

MOREHEAD STATE UNIVERSITY

Single Audit Reports Under Uniform Guidance

*As of and for the Years Ended June 30, 2017 and 2016
with Report of Independent Auditors*

CONTENTS

Management’s Discussion and Analysis	1
Report of Independent Auditors	12
Financial Statements	
Morehead State University Statements of Net Position.....	14
Morehead State University Foundation, Inc. Statements of Financial Position	15
Morehead State University Statements of Revenues, Expenses and Changes in Net Position.....	16
Morehead State University Foundation, Inc. Statements of Activities.....	18
Morehead State University Statements of Cash Flows	20
Morehead State University Notes to the Financial Statements.....	22
Morehead State University Foundation, Inc. Notes to the Financial Statements.....	49
Supplemental Information	
Morehead State University	
Schedule of Bonds and Capital Lease Obligations	66
Schedule of Morehead State University’s Proportionate Share of the Net Pension Liability – Kentucky Teachers Retirement System	68
Schedule of Morehead State University’s Contributions – Kentucky Teachers Retirement System	69
Schedule of Morehead State University’s Proportionate Share of the Net Pension Liability – Kentucky Employees Retirement System.....	70
Schedule of Morehead State University’s Contributions – Kentucky Employees Retirement System	71
Schedule of Expenditures of Federal Awards.....	72
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	79
Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by Uniform Guidance.....	81
Schedule of Findings and Questioned Costs.....	84
Corrective Action Plan	86

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, 2017. 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 \$373 million versus \$322 million at June 30, 2016. The increase is primarily related to an increase in capital assets of \$25 million and an increase in deferred outflows of \$33 million. This was offset by a decrease in cash and cash equivalents of \$10 million.
- Total liabilities and deferred inflows of resources were \$400 million versus \$346 million at June 30, 2016. The increase is primarily related to increases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability.
- Total net position was (\$27) million at June 30, 2017 and (\$24) million at June 30, 2016.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Using the Annual Report

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

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

- Statement of Net 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 22 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.

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

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

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>2017</u>	<u>2016</u>
<u>Assets</u>		
Current assets	\$ 44,226	\$ 54,238
Capital assets	253,595	228,637
Other noncurrent assets	<u>19,094</u>	<u>15,255</u>
Total assets	<u>316,915</u>	<u>298,130</u>
 Deferred outflows of resources	 <u>56,508</u>	 <u>23,948</u>
Total assets and deferred outflows of resources	 <u>373,423</u>	 <u>322,078</u>
 <u>Liabilities</u>		
Current liabilities	23,130	20,545
Net pension liability	264,430	219,469
Other noncurrent liabilities	<u>99,313</u>	<u>96,243</u>
Total liabilities	<u>386,873</u>	<u>336,257</u>
 Deferred inflows of resources	 <u>13,676</u>	 <u>9,884</u>
Total liabilities and deferred inflows of resources	 <u>400,549</u>	 <u>346,141</u>
 <u>Net Position</u>		
Net investment in capital assets	149,065	128,029
Restricted, expendable	12,250	21,516
Restricted, nonexpendable	11,481	11,351
Unrestricted	<u>(199,922)</u>	<u>(184,959)</u>
Total net position	<u>\$ (27,126)</u>	<u>\$ (24,063)</u>

Assets and deferred outflows of resources

As of June 30, 2017, the University's total assets and deferred outflows of resources were approximately \$373 million versus \$322 million at June 30, 2016. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$253 million compared to \$228 million at June 30, 2016. Cash and investments, totaling \$45 million at June 30, 2017 and \$55 million at June 30, 2016, were the University's next largest asset. Total assets and deferred outflows of resources increased by \$51 million during the year ended June 30, 2017. The principal areas of change were:

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

- Cash and cash equivalents decreased approximately \$10.6 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 \$25 million.
- Noncurrent assets increased for a prepaid lease of \$3.5 million, due to the sale/leaseback of the West Liberty facility.
- Deferred outflows of resources pensions increased \$32.6 million, due to changes of assumptions used in the calculation by the actuaries.

Liabilities and deferred inflows of resources

At June 30, 2017, the University's total liabilities and deferred inflows of resources were approximately \$400 million versus \$346 million in the previous year. Net pension liability represented \$264 million of this amount at June 30, 2017. Bonds and capital lease obligations for capital assets represented \$102 million at June 30, 2017 and \$98 million at June 30, 2016. Total liabilities and deferred inflows of resources increased by \$54 million during the year ended June 30, 2017. This increase was primarily due to the following:

- Net pension liability increased \$45 million due to increases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability.
- Bonds, notes and capital lease obligations increased \$4 million, due to the issuance of the 2016 Series B General Receipts Bonds in the amount of \$6.5 million and due to an increase of \$2.9 million for the IT Infrastructure project. This was offset by debt payments and retirements of \$5.4 million.
- Deferred inflows of resources pensions increased \$2.5 million, due to changes of assumptions used in the calculations by the actuaries.
- Deferred inflows of resources deferred gain on disposal increased \$1.4 million, due to the deferral of the gain from the sale/leaseback of the West Liberty facility.

Net Position

Net position at June 30, 2017 totaled approximately (\$27) million compared to (\$24) million at June 30, 2016. Net investment in capital assets, totaled \$149 million versus \$128 million at June 30, 2016. Restricted net position totaled \$24 million compared to \$33 million at June 30, 2016. Unrestricted net position totaled (\$200) million versus (\$185) million at June 30, 2016. Total net position decreased by approximately \$3 million during the year ended June 30, 2017.

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 \$21 million. This increase is primarily related to increases for the new student residential facilities, parking garage/dining commons, renovation/expansion of the student services facility and IT infrastructure projects. This was offset by an increase in debt for the issuance of the 2016 Series B General Receipts Bonds and the IT Infrastructure Project.

Restricted Net Position

Restricted net position is subject to stipulations made by entities external to the University that govern the use of these funds. Restricted net position decreased by \$9 million. Restricted net position was decreased due to expenditures for new student residential facilities, parking garage/dining commons, and IT infrastructure projects.

Unrestricted Net Position

Unrestricted net position decreased by \$15 million from the previous year to (\$200) million. This decrease is primarily related to the increase in the University's proportionate share of the Commonwealth of Kentucky's net pension liability. 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>2017</u>	<u>2016</u>
<u>Operating Revenues</u>		
Student tuition and fees, net	\$ 37,619	\$ 36,094
Federal grants and contracts	12,236	12,292
State and local grants and contracts	1,240	1,245
Nongovernmental grants and contracts	582	593
Sales and services of educational activities	2,370	2,201
Auxiliary enterprises	18,912	19,614
Other operating revenues	<u>5,083</u>	<u>5,262</u>
Total operating revenues	<u>78,042</u>	<u>77,301</u>
<u>Operating Expenses</u>		
Educational and general	138,427	131,745
Auxiliary enterprises	14,685	13,469
Depreciation	10,578	10,109
Other operating loss	<u>45</u>	<u>57</u>
Total operating expenses	<u>163,735</u>	<u>155,380</u>
Operating loss	<u>(85,693)</u>	<u>(78,079)</u>
<u>Non-operating Revenues (Expenses)</u>		
Grants and contracts	24,666	26,026
State appropriations	42,036	43,396
Private construction appropriations	-	4,000
Investment income, net	190	337
Interest on capital assets – debt related	<u>(3,368)</u>	<u>(3,360)</u>
Net non-operating revenues	<u>63,524</u>	<u>70,399</u>
Loss before capital appropriations	(22,169)	(7,680)
Capital appropriations	<u>19,106</u>	<u>5,235</u>
Total decrease in net position	(3,063)	(2,445)
Net position, beginning of year	<u>(24,063)</u>	<u>(21,618)</u>
Net position, end of year	<u>\$ (27,126)</u>	<u>\$ (24,063)</u>

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Revenues

Total operating revenues were approximately \$78 million for the year ended June 30, 2017 and \$77 million for the year ended June 30, 2016. The most significant sources of operating revenues for the University are net student tuition and fees \$37.6 million, federal grants and contracts \$12 million, and auxiliary enterprises revenue \$19 million.

- Net student tuition and fees revenue increased \$1.5 million. There was a decrease in gross tuition and fees revenue due to changes in the non-resident tuition rate pricing structure. This change also resulted in a \$3.1 million decrease in the financial aid scholarship allowance, which reduces student tuition and fees revenue. Scholarship allowances were \$33.4 million at June 30, 2017 as compared to \$36.5 million for the year ended June 30, 2016.

