's proportionate share of the Collective Net Pension Liability	\$ 77,693,963	\$ 68,783,755	\$ 61,248,818

*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, TIAA/CREF, Variable Annuity Life Insurance Company, 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 to these plans for the years ended June 30, 2016 and 2015 were \$1,177,280 and \$1,149,233 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 \$709,000 and \$725,000 in 2016 and 2015, respectively.

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.



# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 9. Contingencies and Commitments, continued

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, 2016.

The University has made certain commitments related to the completion of various construction projects in progress totaling approximately \$13,418,786. 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, 2016 and 2015 totaled \$293,157 and \$276,650, 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 \$447 per month to a high of \$735. Payments for employee health insurance for fiscal years ended June 30, 2016 and 2015 were \$6,259,529 and \$5,638,208 respectively.

### 11. Risk Management

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

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

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

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

The Friends of Kentucky Folk Art Center, Inc. (KFAC) provides educational opportunities, benefits and programs to the public to enhance the awareness of and foster an appreciation and understanding of contemporary folk art. Under an operating agreement, the University provides office space and certain administrative services to the KFAC at no charge. For each of the fiscal years ended June 30, 2016 and 2015, 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, 2016 and 2015 was \$31,483,709 and \$32,798,681, respectively. The portion of the endowments representing the value of the funding received from the Kentucky General Assembly was \$7,774,998 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, 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 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 122,720	\$ 81,276
Funds held by the Foundation on behalf or for the benefit of the University	10,427,195	12,014,828
Funds due to the University by the Foundation	218,390	1,610,408

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, \$177,653 for the year ended June 30, 2016 and \$181,868 for the year ended June 30, 2015. 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, 2016 and 2015.

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 (\$781,660 and \$527,981 as of June 30, 2016 and 2015, 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, 2016 and 2015 were \$195,001 and \$211,822, respectively.

The June 30, 2016 and 2015 annuity liability balances of \$1,123,914 and \$1,180,168, 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 3.1 to 18.7 years and 3.7 to 17.5 years for the years ended June 30, 2016 and 2015, 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, the University Board of Regents 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, 2016 and 2015, the Foundation held \$10,427,195 and \$12,014,828, respectively, 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.

## 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

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

###### Donated Materials and Property

Donated materials and property are recorded at their estimated fair value when received. The statements of activities for the years ended June 30, 2016 and 2015 include in-kind contributions of \$335,451 and \$325,905, 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.

###### Accounting Standards Update

In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, that changes how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes about its liquidity, financial performance, and cash flows. The ASU includes a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. This ASU will be effective for the Foundation for fiscal years beginning after December 15, 2017. Early adoption is permitted. The Foundation is currently evaluating the effects adoption of this guidance will have on the financial statements.

###### Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through September 29 2016, the date that the financial statements were available to be issued.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

C. Investments

Investments held as of June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Mutual funds	\$ 27,876,866	\$ 28,378,486
Alternative investments	13,691,988	14,711,067
Corporate bonds and stock	48,259	53,919
Annuity investments	<u>152,047</u>	<u>149,798</u>
	<u>\$ 41,769,160</u>	<u>\$ 43,293,270</u>

Investment management fees were approximately \$91,200 and \$95,500 during the years ended June 30, 2016 and 2015, 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, 2016	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	\$ 6,529,367	\$ 6,529,367	\$ -	\$ -
U.S. Small Cap	3,450,148	3,450,148	-	-
International	5,434,148	5,434,148	-	-
Global	1,886,466	1,886,466	-	-
Fixed income and cash:				
Cash	279,242	279,242	-	-
Core	10,037,931	10,037,931	-	-
Non-core/tactical	259,564	259,564	-	-
Alternative investments:				
Hedge funds	7,690,860	-	-	7,690,860
Real assets	5,620,917	-	-	5,620,917
Private equity	380,211	-	-	380,211
Corporate bonds and stocks	48,259	48,259	-	-
Annuity investment	152,047	152,047	-	-
Total assets	\$ 41,769,160	\$ 28,077,172	\$ -	\$ 13,691,988

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

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	\$ 43,293,270	\$ 28,582,203	\$ -	\$ 14,711,067

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"> <li>- Valuation and performance of underlying fund(s) being invested in by the hedge fund</li> <li>- Diversification of the underlying fund(s)</li> <li>- Leverage model used by the underlying fund(s)</li> </ul>
Real assets	<p>Investment is in various funds, which are valued individually using the following methods:</p> <ol style="list-style-type: none"> <li>1) Capped, float-adjusted, capitalization-weighted methodology</li> <li>2) Net asset value of underlying companies/funds being invested in, which hold real estate</li> <li>3) Current appraisal values and market information for properties held</li> <li>4) Market comparable companies</li> </ol>	<ul style="list-style-type: none"> <li>- Valuation and performance of underlying fund(s) being invested in</li> <li>- Diversification of the underlying fund(s)</li> <li>- Leverage model used by the underlying fund(s)</li> <li>- Relative health of industry in which real assets held are associated with</li> </ul>
Private equities	Market comparable companies	<ul style="list-style-type: none"> <li>- Discount for lack of marketability</li> <li>- Control premium</li> <li>- Threats from competition and regulatory environment</li> </ul>

There have been no changes in the methodology used to determine the fair market value at June 30, 2016 and 2015.