Expenses

Operating expenses totaled approximately \$164 million compared to \$155 million at June 30, 2016. Approximately \$138 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 \$9 million increase in operating expenses was primarily related to an increase in pension expense due to an increase in the University's proportionate share of the Commonwealth of Kentucky's net pension expense. These increases were offset by decreases in non-resident scholarship awards, transfers for construction/renovation projects and reductions in budgets across all divisions of the University.

- Transfers to construction/renovation projects decreased by \$6.5 million.
- Pension expense increased \$9.3 million primarily due to increases in the University's proportionate share of the Commonwealth of Kentucky's net pension expense.
- Institutional financial aid decreased \$2.9 million primarily due to changes in the non-resident tuition rate pricing and scholarship structure.

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) Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Provided By (Used In):		
Operating activities	\$ (59,341)	\$ (55,470)
Noncapital financing activities	66,702	68,556
Capital and related financing activities	(19,911)	(32,182)
Investing activities	<u>1,947</u>	<u>1,890</u>
Net decrease in cash	(10,603)	(17,206)
Cash, beginning of the year	<u>43,789</u>	<u>60,995</u>
Cash, end of the year	<u>\$ 33,186</u>	<u>\$ 43,789</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 in both years. The largest cash payments for operating activities were made to suppliers \$78 million versus \$73 million in the previous year and to employees in the amount of \$60 million compared to \$62 million in the previous year.

The largest cash receipt in noncapital financing activities was the operating appropriation from the Commonwealth of Kentucky of \$42 million compared to \$43 million in the previous year. Cash receipts from non-operating grants and contracts were also \$25 million compared to \$26 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 \$253 million at June 30, 2017 versus \$228 million at June 30, 2016. This represents a net increase of \$25 million from June 30, 2016. Significant changes to capital assets during fiscal 2016 - 2017 included:

Buildings and land improvements	\$ 41.8	million
Net change in construction in progress	(9.0)	million
Increase in accumulated depreciation, net	(8.3)	million

Debt

At year-end, the University had \$102 million in outstanding debt versus \$98 million in the previous year. This includes \$83 million in bonds payable and premium amortization compared to \$80 million at June 30, 2016. In addition, the University had capital lease obligations of \$18.9 million compared to \$17.8 million in the previous year.

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

	June 30,	
	<u>2017</u>	<u>2016</u>
General Receipts bonds	\$ 80,860	\$ 77,895
Premium Amortization	2,625	2,694
Capital lease obligations	<u>18,990</u>	<u>17,793</u>
	<u>\$ 102,475</u>	<u>\$ 98,382</u>

The University issued \$6,560,000 in General Receipt's bonds in December 2016 to complete and equip the dining facilities areas of the Construct Food Service/Retail & Parking project. Capital leases also increased by \$2.9 million for the IT Infrastructure project. The University made debt service payments and retirements in the amount of \$5.4 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, 2018 totaling \$152.2 million.
- The 2017-18 budget includes a 4.9% rate increase in undergraduate student tuition and fees and a 6.2% increase in residence hall rates.
- 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 2017-18 fiscal year will decrease to \$41.6 million from \$41.9 million in the previous fiscal year. The decrease is a result of the implementation of a comprehensive funding model that distributes funds to postsecondary education institutions based on achievement of performance metrics.



DEAN DORTON ALLEN FORD, PLLC

Report of Independent Auditors

Members of the Board of Regents and
Dr. Joseph A. Morgan, 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, 2017 and 2016, 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, 2017 and 2016, 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 and the pension supplementary information on pages 68-71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Morehead State University. The supplemental information contained on pages 66-67 and the Schedule of Expenditures of Federal Awards, on pages 72-78 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 financial statements.

The supplemental information contained on pages 66-67 and the Schedule of Expenditures of Federal Awards, on pages 72-78 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 October 3, 2017 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

October 3, 2017

except for supplementary information on pages 72 - 78 and 81- 86, which is as of October 26, 2017

MOREHEAD STATE UNIVERSITY

Statements of Net Position

June 30, 2017 and 2016

Assets and Deferred Outflows	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 33,185,882	\$ 43,789,074
Accounts, grants and loans receivable, net	9,246,954	8,768,838
Prepaid interest	16,083	16,083
Inventories	1,564,787	1,445,256
Other current assets	<u>212,438</u>	<u>218,390</u>
Total current assets	<u>44,226,144</u>	54,237,641
Noncurrent assets:		
Accounts, grants and loans receivable, net	3,933,670	3,716,419
Prepaid interest	160,828	176,911
Prepaid lease	3,501,000	-
Investments	11,498,410	11,361,541
Capital assets, net	<u>253,594,518</u>	<u>228,637,326</u>
Total noncurrent assets	<u>272,688,426</u>	<u>243,892,197</u>
Total assets	<u>316,914,570</u>	<u>298,129,838</u>
Deferred outflows of resources:		
Pensions	<u>56,508,243</u>	<u>23,948,232</u>
Total deferred outflows of resources	<u>56,508,243</u>	<u>23,948,232</u>
Total assets and deferred outflows of resources	<u>373,422,813</u>	<u>322,078,070</u>
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	9,466,215	8,814,447
Unearned revenue	5,811,646	4,885,020
Other current liabilities	1,002,234	991,715
Bonds and capital lease obligations, current portion	<u>6,850,148</u>	<u>5,853,329</u>
Total current liabilities	<u>23,130,243</u>	20,544,511
Long-term liabilities:		
Bonds and capital lease obligations, noncurrent portion	95,625,163	92,529,016
Advances from federal government for student loans	3,397,754	3,423,702
Unearned revenue	290,235	290,235
Net pension liability	<u>264,430,175</u>	<u>219,469,445</u>
Total long-term liabilities	<u>363,743,327</u>	<u>315,712,398</u>
Total liabilities	<u>386,873,570</u>	<u>336,256,909</u>
Deferred inflows of resources:		
Deferred bond reoffering premium	2,231,679	2,418,551
Pensions	10,013,990	7,465,708
Deferred gain on disposal	<u>1,429,844</u>	-
Total deferred inflows of resources	<u>13,675,513</u>	<u>9,884,259</u>
Net position:		
Net investment in capital assets	149,064,439	128,029,424
Restricted:		
Expendable	12,250,131	21,516,082
Nonexpendable	11,481,276	11,350,575
Unrestricted	<u>(199,922,116)</u>	<u>(184,959,179)</u>
Total net position	<u>\$ (27,126,270)</u>	<u>\$ (24,063,098)</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current assets:		
Cash	\$ 82,661	\$ 415,395
Accrued interest receivable	120	2,087
Accounts receivable	8,000	25,000
Current portion of pledges receivable	1,728,947	711,769
Current portion of net investment in capital leases	<u>17,822</u>	<u>45,876</u>
Total current assets	<u>1,837,550</u>	<u>1,200,127</u>
Noncurrent assets:		
Investments, at fair value	47,402,641	41,769,160
Cash surrender value – life insurance	121,277	114,372
Property and equipment, net	232,601	245,861
Pledges receivable, net of current portion	3,783,194	2,426,357
Net investment in capital leases, net of current portion	<u>12,386</u>	<u>255,657</u>
Total noncurrent assets	<u>51,552,099</u>	<u>44,811,407</u>
Total assets	<u>\$ 53,389,649</u>	<u>\$ 46,011,534</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of annuities payable	\$ 229,355	\$ 252,662
Accrued liabilities	32,740	27,208
Due to Morehead State University	<u>212,438</u>	<u>218,390</u>
Total current liabilities	474,533	498,260
Long-term liabilities:		
Funds held in trust for Morehead State University	10,427,195	10,427,195
Annuities payable, net of current portion	<u>903,061</u>	<u>871,252</u>
Total long-term liabilities	<u>11,330,256</u>	<u>11,298,447</u>
Total liabilities	<u>11,804,789</u>	<u>11,796,707</u>
Net assets:		
Unrestricted	(1,849,189)	(1,846,855)
Temporarily restricted	21,775,538	15,145,168
Permanently restricted	<u>21,658,511</u>	<u>20,916,514</u>
Total net assets	<u>41,584,860</u>	<u>34,214,827</u>
Total liabilities and net assets	<u>\$ 53,389,649</u>	<u>\$ 46,011,534</u>

See accompanying notes

MOREHEAD STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$33,392,647 and \$36,527,851)	\$ 37,618,769	\$ 36,093,603
Federal grants and contracts	12,236,212	12,291,574
State and local grants and contracts	1,240,187	1,244,944
Nongovernmental grants and contracts	582,178	593,429
Sales and services of educational activities	2,370,472	2,200,709
Auxiliary enterprises:		
Residence halls (net of scholarship allowances of \$1,011,496 and \$675,530)	12,824,256	12,801,110
Bookstore	4,295,329	4,885,863
Other auxiliaries	1,792,115	1,927,994
Other operating revenues	<u>5,083,047</u>	<u>5,262,035</u>
Total operating revenues	78,042,565	77,301,261
Operating expenses:		
Education and general:		
Instruction	49,100,356	46,762,383
Research	3,661,242	2,067,977
Public service	7,862,907	7,871,431
Library	3,616,720	3,581,845
Academic support	10,019,525	10,858,492
Student services	19,151,139	15,606,236
Institutional support	18,286,540	17,700,622
Operation and maintenance of plant	13,475,409	12,607,268
Depreciation	10,578,038	10,109,102
Student aid	13,253,622	14,688,405
Auxiliary enterprises:		
Residence halls	8,515,455	7,112,243
Bookstore	4,371,153	4,349,078
Other auxiliaries	1,798,195	2,008,362
Other operating loss	<u>45,175</u>	<u>56,955</u>
Total operating expenses	<u>163,735,476</u>	<u>155,380,399</u>
Operating loss	(85,692,911)	(78,079,138)

MOREHEAD STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Nonoperating revenues (expenses):		
Grants and contracts	24,666,445	26,026,474
State appropriations	42,035,591	43,396,121
Private construction appropriations	-	4,000,000
Investment income, net	190,117	336,543
Interest on capital asset-related debt	<u>(3,367,977)</u>	<u>(3,359,921)</u>
Net nonoperating revenues	<u>63,524,176</u>	<u>70,399,217</u>
Loss before capital appropriations	(22,168,735)	(7,679,921)
Capital appropriations	<u>19,105,563</u>	<u>5,234,692</u>
Total decrease in net position	(3,063,172)	(2,445,229)
Net position, beginning of year	<u>(24,063,098)</u>	<u>(21,617,869)</u>
Net position, end of year	<u>\$ (27,126,270)</u>	<u>\$ (24,063,098)</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 152,561	\$ 5,910,008	\$ 743,272	\$ 6,805,841
Other revenue and gains:				
Investment income:				
Interest and dividend income, net	36,783	1,142,896	-	1,179,679
Realized and unrealized gains (losses)	(12,300)	2,830,394	-	2,818,094
In-kind contributed services	140,444	-	-	140,444
Development activities	357,622	550,101	-	907,723
Other income	48,767	75,014	-	123,781
Annuities payable adjustment	(254,433)	-	-	(254,433)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>3,858,278</u>	<u>(3,858,278)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	4,327,722	6,650,135	743,272	11,721,129
Expenses:				
Program expenses:				
Contributions to Morehead State				
University for:				
Academic programs	1,880,686	-	-	1,880,686
Athletics	338,733	-	-	338,733
University support:				
Operations and materials	877,928	-	-	877,928
Student financial aid	771,651	-	-	771,651
Athletics	<u>88,901</u>	<u>-</u>	<u>-</u>	<u>88,901</u>
Total program expenses	3,957,899	-	-	3,957,899
General and administrative	303,542	-	-	303,542
Bad debt expense	14,237	19,765	1,275	35,277
Fundraising	<u>54,378</u>	<u>-</u>	<u>-</u>	<u>54,378</u>
Total Expenses	<u>4,330,056</u>	<u>19,765</u>	<u>1,275</u>	<u>4,351,096</u>
Change in net assets	(2,334)	6,630,370	741,997	7,370,033
Net assets, beginning of year	<u>(1,846,855)</u>	<u>15,145,168</u>	<u>20,916,514</u>	<u>34,214,827</u>
Net assets, end of year	<u>\$ (1,849,189)</u>	<u>\$ 21,775,538</u>	<u>\$ 21,658,511</u>	<u>\$ 41,584,860</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

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Tuition and fees	\$ 36,339,645	\$ 35,723,237
Grants and contracts	15,018,212	14,951,459
Payments to suppliers	(78,085,301)	(72,539,764)
Payments to employees	(59,509,955)	(62,203,118)
Loans issued to students	(781,772)	(596,859)
Collection of loans issued to students	607,303	679,639
Auxiliary enterprises:		
Residence halls	12,824,256	12,801,110
Bookstore	3,986,149	4,454,623
Other auxiliaries	1,964,801	2,017,252
Sales and services of educational activities	2,624,322	3,420,530
Other receipts	<u>5,671,610</u>	<u>5,821,900</u>
Net cash used in operating activities	<u>(59,340,730)</u>	<u>(55,469,991)</u>
 Cash flows from noncapital financing activities:		
Nonoperating grants and contracts	24,666,445	26,026,474
State appropriations	<u>42,035,591</u>	<u>42,529,321</u>
Net cash provided by noncapital financing activities	<u>66,702,036</u>	<u>68,555,795</u>
 Cash flows from capital and related financing activities:		
Capital appropriations	19,105,563	5,234,692
Private construction appropriations	-	4,000,000
Purchase of capital assets	(39,799,932)	(37,292,934)
(Decrease) increase in advances from federal government for student loans	(25,948)	25,933
Issuance of new bonds	6,560,000	3,280,000
Issuance of new debt	2,995,250	4,704,750
Bond refunding premium	77,189	79,035
Principal paid on capital debt and leases	(5,139,451)	(8,331,812)
Interest paid on capital debt and leases	<u>(3,684,417)</u>	<u>(3,881,579)</u>
Net cash used in capital and related financing activities	<u>(19,911,746)</u>	<u>(32,181,915)</u>
 Cash flows from investing activities:		
Proceeds from building sale	1,894,000	-
Interest received on investments, net	190,117	336,543
Changes in investments, net	<u>(136,869)</u>	<u>1,553,653</u>
Net cash provided by investing activities	<u>1,947,248</u>	<u>1,890,196</u>
 Net decrease in cash and cash equivalents	<u>(10,603,192)</u>	<u>(17,205,915)</u>
Cash and cash equivalents, beginning of year	<u>43,789,074</u>	<u>60,994,989</u>
Cash and cash equivalents, end of year	<u>\$ 33,185,882</u>	<u>\$ 43,789,074</u>

MOREHEAD STATE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (85,692,911)	\$ (78,079,138)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	10,578,038	10,109,102
Loss on disposal of capital assets	45,175	56,955
Bad debt expense	894,205	1,128,188
Changes in assets and liabilities:		
Receivables, net	(1,589,572)	2,069,644
Inventories	(119,531)	189,554
Other current assets	5,952	1,126,999
Accounts payable and accrued liabilities	651,768	1,018,656
Unearned revenue	926,626	964,489
Deferred outflows/inflows	(30,011,729)	(18,816,935)
Net pension liability	44,960,730	24,770,187
Other liabilities	<u>10,519</u>	<u>(7,692)</u>
Net cash used in operating activities	<u>\$ (59,340,730)</u>	<u>\$ (55,469,991)</u>
Supplemental disclosures of cash flow information:		
Noncapital financing transactions:		
State appropriations	\$ -	\$ 866,800
Capital and related financing transactions:		
Capital leases	\$ -	\$ 1,300,000
Capital lease principal reduction	254,371	-
Investing transactions:		
Prepaid lease obtained from sale of property	\$ 3,501,000	\$ -
Deferred inflow related to gain from sale of property	1,429,844	-

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 55% and 52% of total inventories at June 30, 2017 and 2016, 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 GASB No. 68, *Accounting and Financial Reporting for Pensions (GASB No. 68)*. In accordance with GASB No. 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 are also required to disclose various information in the footnotes to the financial statements – see Note 7.

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 has adopted this standard for the year ending June 30, 2017.