**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, 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 gains	-	(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
Additional investment	1,635,879	1,963,353	-	3,599,232
Funds sold	(3,586,379)	(400,418)	(177,239)	(4,164,036)
Realized losses	(67,971)	(7,898)	-	(75,869)
Unrealized gains (losses)	(94,275)	(238,699)	6,432	(326,542)
Fees	(39,981)	(14,441)	2,558	(51,864)
Balance, June 30, 2016	\$ 7,690,861	\$ 5,620,917	\$ 380,210	\$ 13,691,988

**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.

## 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, 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.

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, 2016 and 2015, 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, 2016 and 2015, the amount of funds included in the Foundation's investments held for the RUETF Endowment Match Program was \$7,774,998 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, 2016 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	\$ -	\$ 12,235,304	\$ 20,563,377	\$ 32,798,681
Contributions, net	-	-	353,137	353,137
Interest and dividend income	-	459,485	-	459,485
Net depreciation	-	(1,202,681)	-	(1,202,681)
Amounts appropriated for expenditure	-	(924,913)	-	(924,913)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 10,567,195</u>	<u>\$ 20,916,514</u>	<u>\$ 31,483,709</u>

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 appreciation	-	(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>

**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,			
2017	\$	923,087	
2018		603,118	
2019		320,616	
2020		294,266	
2021		269,896	
Thereafter		<u>1,796,809</u>	
		4,207,792	
Less: present value discount		(288,006)	
Less: allowance for uncollectible pledges		<u>(781,660)</u>	
Pledges receivable, net		3,138,126	
Less: current pledges receivable		<u>(711,769)</u>	
Noncurrent pledges receivable	\$	<u>2,426,357</u>	

During the year ending June 30, 2016, the Foundation had bad debt expense of \$1,628,113. Of this amount, \$1,555,499 relates to two pledges receivable.

**F. Property and Equipment**

Property and equipment as of June 30, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 53,000	\$ 53,000
Furniture and equipment	196,532	158,555
Buildings	<u>175,000</u>	<u>175,000</u>
	424,532	386,555
Less: accumulated depreciation	<u>(178,671)</u>	<u>(154,895)</u>
	<u>\$ 245,861</u>	<u>\$ 231,660</u>

Depreciation expense was \$23,776 and \$15,170 for the years ended June 30, 2016 and 2015, respectively.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

**G. Deferred Giving Program**

The Foundation established a life insurance deferred giving program during 1983. The program consists of donors designating the Foundation as the owner and beneficiary of life insurance policies. There are nineteen deferred giving programs with life insurance in effect totaling \$903,042 and \$928,042 for the years ended June 30, 2016 and 2015, respectively. The cash surrender value of these policies as of June 30, 2016 and 2015 is \$114,372 and \$113,381, respectively.

**H. Support for Morehead State University**

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

**I. Net Investment in Capital Leases**

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

	<u>2016</u>	<u>2015</u>
Total minimum lease payments to be received	\$ 396,224	\$ 473,925
Less: unearned income	<u>(94,691)</u>	<u>(123,204)</u>
 Net investment in capital leases	 <u>\$ 301,533</u>	 <u>\$ 350,721</u>

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

2017	\$	70,941
2018		70,941
2019		64,631
2020		52,013
2021		52,013
Thereafter		<u>85,685</u>
	<u>\$</u>	<u>396,224</u>



MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

J. Temporarily and Permanently Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Funds restricted for specific purposes	\$ 14,980,870	\$ 18,291,729
Scholarships	28,660	29,289
Athletics	<u>135,638</u>	<u>171,323</u>
	<u>\$ 15,145,168</u>	<u>\$ 18,492,341</u>

Permanently restricted net assets at June 30, 2016 and 2015 consist of endowment funds.

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

	<u>2016</u>	<u>2015</u>
Cash	\$ 393,991	\$ 818,517
Pledges receivable	2,990,230	4,159,047
Accounts receivable	25,000	50,000
Investments	11,309,162	12,985,304
Buildings	125,252	128,752
Net investment in capital leases	<u>301,533</u>	<u>350,721</u>
	<u>\$ 15,145,168</u>	<u>\$ 18,492,341</u>

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

	<u>2016</u>	<u>2015</u>
Cash	\$ 21,404	\$ 1,388,823
Pledges receivable	78,147	160,585
Investments	20,763,963	18,960,969
Land	<u>53,000</u>	<u>53,000</u>
	<u>\$ 20,916,514</u>	<u>\$ 20,563,377</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, \$177,653 and \$181,868 for the years ended June 30, 2016 and 2015, 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 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 122,720	\$ 81,276
Funds due to the University by the Foundation	218,390	1,610,408