Subsequent Events

Management evaluated the period from June 30, 2017 to October 3, 2017 (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, 2017 and 2016, the University had petty cash funds totaling \$18,448 and \$31,815, respectively, and deposits as reflected by bank balances as follows:

	<u>2017</u>	<u>2016</u>
Insured, commercial banks	\$ 250,000	\$ 257,703
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	13,596,107	11,270,448
Maintained by Commonwealth of Kentucky	<u>19,321,327</u>	<u>32,229,108</u>
	<u>\$ 33,167,434</u>	<u>\$ 43,757,259</u>

As of June 30, 2017 and 2016, investments consisted of:

	<u>2017</u>	<u>2016</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	\$ 17,135	\$ 10,966
Equity mutual funds	<u>940,873</u>	<u>810,680</u>
	958,008	821,646
Certificate of deposit	113,207	112,700
Restricted assets held by the Morehead State University Foundation, Inc.	<u>10,427,195</u>	<u>10,427,195</u>
Total investments	<u>\$ 11,498,410</u>	<u>\$ 11,361,541</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 14). Assets held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

The assets in the Foundation investment pool at June 30, 2017 and 2016, are invested as follows:

	<u>2017</u>	<u>2016</u>
Percentage of pool invested in:		
Registered investment companies fixed income funds	25%	25%
Registered investment companies equity fund	49%	42%
Registered investment companies alternative investments	<u>26%</u>	<u>33%</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>2017</u>	<u>2016</u>
Student tuition and fees	\$ 4,893,888	\$ 5,093,146
Financing and interest	288,755	-
State appropriations	-	866,800
Scholarship receivable	368,751	62,656
Student loans	4,015,383	3,796,025
Grants and contracts	2,563,937	3,351,512
Auxiliary enterprises	984,002	678,808
Other	<u>1,796,607</u>	<u>268,084</u>
	14,911,323	14,117,031
Allowance for doubtful accounts	<u>(1,730,699)</u>	<u>(1,631,774)</u>
	13,180,624	12,485,257
Current portion	<u>(9,246,954)</u>	<u>(8,768,838)</u>
Noncurrent portion	<u>\$ 3,933,670</u>	<u>\$ 3,716,419</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net

Capital assets as of June 30, 2017, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 23,417,793	\$ 250,595	\$ -	\$ 23,668,388
Buildings	280,759,550	47,714,676	6,125,453	322,348,773
Library books	27,175,125	270,751	-	27,445,876
Vehicles	2,096,778	-	180,445	1,916,333
Equipment and livestock	24,485,184	611,309	241,662	24,854,831
Datatel	4,202,200	-	-	4,202,200
Art collection	1,019,235	45,750	16,430	1,048,555
Construction in progress	<u>41,388,905</u>	<u>37,886,260</u>	<u>46,979,409</u>	<u>32,295,756</u>
	404,544,770	86,779,341	53,543,399	437,780,712
<u>Accumulated Depreciation</u>				
Land improvements	9,342,202	550,576	-	9,892,778
Buildings	118,435,641	7,857,913	1,905,048	124,388,506
Library books	23,590,858	798,300	-	24,389,158
Vehicles	1,824,382	93,598	180,445	1,737,535
Equipment and livestock	18,512,159	1,277,651	213,795	19,576,015
Datatel	<u>4,202,202</u>	<u>-</u>	<u>-</u>	<u>4,202,202</u>
	<u>175,907,444</u>	<u>10,578,038</u>	<u>2,299,288</u>	<u>184,186,194</u>
Capital assets, net	<u>\$ 228,637,326</u>	<u>\$ 76,201,303</u>	<u>\$ 51,244,111</u>	<u>\$ 253,594,518</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net, continued

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

5. Accounts Payable and Accrued Liabilities

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

	<u>2017</u>	<u>2016</u>
Payable to vendors and contractors	\$ 564,161	\$ 667,206
Accrued vacation	2,225,684	2,490,349
Accrued sick leave liability	824,583	811,093
Accrued salaries and other liabilities	<u>5,851,787</u>	<u>4,845,799</u>
	<u>\$ 9,466,215</u>	<u>\$ 8,814,447</u>

6. Long-Term Liabilities

Long-term liabilities at June 30, 2017, 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	\$ 77,895,000	\$ 6,560,000	\$ 3,595,000	\$ 80,860,000	\$ 3,970,000	\$ 76,890,000
Premium amortization	2,694,038	77,189	145,651	2,625,576	145,651	2,479,925
Capital lease obligations	10,016,590	2,995,250	1,023,180	11,988,660	1,938,096	10,050,564
Energy Savings Capital Lease	<u>7,776,717</u>	<u>-</u>	<u>775,642</u>	<u>7,001,075</u>	<u>796,401</u>	<u>6,204,674</u>
Total bonds and capital lease obligations	98,382,345	9,632,439	5,539,473	102,475,311	6,850,148	95,625,163
Federal refundable grants	<u>3,423,702</u>	<u>-</u>	<u>25,948</u>	<u>3,397,754</u>	<u>-</u>	<u>3,397,754</u>
Total long-term liabilities	<u>\$ 101,806,047</u>	<u>\$ 9,632,439</u>	<u>\$ 5,565,421</u>	<u>\$ 105,873,065</u>	<u>\$ 6,850,148</u>	<u>\$ 99,022,917</u>

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>

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>2017</u>	<u>2016</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	\$ 540,000	\$ 795,000
3.00-3.80% General Receipts Bonds, 2008 Series A, repayable in semi-annual installments with the final installment due November, 2022	3,700,000	4,480,000
2.00-4.125% General Receipts Bonds, 2011 Series A Improvement Bonds, repayable in semi-annual installments with the final installment due November, 2030	3,990,000	4,220,000
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	4,190,000	4,415,000
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	7,990,000	8,380,000
2.00-5.00% General Receipts Refunding Bonds, 2014 Series A, repayable in semi-annual installments with the final installment due October, 2028	18,890,000	20,065,000
1.00-5.00% General Receipts Refunding Bonds, 2014 Series B, repayable in semi-annual installments with the final installment due October, 2029	4,105,000	4,340,000
3.00-5.00% General Receipts Bonds, 2015 Series A, repayable in semi-annual installments with the final installment due April, 2035	27,690,000	27,960,000
1.00-3.00% General Receipts Refunding Bonds, 2016 Series A, repayable in semi-annual installments with the final installment due November, 2027	3,205,000	3,240,000
2.00-3.75% General Receipts Bonds, 2016 Series B, repayable in semi-annual installments with the final installment due November, 2036	6,560,000	-
General Receipts Bonds, 2015 Series A Reoffering Premium, amortized over semi-annual installments with the final installment amortized April 2035	2,625,576	2,694,038
5.00% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due February, 2019	30,208	47,161
9.40% Capital lease obligation with the Foundation, repayable in monthly installments, cancelled during the year ending June 30, 2017	-	254,371
4.19% Capital lease obligation with a finance corporation, repayable in semi-annual installments with final installment due October, 2019	387,833	532,054
2.65% Capital lease obligation with JP Morgan/Chase, repayable in quarterly installments with the final installment due June, 2025	7,001,075	7,776,717
4.50% Capital lease obligation for land acquisition, repayable in monthly installments with the final installment due December, 2020	471,818	593,550
6.139% Capital lease obligation for land acquisition, repayable in annual installments with the final installment due November, 2020	234,338	284,704
2.92% Capital lease obligation with Kentucky Bank, repayable in monthly installments with the final installment due December, 2027	9,564,463	7,004,750

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

	<u>2017</u>	<u>2016</u>
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>1,300,000</u>
	<u>\$ 102,475,311</u>	<u>\$ 98,382,345</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.

Capital Leases

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>2017</u>	<u>2016</u>
Real estate and equipment	\$ 15,010,127	\$ 15,476,584
Construction in progress	9,125,430	5,975,154
Less: accumulated depreciation	<u>(1,966,603)</u>	<u>(1,878,916)</u>
	<u>\$ 22,168,954</u>	<u>\$ 19,572,822</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

6. Long-Term Liabilities, continued

Capital Leases, continued

The following is a schedule by years of future minimum payments required for the capital lease obligations as of June 30, 2017:

Year ending June 30,		
2018	\$	3,228,409
2019		3,122,101
2020		2,426,972
2021		2,271,488
2022		2,130,669
Thereafter		<u>8,099,381</u>
Total minimum lease payments		21,279,020
Less: amounts representing interest		<u>(2,289,285)</u>
Present value of minimum lease payments		<u>\$ 18,989,735</u>

The principal and interest repayment requirements relating to the outstanding bonds at June 30, 2017, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2018	\$ 3,970,000	\$ 3,103,583	\$ 7,073,583
2019	4,125,000	2,954,774	7,079,774
2020	4,370,000	2,799,781	7,169,781
2021	4,695,000	2,631,003	7,326,003
2022	4,945,000	2,455,346	7,400,346
2023-2037	<u>58,755,000</u>	<u>13,699,581</u>	<u>72,454,581</u>
	<u>\$ 80,860,000</u>	<u>\$ 27,644,068</u>	<u>\$ 108,504,068</u>

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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

Kentucky Teachers Retirement System, continued

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 Teachers Retirement System, 477 Versailles Road, Frankfort, Kentucky 40601-3868 or by visiting the website at <https://ktrs.ky.gov/financial-reports-information/>.

Funding for the plan for the year ended June 30, 2016 was provided from eligible employees who contributed 8.185% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributed 15.865% of currently eligible employees' salaries to the KTRS through appropriations to the University. Contribution requirements of the plan members and the University are established by Kentucky Revised Statute and the KTRS Board of Trustees.