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

**SUPPLEMENTAL INFORMATION**

MOREHEAD STATE UNIVERSITY

Schedule of Bonds and Capital Lease Obligations

June 30, 2016

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2015</u>	<u>Payments 2015-16</u>	<u>New Issues</u>	<u>Premium Amortization</u>	<u>Outstanding June 30, 2016</u>	<u>Interest Paid 2015-16</u>	<u>Debt Service Requirements 2016-17</u>	
										<u>Principal</u>	<u>Interest</u>
General Receipts:											
2007 Series A Bonds	08/14/07	6,445,000	4000	4,105,000	3,310,000	-	-	795,000	98,000	255,000	26,700
2008 Series A Bonds	06/10/08	10,000,000	3.00-3.800	5,245,000	765,000	-	-	4,480,000	173,266	780,000	147,575
2011 Series A Bonds	07/25/11	5,090,000	2.00-4.125	4,445,000	225,000	-	-	4,220,000	153,806	230,000	149,112
2012 Series A Bonds	06/15/12	5,060,000	2.00-3.625	4,635,000	220,000	-	-	4,415,000	134,581	225,000	130,131
2013 Series A Bonds	09/10/13	9,475,000	1.00-4.375	8,755,000	375,000	-	-	8,380,000	290,329	390,000	286,579
2014 Series A Bonds	07/24/14	22,620,000	2.00-5.00	21,205,000	1,140,000	-	-	20,065,000	906,000	1,175,000	865,400
2014 Series B Bonds	07/24/14	4,840,000	1.00-5.00	4,565,000	225,000	-	-	4,340,000	168,166	235,000	156,666
2015 Series A Bonds	03/25/15	28,185,000	3.00-5.00	28,185,000	225,000	-	-	27,960,000	1,222,529	270,000	1,191,238
2015 Reoffering Premium	03/25/15	2,835,829		2,835,829	-	-	141,791	2,694,038	-	-	-
2016 Series A Bonds	03/22/16	<u>3,280,000</u>	1.00-3.00	<u>-</u>	<u>40,000</u>	<u>3,280,000</u>	<u>-</u>	<u>3,240,000</u>	<u>8,165</u>	<u>35,000</u>	<u>74,795</u>
Total General Receipts		97,830,829		83,975,829	6,525,000	3,280,000	141,791	80,589,038	3,154,842	3,595,000	3,028,196

MOREHEAD STATE UNIVERSITY

Schedule of Bonds and Capital Lease Obligations

June 30, 2016

	Issue Date	Net Amount of Issue	Interest Cost	Outstanding June 30, 2015	Payments 2015-16	New Issues	Premium Amortization	Outstanding June 30, 2016	Interest Paid 2015-16	Debt Service Requirements 2016-17	
										Principal	Interest
Lease Purchase Agreements:											
MSU Foundation, Inc.	03/01/99	240,000	5.000	63,292	16,131	-	-	47,161	2,798	16,955	1,973
MSU Foundation, Inc.	10/21/02	466,457	9.400	280,707	26,336	-	-	254,371	25,677	28,922	23,092
Citi Mortgage, Inc.	03/31/05	1,824,000	4.190	670,416	138,362	-	-	532,054	26,656	144,220	20,798
MSU Foundation, Inc.	09/01/05	327,764	4.470	6,721	6,721	-	-	-	38	-	-
JP Morgan/Chase	03/31/12	9,671,127	2.650	8,532,140	755,423	-	-	7,776,717	218,636	775,641	198,417
Mabry Property	12/19/13	875,000	4.500	709,936	116,386	-	-	593,550	29,566	121,732	24,220
IT Infrastructure (estimated)	06/19/15	3,000,000	2.92	3,000,000	-	4,004,750	-	7,004,750	150,176	278,701	199,257
Caudill Property	11/21/14	400,000	6.139	332,157	47,453	-	-	284,704	20,390	50,366	17,477
Rowan Co. Board of Ed	06/16/16	<u>2,000,000</u>	-	<u>-</u>	<u>700,000</u>	<u>2,000,000</u>	<u>-</u>	<u>1,300,000</u>	<u>-</u>	<u>700,000</u>	<u>-</u>
Total lease purchase		<u>18,804,348</u>		<u>13,595,369</u>	<u>1,806,812</u>	<u>6,004,750</u>	<u>-</u>	<u>17,793,307</u>	<u>473,937</u>	<u>2,116,537</u>	<u>485,234</u>
Total		<u>\$ 116,635,177</u>		<u>\$ 97,571,198</u>	<u>\$ 8,331,812</u>	<u>\$ 9,284,750</u>	<u>\$ 141,791</u>	<u>\$ 98,382,345</u>	<u>\$ 3,628,779</u>	<u>\$ 5,711,537</u>	<u>\$ 3,513,430</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>	<u>2015</u>
University's proportion of the net pension liability (asset)	0.614%	0.617%
University's proportionate share of the net pension liability (asset)	132,575	150,686
University's covered-employee payroll	44,381	45,275
University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	298.72%	332.82%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	42.49%

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>	<u>2015</u>
Contractually required contribution	4,770	4,852
Contributions in relation to the contractually required contribution	(4,770)	(4,852)
Contribution deficiency (excess)	-	-
University's covered-employee payroll	44,381	45,275
Contributions as a percentage of covered-employee payroll	10.75%	10.72%