The University's contributions to KTRS for the years ended June 30, 2016 and 2015 were \$4,957,288 and \$4,852,462, respectively.

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

At June 30, 2017 and 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 as of June 30:

	<u>2017</u>	<u>2016</u>
University's proportionate share of the net pension liability	\$192,661,717	\$150,685,690
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>18,157,966</u>	<u>15,323,327</u>
Total	\$210,819,683	\$166,009,017

The net pension liability was measured as of June 30, 2016 (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, 2017 and 2016, the University's proportion was 0.623 and 0.617 percent, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

Kentucky Teachers Retirement System, continued

For the years ended June 30, 2017 and 2016, the University recognized pension expense of \$16,873,289 and \$8,029,018, respectively.

At June 30, 2017, 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	\$ -	\$ 4,847,060
Changes of assumptions	28,340,349	1,113,789
Net difference between projected and actual earnings on pension plan investments	5,952,812	-
Changes in proportion and differences between University contributions and proportionate share of contributions	6,874,786	-
University contributions subsequent to the measurement date	<u>4,827,767</u>	<u>-</u>
Total	<u>\$ 45,995,714</u>	<u>\$ 5,960,849</u>

\$4,827,767 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, 2018. 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:	
2018	\$ 7,663,372
2019	7,663,372
2020	9,869,752
2021	7,541,904
2022	2,468,698

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

Kentucky Teachers Retirement System, continued

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 was recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Actuarial assumptions. The total pension liability in the June 30, 2016 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, including inflation	
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

Kentucky Teachers Retirement System, 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 4.20%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. The projection assumes 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 2040 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 4.20% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.01%). 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 4.20 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 (3.20 percent) or 1-percentage-point higher (5.20 percent) than the current rate:

	1% Decrease (3.20%)	Current Discount Rate (4.20%)	1% Increase (5.20%)
Morehead State University’s proportionate share of the Collective Net Pension Liability	\$ 236,354,790	\$ 192,661,717	\$ 156,801,747

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 <https://kyret.ky.gov>.

Funding for the plan for the year ended June 30, 2016 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 Statue and the Board of Trustees of the Kentucky Retirement Systems each biennium.

The University's contributions to KERS for the years ended June 30, 2016 and 2015 were \$3,249,473 and \$3,586,839, respectively.

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

At June 30, 2017 and 2016, the University reported a liability of \$71,768,458 and \$68,783,755, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 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, 2017 and 2016, the University's proportion was 0.61 percent and 0.66 percent, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

Kentucky Employee Retirement System, continued

For the years ended June 30, 2017 and 2016, the University recognized pension expense of \$6,765,617 and \$6,161,293, respectively. At June 30, 2017, 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	\$ 81,100	\$ -
Changes of assumptions	5,407,154	-
Net difference between projected and actual earnings on pension plan investments	1,200,298	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	4,053,141
University contributions subsequent to the measurement date	<u>3,823,977</u>	<u>-</u>
Total	<u>\$ 10,512,529</u>	<u>\$ 4,053,141</u>

\$3,823,977 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, 2018. 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:	
2018	1,470,338
2019	890,913
2020	165,083
2021	109,077

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

Kentucky Employee Retirement System, continued

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 was recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Actuarial assumptions. The total pension liability in the June 30, 2016 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 for Hazardous and 6.75 percent for Non-Hazardous, net of pension plan investment expense, including inflation

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 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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

Kentucky Employee Retirement System, continued

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 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 KERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of returns 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 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 real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Real Rate of Return</u>
Combined Equity	50%	5.30%
Intermediate Duration Fixed Income	11%	1.00%
Custom KRS Fixed Income	11%	3.33%
Core Real Estate	5%	4.25%
Diversified Hedge Funds	10%	4.00%
Private Equity	2%	8.00%
Diversified Inflation Strategies	8%	3.15%
Cash Equivalent	3%	(0.25%)
Total	100%	

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

Kentucky Employee Retirement System, continued

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

Discount rate. The discount rate used to measure the total pension liability was 7.50% for Hazardous and 6.75% for Non-Hazardous. 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 27 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.

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% for Hazardous and 6.75% for Non-Hazardous, 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/5.75 percent) or 1-percentage-point higher (8.50 percent/7.75 percent) than the current rate:

	Hazardous		
	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	\$ 1,542,222	\$ 1,227,476	\$ 963,284

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plans, continued

Kentucky Employee Retirement System, continued

	Non-Hazardous		
	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Morehead State University's proportionate share of the Collective Net Pension Liability	\$ 79,469,356	\$ 70,540,982	\$ 63,037,303

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 8.185% 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, 2017 and 2016 were \$1,141,419 and \$1,177,280 respectively, equal to the required contributions for each year.

8. Prepaid Lease

On February 7, 2017, the University sold property located in West Liberty, Kentucky for \$5,395,000. The University received \$1,894,000 in cash and recorded \$3,501,000 in assets for a prepaid lease to leaseback a portion of the building. The University also recorded \$1,429,844 in deferred inflow of resources for a deferred gain on disposal of the property, which will be recognized over the term of the lease.

9. 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 these obligations as lease payments are made. Total rent expenses under operating type leases were approximately \$747,000 and \$709,000 in 2017 and 2016, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

10. Contingencies and Commitments

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

The University receives financial assistance from federal and state agencies in the form of grants and awards. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. The University has had no disallowed claims in the past. In the opinion of management, such potential disallowed claims, if any, would not have a material adverse effect on the overall financial position of the University at June 30, 2017.

The University has made certain commitments related to the completion of various construction projects in progress totaling approximately \$27,104,518. Such construction is principally financed by appropriations from the Commonwealth of Kentucky and proceeds from bonds.

11. Self-Insurance Program

The University maintains a self-insurance program for employees' dental insurance which has two plan options; 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, 2017 and 2016 totaled \$452,043 and \$467,933, respectively.

During the period ending June 30, 2017 the University switched to a self-insurance program for employees' health insurance which has three plan options; a PPO plan, Enhanced Value HRA and Life Long Savings Plan. Payments for employee health insurance for the fiscal year ending June 30, 2017 were \$5,764,753, including \$2,735,079 paid for insurance premiums, and \$3,029,674 paid for claims on behalf of employees. Payments for employee health insurance premiums under the previous fully-insured health plan at June 30, 2016 were \$6,259,529.

12. 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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

12. Risk Management, continued

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

13. 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, 2017 and 2016, KFAC received State Appropriations in the amount of \$200,000 and \$176,554, respectively. 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.

14. Endowment Trust Funds

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

The 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, 2017 and 2016 was \$35,588,649 and \$31,483,709, 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, 2017 and 2016, 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, 2017 and 2016, and is included in investments held by the Foundation.

15. Related Parties

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Related Parties, continued

Related party transactions and funds held by the Foundation on behalf of the University are as follows during 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 140,443	\$ 122,720
Funds held by the Foundation on behalf or for the benefit of the University	10,427,195	10,427,195
Funds due to the University by the Foundation	212,438	218,390
Funds due to the Foundation by the University	5,000	-

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, \$109,664 for the year ended June 30, 2017 and \$177,653 for the year ended June 30, 2016. 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, 2017 and 2016.

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

16. Morehead State University Foundation, Inc.

A. Description of Organization

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

B. Summary of Significant Accounting Policies

The 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

16. 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

16. 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 (\$612,460 and \$781,660 as of June 30, 2017 and 2016, 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, 2017 and 2016 were \$252,942 and \$195,001 respectively.

The June 30, 2017 and 2016 annuity liability balances of \$1,132,416 and \$1,123,914, 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 3.3 to 16.9 years and 3.1 to 18.7 years for the years ended June 30, 2017 and 2016, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Due to Morehead State University

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, 2017 and 2016, the Foundation held \$10,427,195 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.

Risks and Uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to various risk such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the investment amounts reported in the statement of financial position.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with 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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Contributions, continued

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

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

Donated Materials and Property

Donated materials and property are recorded at their estimated fair value when received. The statements of activities for the years ended June 30, 2017 and 2016 include in-kind contributions of \$182,753 and \$335,451, 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 the fiscal year beginning July 1, 2018. Early adoption is permitted. The Foundation is currently evaluating the effects adoption of this guidance will have on the financial statements.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 presentation with no impact on reported change in net assets or net assets.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through October 3, 2017, the date that the financial statements were available to be issued.

C. Investments

Investments held as of June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Mutual funds	\$ 35,015,001	\$ 27,876,866
Alternative investments	12,172,362	13,691,988
Corporate bonds and stock	56,345	48,259
Annuity investments	<u>158,933</u>	<u>152,047</u>
	<u>\$ 47,402,641</u>	<u>\$ 41,769,160</u>

Investment management fees were approximately \$77,700 and \$91,200 during the years ended June 30, 2017 and 2016, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements

The Foundation has determined the fair value of certain assets and liabilities as follows:

June 30, 2017	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	\$ 11,790,542	\$ 11,790,542	\$ -	\$ -
U.S. Small Cap	4,709,860	4,709,860	-	-
International	6,388,543	6,388,543	-	-
Global	-	-	-	-
Fixed income and cash:				
Cash	420,809	420,809	-	-
Fixed income	11,085,971	11,085,971	-	-
Core	619,276	619,276	-	-
Alternative investments:				
Hedge funds	8,709,729	-	-	8,709,729
Real assets	3,211,070	-	-	3,211,070
Private equity	251,563	-	-	251,563
Corporate bonds and stocks	56,345	-	56,345	-
Annuity investment	158,933	-	158,933	-
Total assets	\$ 47,402,641	\$ 35,015,001	\$ 215,278	\$ 12,172,362
Annuities	\$ 1,132,416	\$ -	\$ -	\$ 1,132,416
Total liabilities	\$ 1,132,416	\$ -	\$ -	\$ 1,132,416

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

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	\$ 27,876,866	\$ 200,306	\$ 13,691,988
Annuities	\$ 1,123,914	\$ -	\$ -	\$ 1,123,914
Total liabilities	\$ 1,123,914	\$ -	\$ -	\$ 1,123,914

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

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

The following is a description of the valuation methodologies used for the assets and liabilities measured at fair value. There have been no changes in the methodologies used to determine fair value as of June 30, 2017 and 2016.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

Corporate bonds and stocks: Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

Annuity investment: Valued using the net asset value of the underlying funds as determined by the annuity's custodian.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

Financial assets and liabilities valued using level 3 inputs are valued as follows:

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

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (level 3) inputs:

	<u>Hedge Funds</u>	<u>Real Assets</u>	<u>Private Equity</u>	<u>Total</u>
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	(3,586,380)	(400,418)	(177,238)	(4,164,036)
Realized and unrealized gains (losses)	(162,246)	(246,597)	6,432	(402,411)
Fees	(39,981)	(14,441)	2,558	(51,864)
Balance, June 30, 2016	7,690,860	5,620,917	380,211	13,691,988
Additional investment	8,485,029	1,372,062	-	9,857,091
Funds sold	(7,802,949)	(4,288,906)	(153,918)	(12,245,773)
Realized and unrealized gains	345,332	512,796	25,270	883,398
Fees	(8,543)	(5,799)	-	(14,342)
Balance, June 30, 2017	<u>\$ 8,709,729</u>	<u>\$ 3,211,070</u>	<u>\$ 251,563</u>	<u>\$ 12,172,362</u>

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

16. 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 a long-term target minimum annual return benchmark of the Consumer Price Index plus 6.0%.

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, 2017 and 2016, 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, 2017 and 2016, 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

16. 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, 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets,			
beginning of year	\$ 10,567,195	\$ 20,916,514	\$ 31,483,709
Contributions, net of bad debt expense	347,978	741,997	1,089,975
Interest and dividend income	1,076,934	-	1,076,934
Net appreciation	2,830,394	-	2,830,394
Amounts appropriated for expenditure	(892,363)	-	(892,363)
Endowment net assets, end of year	\$ 13,930,138	\$ 21,658,511	\$ 35,588,649

Endowment net asset composition by fund type and changes in endowment net assets by fund type as of June 30, 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets,			
beginning of year	\$ 12,235,304	\$ 20,563,377	\$ 32,798,681
Contributions, net of bad debt expense	-	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	\$ 10,567,195	\$ 20,916,514	\$ 31,483,709

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. 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,		
2018	\$	1,760,153
2019		1,578,529
2020		1,028,562
2021		301,562
2022		257,279
Thereafter		<u>1,549,439</u>
		6,475,524
Less: present value discount		(350,923)
Less: allowance for uncollectible pledges		<u>(612,460)</u>
Pledges receivable, net		5,512,141
Less: current pledges receivable		<u>(1,728,947)</u>
Noncurrent pledges receivable	\$	<u><u>3,783,194</u></u>

During the years ending June 30, 2017 and 2016, the Foundation had bad debt expense of \$35,277 and \$1,628,113, respectively.

F. Property and Equipment

Property and equipment as of June 30, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 53,000	\$ 53,000
Furniture and equipment	211,927	196,532
Buildings	<u>175,000</u>	<u>175,000</u>
	439,927	424,532
Less: accumulated depreciation	<u>(207,326)</u>	<u>(178,671)</u>
	<u>\$ 232,601</u>	<u>\$ 245,861</u>

Depreciation expense was \$28,655 and \$23,776 for the years ended June 30, 2017 and 2016, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. 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 for the years ended June 30, 2017 and 2016. The cash surrender value of these policies as of June 30, 2017 and 2016 is \$121,277 and \$114,372, 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>2017</u>	<u>2016</u>
Total minimum lease payments to be received	\$ 31,546	\$ 396,224
Less: unearned income	<u>(1,338)</u>	<u>(94,691)</u>
Net investment in capital leases	<u>\$ 30,208</u>	<u>\$ 301,533</u>

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

2018	\$	18,928
2019		<u>12,618</u>
	<u>\$</u>	<u>31,546</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. 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>2017</u>	<u>2016</u>
Funds restricted for specific purposes	\$ 21,758,056	\$ 14,980,870
Scholarships	12,679	28,660
Athletics	<u>4,803</u>	<u>135,638</u>
	<u>\$ 21,775,538</u>	<u>\$ 15,145,168</u>

Permanently restricted net assets at June 30, 2017 and 2016 consist of endowment funds.

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

	<u>2017</u>	<u>2016</u>
Cash	\$ 33,113	\$ 393,991
Pledges receivable	5,292,892	2,990,230
Accounts receivable	8,000	25,000
Investments	16,289,573	11,309,162
Buildings	121,752	125,252
Net investment in capital leases	<u>30,208</u>	<u>301,533</u>
	<u>\$ 21,775,538</u>	<u>\$ 15,145,168</u>

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

	<u>2017</u>	<u>2016</u>
Cash	\$ 49,548	\$ 21,404
Pledges receivable	135,618	78,147
Investments	21,420,345	20,763,963
Land	<u>53,000</u>	<u>53,000</u>
	<u>\$ 21,658,511</u>	<u>\$ 20,916,514</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

J. Temporarily and Permanently Restricted Net Assets, continued

During the years ended June 30, 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2017</u>	<u>2016</u>
Operations and materials	\$ 616,427	\$ 985,409
Student financial aid	771,651	749,778
Athletics	427,634	485,285
Academic programs	1,684,646	1,995,969
General and administrative expenses	303,542	391,214
Fundraising	54,378	65,823
	\$ 3,858,278	\$ 4,673,478

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, \$109,664 and \$177,653 for the years ended June 30, 2017 and 2016, 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 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 140,443	\$ 122,720
Funds due to the University by the Foundation	212,438	218,390
Funds due to the Foundation by the University	5,000	-

Transactions with the University include direct financing capital leases and support for the University as disclosed in Notes 16H and 16I.

SUPPLEMENTAL INFORMATION

MOREHEAD STATE UNIVERSITY

Schedule of Bonds and Capital Lease Obligations

June 30, 2017

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2016</u>	<u>Payments/ Reductions 2016-17</u>	<u>New Issues</u>	<u>Premium Amortization</u>	<u>Outstanding June 30, 2017</u>	<u>Interest Paid 2016-17</u>	<u>Debt Service Requirements 2017-18</u>	
										<u>Principal</u>	<u>Interest</u>
General Receipts:											
2007 Series A Bonds	08/14/07	\$ 6,445,000	4.00	\$ 795,000	\$ 255,000	\$ -	\$ -	\$ 540,000	\$ 26,700	\$ 265,000	\$ 16,300
2008 Series A Bonds	06/10/08	10,000,000	3.00-3.80	4,480,000	780,000	-	-	3,700,000	147,575	805,000	120,228
2011 Series A Bonds	07/25/11	5,090,000	2.00-4.125	4,220,000	230,000	-	-	3,990,000	149,112	225,000	144,138
2012 Series A Bonds	06/15/12	5,060,000	2.00-3.625	4,415,000	225,000	-	-	4,190,000	130,131	230,000	125,581
2013 Series A Bonds	09/10/13	9,475,000	1.00-4.375	8,380,000	390,000	-	-	7,990,000	286,579	410,000	281,119
2014 Series A Bonds	07/24/14	22,620,000	2.00-5.00	20,065,000	1,175,000	-	-	18,890,000	865,400	1,220,000	811,400
2014 Series B Bonds	07/24/14	4,840,000	1.00-5.00	4,340,000	235,000	-	-	4,105,000	156,666	245,000	149,566
2015 Series A Bonds	03/25/15	28,185,000	3.00-5.00	27,960,000	270,000	-	-	27,690,000	1,191,238	285,000	1,177,738
2015 Reoffering Premium	03/25/15	2,835,829	-	2,694,038	-	77,189	145,651	2,625,576	-	145,651	-
2016 Series A Bonds	03/22/16	3,280,000	1.00-3.00	3,240,000	35,000	-	-	3,205,000	74,795	35,000	74,445
2016 Series B Bonds	12/01/16	<u>6,560,000</u>	2.00-3.75	<u>-</u>	<u>-</u>	<u>6,560,000</u>	<u>-</u>	<u>6,560,000</u>	<u>74,804</u>	<u>250,000</u>	<u>203,068</u>
Total General Receipts		104,390,829		80,589,038	3,595,000	6,637,189	145,651	83,485,576	3,103,000	4,115,651	3,103,583