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>	<u>2015</u>
University's proportion of the net pension liability (asset)	0.67%	0.66%
University's proportionate share of the net pension liability (asset)	62,124	68,784
University's covered-employee payroll	11,898	11,750
University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	522.14%	585.40%
Plan fiduciary net position as a percentage of the total pension liability	25.39%	21.73%

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>	<u>2015</u>
Contractually required contribution	3,199	3,587
Contributions in relation to the contractually required contribution	(3,199)	(3,587)
Contribution deficiency (excess)	-	-
University's covered-employee payroll	11,898	11,750
Contributions as a percentage of covered-employee payroll	26.89%	30.53%

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, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>US Department of Education</b>				
Direct Programs:				
Student Financial Aid Cluster:				
Federal Work Study	84.033		\$ -	\$ 694,398
Federal Pell Grant Program	84.063		-	15,409,801
Federal Supplemental Educational Opportunity Grants Program	84.007		-	445,952
Federal Perkins Loan Program	84.038		-	596,859
Federal Direct Loan Program	84.268		-	43,130,474
Teacher Educational Assistance for College and Higher Education Grant	84.405		-	21,344
			-	60,298,828
<b>TRIO Cluster:</b>				
CEOC-NE 14/19	84.066A		-	437,726
ROWLAND-USED-CEOC-SE 12/17	84.066A		-	244,508
STUDENT SUPPORT 10/15	84.042		-	65,392
TALENT SEARCH 11/16	84.044A		-	448,110
TALENT SEARCH II 11/16	84.044A		-	277,159
UPWARD BOUND CENTRAL 13/14	84.047A		-	590,716
UPWARD BOUND EAST 12/13	84.047A		-	298,142
STUDENT SUPPORT 15/20	84.042		-	267,379
UPWARD BOUND MATH/SCI 12/13	84.047		-	275,419
			-	2,904,551
GEAR UP IRAPP 08/14	84.334A		-	1,038
MCLAREN-PEEAK 15/19	84.325K		-	205,475
			-	206,513
<b>Passed through Kentucky Council on Postsecondary Education</b>				
HENDERSON-WI.-ADULT LC 15/16	84.002	PO2 415 1600001699	-	139,014
HEDNERSON-BATH-ADULT LC 14/15	84.002	PO2 415 1500001148	-	83,965
HENDERSON-MONTGOMERY LC 15/16	84.002	PO2 415 1600001699	-	166,708
HENDERSON-MSU-ADULT LC 15/16	84.002	PO2 415 1600001699	-	127,879
HENDERSON-POWELL-ADULT LC 15/16	84.002	PO2 415 1600001699	-	99,274
HENDERSON-WOLFE-ADULT LC 15/16	84.002	PO2 415 1600001699	-	85,796
HARR-CPE-ADULT PROF DEV 15/16	84.002	PO2 415 1600000280	-	46,408
LOONEY-ADULT ED-USED-CPE 15/16	84.002	PO2 415 1600000376	12,000	369,951
LOONEY-CPE-KYAE LESSON 16	84.002	PO2 415 1600003694 1	-	10,000
CONNELL-CPE-GEAR UP-SUMMER 16	84.334S	PO2 415 1600005103 1	-	41,836
CONNELL-USED-CPE-GEAR UP 14/15	84.334S	PO2 415 1500001773	-	33,612
CONNELL-USED-CPE-GEAR UP 15/16	84.334S	PO2 415 1600001716	-	30,657
BARTON-USED-CPE-SCIENCE 16/17	84.367B	PO2 415 1600003325	-	12,168
BARTON-USED-CPE-READING 2 12/14	84.367B	PO2 415 1300003285 1	-	(367)
BARTON-USED-CPE-SCIENCE 15/16	84.367B	PO2 415 1500002816 1	-	74,946
BLACKWELL-USED-CPE-STEM 16/17	84.367B	PO2 415 1600003906 1	-	24,231
			12,000	1,346,078
<b>Passed through Kentucky Department of Education</b>				
STUBBS-USED-KDE-FIELD BASED 15	84.048A	PON2 540 1500002520	-	19,639
STUBBS-USED-KDE-PD 15/16	84.048A	PON2 531 1200003082 1	-	3,280
STUBBS-TEACHER EDUCATORS 12/13	84.051	PON2 540 1500002670	-	324
			-	23,243
<b>Passed through Kentucky Education and Workforce Development Cabinet</b>				
MATTINGLY-CDP REHAB 14/16	84.346	PON2 531 1400002424 1	-	883,395
STUBBS-TITLE 1C-IMAGING 15/16	84.048A	PON2 540 1500002517	-	6,146
STUBBS-TITLE 1C-VET 15/16	84.048A	PON2 540 1500002518	-	9,791
STUBBS-TITLE 1C-DEAN 15/16	84.048A	PON2 540 1500002519	-	1,546
STUBBS-TITLE 1C-NURSE 15/16	84.048A	PON2 540 1500002516	-	10,619
			-	911,497