MOREHEAD STATE UNIVERSITY

Schedule of Bonds and Capital Lease Obligations

June 30, 2017

	Issue Date	Net Amount of Issue	Interest Cost	Outstanding June 30, 2016	Payments/Reductions 2016-17	New Issues	Premium Amortization	Outstanding June 30, 2017	Interest Paid 2016-17	Debt Service Requirements 2017-18	
										Principal	Interest
Lease Purchase Agreements:											
MSU Foundation, Inc.	03/01/99	240,000	5.00	47,161	16,953	-	-	30,208	1,973	17,822	1,105
MSU Foundation, Inc.	10/21/02	466,457	9.40	254,371	254,371	-	-	-	-	-	-
Citi Mortgage, Inc.	03/31/05	1,824,000	4.19	532,054	144,221	-	-	387,833	20,798	150,326	14,692
JP Morgan/Chase	03/31/12	9,671,127	2.65	7,776,717	775,642	-	-	7,001,075	198,417	796,401	177,658
Mabry Property	12/19/13	875,000	4.50	593,550	121,732	-	-	471,818	24,220	127,325	18,627
IT Infrastructure (estimated)	06/19/15	10,000,000	2.92	7,004,750	435,537	2,995,250	-	9,564,463	246,742	889,165	267,445
Caudill Property	11/21/14	400,000	6.139	284,704	50,366	-	-	234,338	17,477	53,458	14,385
Rowan Co. Board of Ed	06/16/16	<u>2,000,000</u>	-	<u>1,300,000</u>	-	-	-	<u>1,300,000</u>	-	<u>700,000</u>	-
Total lease purchase		<u>25,476,584</u>		<u>17,793,307</u>	<u>1,798,822</u>	<u>2,995,250</u>	-	<u>18,989,735</u>	<u>509,627</u>	<u>2,734,497</u>	<u>493,912</u>
Total		<u>\$ 129,867,413</u>		<u>\$ 98,382,345</u>	<u>\$5,393,822</u>	<u>\$ 9,632,439</u>	<u>\$ 145,651</u>	<u>\$ 102,475,311</u>	<u>\$ 3,612,627</u>	<u>\$ 6,850,148</u>	<u>\$ 3,597,495</u>

See report of independent auditors.

**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>	<u>2016</u>
University's proportion of the net pension liability (asset)	0.614%	0.617%	0.623%
University's proportionate share of the net pension liability (asset)	\$132,575	\$150,686	\$192,662
University's covered-employee payroll	\$44,381	\$45,275	\$46,253
University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	298.72%	332.82%	416.54%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	42.49%	35.22%

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>	<u>2016</u>
Contractually required contribution	\$4,770	\$4,852	\$4,957
Contributions in relation to the contractually required contribution	\$(4,770)	\$(4,852)	\$(4,957)
Contribution deficiency (excess)	-	-	-
University's covered-employee payroll	\$44,381	\$45,275	\$46,253
Contributions as a percentage of covered-employee payroll	10.75%	10.72%	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>	<u>2016</u>
University's proportion of the net pension liability (asset)	0.67%	0.66%	0.61%
University's proportionate share of the net pension liability (asset)	\$62,124	\$68,784	\$71,768
University's covered-employee payroll	\$11,898	\$11,750	\$10,723
University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	522.14%	585.40%	669.29%
Plan fiduciary net position as a percentage of the total pension liability	25.39%	21.73%	17.54%

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>	<u>2016</u>
Contractually required contribution	\$3,199	\$3,587	\$3,249
Contributions in relation to the contractually required contribution	\$(3,199)	\$(3,587)	\$(3,249)
Contribution deficiency (excess)	-	-	-
University's covered-employee payroll	\$11,898	\$11,750	\$10,723
Contributions as a percentage of covered-employee payroll	26.89%	30.53%	30.30%

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, 2017

<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 Department of Education				
Direct Programs:				
Student Financial Aid Cluster:				
Federal Work Study	84.033		\$ -	\$ 700,308
Federal Pell Grant Program	84.063		-	14,239,613
Federal Supplemental Educational Opportunity Grants Program	84.007		-	501,598
Federal Perkins Loan Program	84.038		-	800,167
Federal Direct Loan Program	84.268		-	40,679,098
Teacher Educational Assistance for College and Higher Education Grant	84.405		-	9,347
			-	56,930,131
TRIO Cluster:				
TALENT SEARCH II 11/16	84.044A		-	36,331
TALENT SEARCH 11/16	84.044A		-	72,045
Talent Search II 16/21	84.044A		-	260,232
Talent Search 16/21	84.044A		-	416,559
UPWARD BOUND MATH/SCI 12/13	84.047M		-	256,386
UPWARD BOUND EAST 12/13	84.047A		-	293,441
UPWARD BOUND CENTRAL 13/14	84.047A		-	605,856
GEAR UP IRAPP 08/14	84.334A		-	(132)
Student Support 15/20	84.042		-	344,758
CEOC-NE 14/19	84.066A		-	479,840
ROWLAND-USED-CEOC-SE 12/17	84.066A		-	261,696
			-	3,027,012
MCLAREN-PEEAK 15/19	84.325K		-	269,987
			-	269,987
Passed through Kentucky Council on Postsecondary Education				
Henderson-Powell-Adult LC 15/1	84.002	PO2 415 1600001699	-	2
Henderson-MSU-Adult LC 15/16	84.002	PO2 415 1600001699	-	3
Henderson-Montgomery LC 15/16	84.002	PO2 415 1600001699	-	4
Henderson-Perform-Bath 16/17	84.002	PO2 415 1700001260 1	-	771
Henderson-Perform-Mont 16/17	84.002	PO2 415 1700001260 1	-	1,632
Henderson-Perform-MSU 16/17	84.002	PO2 415 1700001260 1	-	2,952
Looney-Adult Ed-USED-CPE 15/16	84.002	PO2 415 1600000376	-	3,823
Connell-CPE-GEAR UP-Summer 16	84.334S	PO2 415 1600005103 1	-	13,647
Barton-USED-CPE-Science 15/16	84.367B	PO2 415 1500002816	-	35,811
Blackwell-USED-CPE-STEM 16/17	84.367B	PO2 415 1600003906 1	-	41,485
Connell-USED-CPE-GEAR UP 15/16	84.334S	PO2 415 1600001716	-	45,621
Connell-Adult Ed-USED-CPE 17/1	84.002	PO2 415 1800000428 1	-	165
Henderson-Bath-Adult LC 16/17	84.002	PO2 415 1700001260 1	-	82,184
Henderson-Wolfe-Adult LC 16/17	84.002	PO2 415 1700001260 1	-	83,951
Niles-CPE-Adult Prof Dev 16/17	84.002	PO2 415 1600004037 1	-	89,744
Barton-USED-CPE-Science 16/17	84.367B	PO2 415 1600003325	-	102,752
Henderson-Powell-Adult LC 16/1	84.002	PO2 415 1700001260 1	-	96,817
Connell-USED-CPE-GEAR UP 16/17	84.334S	PO2 415 1700002099	-	106,078
Henderson-MSU-Adult LC 16/17	84.002	PO2 415 1700001260 1	-	124,596
Henderson-WL-Adult LC 16/17	84.002	PO2 415 1700001260 1	-	133,908
Henderson-Montgomery LC 16/17	84.002	PO2 415 1700001260 1	-	165,928
LOONEY-ADULT ED-USED-CPE 16/17	84.002A	PO2 415 1700000216 1	101,934	332,225
Miller-USED-CPE-STEM 17/8	84.367B	PO2 415 1700004407 1	-	6,760
BLACKWELL-USED-CPE-MATH 17/18	84.367B	PO2 415 1700003267	-	17,220
Connell-CPE-GEAR UP-Summer 17	84.334S	PO2 415 1700004608 1	-	25,149
			101,934	1,513,228
Passed through Kentucky Department of Education				
STUBBS-TITLE 1C-DEAN 16/17	84.048A	PON2 540 1600003899 1	-	1,080
Stubbs-USED-KDE-PD 16/17	84.048	PON2 540 1600002698 1	-	3,381
STUBBS-TITLE 1C-IMAGING 16/17	84.048A	PON2 540 1600003899 1	-	6,150
STUBBS-TITLE 1C-NURSE 16/17	84.048A	PON2 540 1600003899 1	-	7,722
STUBBS-TITLE 1C-VET 16/17	84.048A	PON2 540 1600003899 1	-	7,722
Stubbs-USED-KDE-Field Based 16	84.048	PON2 540 1600002698 1	-	19,790
			-	45,845