\*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, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
Passed through National Writing Project Corp				
MASCLE-USED-NWP-SEED 14/16	84.928A	94-KY07-SEED2012	-	5,700
MASCLE-USED-NWP-HIGHNEED 14/15	84.367D	94-KY07-SEED2012	-	3,723
			-	9,423
Passed through Kentucky Department of Juvenile Justice				
PETERSON-DJJ-GREYHOUND 15	84.013	TI TRAN 3134 T	-	3,016
			-	3,016
<b>Total U.S. Department of Education</b>			<b>12,000</b>	<b>65,703,149</b>
<b>Appalachian Regional Commission</b>				
<b>Direct Programs</b>				
DEMOSS-ARC-DENTAL 14/15	23.001		49,429	48,679
DEMOSS-ARC-DENTAL 15/16	23.001		356,016	487,798
WALKER-ARC-KY AHED 13/14	23.001		78,449	230,051
DELLICARPINI-ARC-MASTERS 15/16	23.011		41,475	368,285
BARTON-ARC-PARENT 15/16	23.011		142,100	196,243
MARSHALL-ARC-DEVELOP 14/15	23.011		-	4,610
MARSHALL-ARC-DEVELOP 15/16	23.011		-	58,249
			667,469	1,393,915
Passed through East Tennessee State				
HAIGHT-ARC-ETSU-ATP 15/16	23.011	220016-05	-	4,169
			-	4,169
<b>Total Appalachian Regional Commission</b>			<b>667,469</b>	<b>1,398,084</b>
<b>Corporation for National and Community Service</b>				
<b>Direct Programs</b>				
JUDD-CNCS-RSVP- 12/15	94.002		-	(76)
JUDD-CNCS-RSVP 15/18	94.002		-	82,531
RSVP-CNCS-AUGMENTATION 15/18	94.002		-	83,210
			-	165,665
Passed through Kentucky Cabinet for Health and Family Services				
MSU CORP CNCS 10/11	94.006	PO2 730 1000003914	-	(11)
WILLIAMS-CNCS-CHFS-MSU CORPS	94.006	PO2 730 1400006205 2	-	333,128
WILLIAMS-CNCS-CHFS-MSU CORPS 1	94.006	PO2 730 1400006205 1	-	34,938
			-	368,055
<b>Total Corporation for National and Community Service</b>			<b>-</b>	<b>533,720</b>
<b>Corporation for Public Broadcasting</b>				
<b>Direct Programs</b>				
HITCHCOCK-CPB-RADIO-REST 14/16	11.550		-	31,629
HITCHCOCK-CPB-RADIO 14/16	11.550		-	51,613
HITCHCOCK-CPB-RADIO 15/17	11.550		-	52,167
HITCHCOCK-CPB-RADIO CS 13/15	11.550		-	810
			-	136,219
<b>Total Corporation for Public Broadcasting</b>			<b>-</b>	<b>136,219</b>

\*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, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>US Environmental Protection Agency</b>				
Passed through Kentucky Division of Water				
HAIGHT-TRIPLETT CREEK 16/18	66.605	PON2 129 1600001087	-	3,655
EISENHOUR-KDW-VERIFY 15/16	66.419	PON2 129 1600000595	-	995
HAIGHT-TRIPLETT CREEK 08/09	66.460	C9994861-08	-	764
			-	5,414
Passed through Kentucky Energy and Environment Cabinet				
HAIGHT-TRIPLETT CREEK 14/17	66.605	PON2 129 1400001224 1	-	148,291
GEARNER-PRINCIPAL LAB 14/16	66.468	PON2 129 1400001833 1	-	28,477
			-	176,768
<b>Total US Environmental Protection Agency</b>				
			-	<b>182,182</b>
<b>National Aeronautics and Space Administration</b>				
Direct Programs				
MALPHRUS-NASA-FLIGHT 14/16*	43.001		700,000	112,712
MALPHRUS-NASA-ICECUBE 15/16*	43.001		60,639	919,773
			760,639	1,032,485
Passed through University of Kentucky Research Foundation				
PANNUTI-NASA-UKRF-FREQ 14*	43.001	3048107336-14-103	-	2,798
GRUPE-NASA-KSGC-WORKSHOP 15*	43.001	3048107336-15-139	-	2,648
			-	5,446
Passed through Northern Kentucky University Research Foundation				
REEDER-NASA-NKURF-STEM 13/15	43.008	4000972-S1	-	17,099
			-	17,099
Passed through Busek Company Inc.				
MALPHRUS-BCI-LUNAR CUBE 15/17*	43.001	S1080	-	95,699
			-	95,699
Passed through Jet Propulsion Laboratory				
MALPHRUS-NASA-JPL-ASTERIA 16/17*	43.001	1545561	-	12,620
MALPHRUS-NASA-JPL-AMMOS 15*	43.001	1532525	-	21,000
			-	33,620
Passed through Smithsonian Astrophysical Observatory				
PANNUTI-NASA-SAO-REMNANT 15/16*	43.001	G05-16074X	-	5,201
GRUPE-NASA-SAO-FLUX 15/16*	43.001	DD5-16074X	-	7,180
			-	12,381
<b>Total National Aeronautics and Space Administration</b>				
			760,639	<b>1,196,730</b>
<b>National Endowment for the Arts</b>				
Direct Programs				
Collinsworth-NEA-Cornett 14/15	45.024		-	11,244
			-	11,244
<b>Total National Endowment for the Arts</b>				
			-	<b>11,244</b>
<b>National Highway Traffic Safety Administration</b>				
Passed through Kentucky Transportation Cabinet				
39018538	20.616	PO2 625 1600004158 1	-	882
			-	882
<b>Total National Highway Traffic Safety Administration</b>				
			-	<b>882</b>
<b>National Institute of Health</b>				
Direct Programs:				
CARLSON-NIH 13/16*	93.113		-	76,764
GIBBS-NIH-EXPRESSION 14/17*	93.865		-	70,532
WHITE-NIH-AMPHETAMINE 11/14*	93.113		-	97,658
HARE-NIH-MOA OF UmuD 12/16*	93.113		-	49,660
			-	294,614

\*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, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>Passed through University of Louisville Research Foundation</b>				
INBRE-KBRIN-Mattingly 14/15*	93.859	ULRF 13-1493A-02	-	(2,875)
INBRE-KBRIN-CARLSON 15/16*	93.859	ULRF 13-1493A-02	-	25,186
INBRE-KBRIN-DENNIS-LEAD 15/16*	93.859	ULRF 13-1493A-02	-	17,155
INBRE-KBRIN-COTTINGHAM 15/16*	93.859	ULRF 13-1493-08	-	35,972
INBRE-KBRIN-HARE-BRIDGE 15/16*	93.859	ULRF 13-1493A-02	-	5,723
INBRE-KBRIN-MATTINGLY 15/16*	93.859	ULRF 13-1493A-02	-	165,415
INBRE-KBRIN-CARLSON 16/17*	93.859	ULRF 13-1493B-02	-	62
INBRE-KBRIN-COTTINGHAM 16/17*	93.859	ULRF 13-1493-08	-	4,350
INBRE-KBRIN-MATTINGLY 16/17*	93.859	ULRF 13-1493B-02	-	16,571
			-	267,559
<b>Total National Institute of Health</b>				
			-	562,173
<b>National Science Foundation</b>				
<b>Direct Programs</b>				
SCHACK-NSF-TECHNO 14/17*	47.076		-	29,172
			-	29,172
<b>Passed through Eastern Kentucky University</b>				
RICK-NSF-EKU-DATABASE 14/16*	47.074	452944-15-218	-	762
			-	762
<b>Passed through University of Kentucky Research Foundation</b>				
OKEEFE-NSF-UKRF-PALEO 15/16*	47.083	3200000271-16-040	-	8,970
CARTER-NSF-UKRF-AFTERSCHOOL 16	47.083	3200000271-16-201	-	1,400
OKEEFE-NSF-UKRF-CENOZOIC 12/13*	47.081	3048108525-13-165	-	119
LEE-NSF-UKRF-MODELING 15/16*	47.083	320000271-16-057	-	25,000
			-	35,489
<b>Total National Science Foundation</b>				
			-	65,423
<b>US Department of Health and Human Services</b>				
<b>Direct Programs:</b>				
Barnett-HHS-Suicide Prevention	93.243		-	109,545
			-	109,545
<b>Passed through Eastern Kentucky University</b>				
HESTERBERG-TRAIN RESOURCE 15/16	93.658	453042-16-110	-	81,700
GEURIN-PCWCP-ASHLAND 15/16	93.648	453045-16-106	-	6,071
GUERIN-PCWCP-PRESTON 15/16	93.658	453045-16-107	-	3,036
GUERIN-PCWCP-MOREHEAD 15/16	93.658	453045-16-108	-	7,150
GUERIN-PCWCP-MT STERLING 15/16	93.658	453045-16-109	-	6,074
			-	104,031
<b>Passed through KY Administrative Office of the Courts</b>				
SHANNON-HHS-AOC-WARREN 14/15	93.243	PON2-025-1300001507	-	17,193
SHANNON-HHS-AOC-MCCRACKEN 14/15	93.243	PON2-025-1300001380	-	13,580
SHANNON-HHS-AOC-HOPKINS#2 14/15	93.243	PON2-025-1300002591	-	6,037
SHANNON-HHS-AOC-KNOTT/MAG 14/15	93.243	PON2-025-1200002084	-	10,649
SHANNON-HHS-AOC-Clark/Mad 14/1	93.243	PON2-025-1400000391	-	17,808
SHANNON-HHS-AOC-FAYETTE 14/15	93.243	PON2-025-1400001526	-	15,744
SHANNON-HHS-AOC-FAYETTE15/16	93.243	PON2-025-1400001526	-	47,403
SHANNON-HHS-AOC-CLARK/MAD 15/16	93.243	PON2-025-1400000391	-	46,056
SHANNON-HHS-FAYETTE 10/11	93.243	PON2-025-1111371	-	(56)
SHANNON-HHS-AOC-MCCRACKEN 15/16	93.243	PON2-025-1300001380	-	36,784
SHANNON-HHS-AOC-WARREN 15/16	93.243	PON2-025-1300001507	-	50,317
SHANNON-HHS-AOC-HOPKINS 15/16	93.243	PON2-025-1300002591	-	40,371
SHANNON-HHS-AOC-FLOYD CRT 15/16	93.243	PON2-025-1600000958	-	21,335
SHANNON-HHS-AOC-LETCHER 16	93.243	PON2-025-1600001048	-	22,890
			-	346,111
<b>Passed through Louisville Metro Government</b>				
JUDD-HHS-CAPACITY BLDG 14/15	93.048	90SP0058-01-00	-	709
JUDD-HHS-CAPACITY BLDG 16/17	93.048	90MP0199-02-00	-	2,583
JUDD-HHS-CAPACITY BLDG 15/16	93.048	90MP0199-01-00	-	20,498
JUDD-KY MEDICARE 15/16	93.048	90MP0199-01-00	-	13,500
			-	37,290

\*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, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>Passed through Mountain Comprehensive Care Center</b>				
SHANNON-HHS-VOL-EVAL 14/15	93.243	1H79TI024834-01	-	14,086
SHANNON-HHS-MCCC-AWARE 16	93.243	1H79SM062838	-	7,559
SHANNON-HHS-MCC-ORP EVAL 15/16	93.243	1H79TI024834-01	-	26,819
			-	48,464
<b>Passed through Southern California Alcohol Drug Programs</b>				
SHANNON-HHS-SCADP-TCE-HIV 15/16	93.243	TI026178	-	11,109
SHANNON-HHS-SCADP- LA CASITA 14	93.243	TI025554	-	7,870
SHANNON-HHS-SCADP-LA CASITA 15	93.243	TI025554	-	15,210
			-	34,189
<b>Passed through Volunteers of America of Los Angeles</b>				
SHANNON-HHS-VOALA-HIV 14/15	93.243	TI024433	-	11,150
SHANNON-HHS-VOALA-HIV 15/16	93.243	TI024433	-	20,256
SHANNON-HHS-VOALA-MAI 15/16	93.243	TI025799	-	17,701
SHANNON-HHS-VOALA-BARRACKS 15/16	93.243	TI025601	-	19,102
SHANNON-HHS-VOALA-MAI 14/15	93.243	TI025799	-	3,065
SHANNON-HHS-VOALA-BARRACKS 14/15	93.243	TI025601	-	4,278
			-	75,552
<b>Total US Department of Health and Human Services</b>			-	<b>755,182</b>
<b>US Fish and Wildlife Service</b>				
<b>Direct Programs:</b>				
EISENHOUR-FWS-COMPARE 15/16*	15.657		-	21,437
			-	21,437
<b>Total US Fish and Wildlife Service</b>			-	<b>21,437</b>
<b>US Department of Agriculture</b>				
<b>Direct Programs:</b>				
MURPHY-RURAL BUSINESS-USDA 15/16	10.769		-	50,000
			-	50,000
<b>Passed through Kentucky Department of Education</b>				
Cady-Summer Food 15	10.558		-	5,598
			-	5,598
<b>Total US Department of Agriculture</b>			-	<b>55,598</b>
<b>US Department of Defense</b>				
<b>Passed through Eastern Kentucky University</b>				
BESSEITE-DOD-EKU-IC CAE 14/15	12.598	452952-15-230	-	36,754
HAIL-DOD-EKU-IC CAE 15/16	12.598	452952-16-233	-	62,625
			-	99,379
<b>Total US Department of Defense</b>			-	<b>99,379</b>
<b>US Department of Justice</b>				
<b>Passed through Kentucky Administrative Office of the Courts</b>				
SHANNON-DOJ-AOC-JEFFERSON 14/15	93.243	PON2-025-1300001425	-	4,578
SHANNON-DOJ-AOC-FLOYD 14/15	93.243	PON2-025-1400001527	-	3,900
SHANNON-DOJ-AOC-PERRY 14/15	93.243	PON2-025-1400000892	-	2,571
SHANNON-DOJ-AOC-HARDIN VTC 14/15	93.243	PON2-025-1400000814	-	2,915
SHANNON-DOJ-AOC-CONF EVAL 14/15	93.243	PON2-025-1400000813	-	589
SHANNON-DOJ-AOC-STATEWIDE 14/15	93.243	PON2-025-1200001315	-	9,318
SHANNON-DOJ-AOC-DUI CRT 15	93.243	PON2-025-1500001324	-	5,511
SHANNON-DOJ-AOC-HARDIN CO EVAL	93.243	PON2-025-1500001326	-	7,910
SHANNON-DOJ-AOC-FAYETTE VTC 15	93.243	PON2-025-1500001325	-	6,789
SHANNON-DOJ-AOC-MUHLENBERG 15	93.243	PON2-025-1500001328	-	6,975
SHANNON-DOJ-AOC-FAYETTE VTC 15	93.243	PON2-025-1500001325	-	6,415
SHANNON-DOJ-AOC-HARDIN CO EVAL	93.243	PON2-025-1500001326	-	6,223
SHANNON-DOJ-AOC-DUI CRT 15/16	93.243	PON2-025-1500001324	-	17,213

\*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, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
SHANNON-DOJ-AOC-HARDIN VTC 15/16	93.243	PON2-025-1400000814	-	7,357
SHANNON-DOJ-AOC-MUHLENBERG 15/16	93.243	PON2-025-1500001328	-	22,174
SHANNON-DOJ-AOC-STATEWIDE 15/16	93.243	PON2-025-1600000959	-	5,500
SHANNON-DOJ-AOC-JEFFERSON 15/16	93.243	PON2-025-1300001425	-	13,428
SHANNON-DOJ-AOC-FLOYD 15/16	93.243	PON2-025-1400001527	-	15,532
SHANNON-DOJ-AOC-PERRY 15/16	93.243	PON2-025-1400000892	-	15,950
SHANNON-DOJ-AOC-CHRISTIAN 15/16	93.243	PON2-025-1600000961	-	4,364
SHANNON-DOJ-AOC-CAMPBELL 15/16	93.243	PON2-025-1600000957	-	1,506
SHANNON-DOJ-AOC-JOHN/MAR/LAW 1	93.243	PON2-025-1600000947	-	3,652
			-	170,370
<b>Total US Department of Justice</b>			-	<b>170,370</b>
<b>US Department of Labor</b>				
<b>Direct Programs:</b>				
WILSON-DOL-YOUTHBUILD 12/13	17.274		-	136,638
			-	136,638
<b>Passed through Buffalo Trace Area Development District:</b>				
REYNOLDS-TODAY'S YOUTH 14/15	17.259	FY 15-5245	-	10
REYNOLDS-TODAY'S YOUTH 15/16	17.259	FY 16-5245	-	150,823
			-	150,833
<b>Total US Department of Labor</b>			-	<b>287,471</b>
<b>US Department of State</b>				
<b>Direct Programs:</b>				
MASTERSON-DOS-READING RM 1213	19.700		-	620
			-	620
<b>Total US Department of State</b>			-	<b>620</b>
<b>US Department of Transportation</b>				
<b>Passed through Georgia Institute of Technology</b>				
CORSO-USTRANS-GT-STRIDE 15*	20.701	RF896-S1	-	3,720
CORSO-GT-STRIDE 14/15*	20.701	RE599S1	-	8,462
			-	12,182
<b>Total US Department of Transportation</b>			-	<b>12,182</b>
<b>US Geological Survey</b>				
<b>Direct Programs:</b>				
OKEEFE-USGS-PEPA 15*	15.808		-	2,400
			-	2,400
<b>Total US Geological Survey</b>			-	<b>2,400</b>

\*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, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
US Small Business Administration				
Passed through University of Kentucky Research Foundation:				
MORLEY-SBA-UKRF-SBDC 14/15	59.037	3048112328-15-218	-	32,302
MURPHY-SBA-UKRF-SBDC 15/16	59.037	3200000358-16-170	-	105,718
			-	138,020
<b>Total US Small Business Administration</b>			-	<b>138,020</b>
<b>Total</b>			<b>\$ 1,440,108</b>	<b>\$ 71,332,465</b>

\*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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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, 2016 are summarized as follows:

Federal Perkins Loan Program:		
Loans disbursed	\$	596,859
Federal Direct Loan Program:		
Federal Unsubsidized Loans	\$	25,356,204
Federal Subsidized Loans		14,606,616
Federal Plus Loans		3,167,654

As of June 30, 2016, the University had loans outstanding, in the amount of \$3,347,590 with an allowance for doubtful accounts of \$79,606 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 the business-type activities and discretely presented component units of Morehead State University (the University), which comprise the statements of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2016.

**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.

Members of the Board of Regents and  
Dr. Wayne D. Andrews, President  
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### **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 30, 2016  
Lexington, Kentucky

**Report on Compliance For Each Major Federal Program  
and Report on Internal Control Over Compliance  
Required by the Uniform Guidance**

**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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2016. 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 the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance 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, 2016.

### Other Matters

We did not audit the University's compliance with requirements governing maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments for the Federal Perkins Loan Program. Those requirements govern functions that are performed by University Accounting Services, LLC (UAS). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. UAS' compliance with the requirements governing the functions that it performed for the University was examined by other accountants whose report has been furnished to us. The report of the other accountants indicates that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization accountant's report, we have determined that all of the compliance requirements included the *Compliance Supplement* that are applicable to the major program in which the University participates are addressed in either our report or the report of the service organization accountants. Further, based on our review of the service organization accountant's report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on the University's major program.

### 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 the Uniform Guidance, 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

Members of the Board of Regents and  
Dr. Wayne D. Andrews, President  
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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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dean Dotson Allen Ford, PLLC*

November 2, 2016  
Lexington, Kentucky

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

**Section I – Summary of Auditors’ Results**

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 Uniform Guidance: **No**
- g. Major programs:
  - Student Financial Aid Custer:**
    - Federal Pell Grant, CFDA 84.063
    - Federal Work Study, CFDA 84.033
    - Federal Supplemental Educational Opportunity Grant, CFDA 84.007
    - Federal Perkins Loan, CFDA 84.038
    - Federal Direct Loan Program, CFDA 84.268
    - Teacher Education Assistance for College and Higher Education Grant, CFDA 84.405
  - Appalachian Regional Commission, CFDA 23.001, CFDA 23.011**
  - PEEAK, CFDA 84.325**
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- i. Auditee qualified as a low-risk auditee: **Yes**

**Section II – Financial Statement Findings:**

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

**Section III – Federal Award Findings and Questioned Costs:**

**None Noted**