*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, 2017

<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 Kentucky Education and Workforce Development Cabinet				
MATTINGLY-CDP REHAB 16/18	84.346	PON2 531 1600002267 1	-	770,086
			-	770,086
Passed through National Writing Project Corp				
MASCLE-USED-NWP-SEED 17/18	84.367D	94-KY07-SEED2017-ILI	-	1,000
MASCLE-USED-NWP-SCALE UP 17/18	84.928A	94-KY07-SEED2017-CRW	-	2,705
			-	3,705
Total U.S. Department of Education			101,934	62,559,994
Appalachian Regional Commission				
Direct Programs				
DeMoss-ARC-Dental 15/16	23.001		-	12,131
Marshall-ARC-Develop 15/16	23.011		-	18,933
WALKER-ARC-KY AHED 13/14	23.001		-	171,472
MILLER-ARC-MASTERS 16/17	23.011		50,250	370,000
DeMoss-ARC-Dental 16/17	23.001		-	457,764
			50,250	1,030,300
Passed through East Tennessee State				
Luttrull-ARC-ETSU-ATP 16/17	23.011	220018-11	-	1,823
			-	1,823
Passed through Eastern Kentucky PRIDE				
HAIGHT-PRIDE-ENVIRONMENTAL 16/	23.002	EEG-16-032	-	1,660
NIEHOFF-PRIDE-RECYCLING 16/17	23.002	EEG-16-031	-	2,219
			-	3,879
Total Appalachian Regional Commission			50,250	1,036,002
Corporation for National and Community Service				
Direct Programs				
RSVP-CNCS-Augmentation 15/18	94.002		-	60,423
Judd-CNCS-RSVP 15/18	94.002		-	84,636
			-	145,059
Passed through Kentucky Cabinet for Health and Family Services				
Williams-CNCS-CHFS-MSU Corps 1	94.006	PO2 730 1400006205 2	-	38,181
Williams-CNCS-CHFS-MSU Corps 1	94.006	PON2 730 1700000014 1	-	340,086
			-	378,267
Total Corporation for National and Community Service			-	523,326
Corporation for Public Broadcasting				
Direct Programs				
Hichcock-CPB-Radio 14/16	11.550		-	179
HITCHCOCK-CPB-RADIO 16/18	11.550		-	2,476
Hitchcock-CPB-Radio-Rest 15/17	11.550		-	28,305
HITCHCOCK-CPB-RADIO-REST 16/18	11.550		-	28,786
Hitchcock-CPB-Radio 15/17	11.550		-	53,068
			-	112,814
Total Corporation for Public Broadcasting			-	112,814

*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 Environmental Protection Agency				
Passed through Kentucky Division of Water				
GEARNER-PRINCIPAL LAB 16/18	66.468	PON2 129 1600002199	-	27,591
HAIGHT-TRIPLETT CREEK 16/18	66.605	PON2 129 1600001087	-	8,116
			-	35,707
Passed through Kentucky Energy and Environment Cabinet				
HAIGHT-TRIPLETT CREEK 14/17	66.605	PON2 129 1400001224 1	-	119,684
			-	119,684
Passed through Earth Force				
HAIGHT-EPA-EARTH FORCE 16/17	66.951	NE-00042316-0	-	2,364
			-	2,364
Passed through Kentucky Association for Environmental Education				
HAIGHT-EPA-KAEE-KUPEE 16/17	66.951	NE-00043216-0	-	3,903
			-	3,903
Total US Environmental Protection Agency				
			-	161,658
National Aeronautics and Space Administration				
Direct Programs				
MALPHRUS-NASA-ICECUBE 15/20*	43.001		679,434	1,105,163
MALPHRUS-NASA-FLIGHT 14/16*	43.001			9,046
			679,434	1,114,209
Passed through Busek Company, INC				
Malphrus-BCI-Lunar Cube 15/17*	43.001	S1080	-	304,831
			-	304,831
Passed through Exomedicine, INC				
Malphrus-NASA-Exomedicine 17/1*	43.001	219-602-17-001	-	31,721
			-	31,721
Passed through Jet Propulsion Laboratory				
Malphrus-NASA-JPL-ASTERIA 16/1*	43.001	1545561	-	7,667
Malphrus-NASA-JPL-Antenna 16/1*	43.008	1564889	-	26,136
			-	33,803
Passed through Northern Kentucky University				
Reeder-NASA-NKURF-STEM 13/15	43.008	4000972-S1	-	3,795
			-	3,795
Passed through Smithsonian Astrophysical Observatory				
GRUPE-NASA-SAO-CHANDRA 16/17*	43.001	DD6-17079X	-	11,399
PANNUTI-NASA-SAO-REMNANT 15/16*	43.001	G05-16074X	-	31,413
GRUPE-NASA-SAO-FLUX 17/18*	43.001	DD7-18087X	-	9,261
			-	52,073
Total National Aeronautics and Space Administration				
			679,434	1,540,432
National Highway Traffic Safety Administration				
Passed through Kentucky Transportation Cabinet				
Stidam-NHTSA-KYTC-Sober 16	20.616	PO2 625 1600005770 1	-	705
Stidam-NHTSA-KYTC-Sober 17	20.616	PO2 625 1700004289 1	-	789
			-	1,494
Total National Highway Traffic Safety Administration				
			-	1,494
National Institute of Health				
Direct Programs				
HARE-NIH-MOA OF UmuD 12/16*	93.859	PO2 625 1600004158 1	-	44,090
Gibbs-NIH-Expression 14/17*	93.865		-	86,235
CARLSON-NIH 13/16*	93.865		-	73,217
			-	203,542

*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, 2017

<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 University of Louisville Research Foundation				
INBRE-KBRIN-HARE-LEAD 17/18*	93.859	ULRF 13-1493C-07	-	5,451
INBRE-KBRIN-Cottingham 15/16*	93.859	ULRF 13-1493A-02	-	4,887
INBRE-KBRIN-MATTINGLY 17/18*	93.859	ULRF 13-1493C-07	-	15,569
INBRE-KBRIN-CARLSON 16/17*	93.859	ULRF 13-1493B-02	-	13,739
INBRE-KBRIN-Hare-Lead 16/17*	93.389	ULRF 13-1493B-02	-	16,625
INBRE-KBRIN-HARE-BRIDGE 16/17*	93.389	ULRF 13-1493B-02	-	26,413
INBRE-KBRIN-COTTINGHAM 16/17*	93.859	ULRF 13-1493-08	-	30,536
INBRE-KBRIN-MATTINGLY 16/17*	93.859	ULRF 13-1493B-02	-	96,030
			-	209,250
Total National Institute of Health			-	412,792
National Science Foundation				
Direct Programs				
SCHACK-NSF-TECHNO 14/17*	47.076		-	37,714
THare-NSF-UAV Sensor 16/18*	47.075		-	146,352
			-	184,066
Passed through Eastern Kentucky University				
RISK-NSF-EKU-DATABASE 14/16*	47.074	452944-15-218	-	2,662
			-	2,662
Passed through Kentucky EPSCOR				
OKeefe-NSF-EPSCoR-SOSS 16/17*	47.083	320000271-17-026	-	9,178
			-	9,178
Total National Science Foundation			-	195,906
US Department of Agriculture				
Direct Programs:				
Murphy-Rural Business-USDA 16/	10.769		-	48,744
			-	48,744
Passed through Kentucky Department of Education				
Cady-Summer Food 16	93.658	453042-16-110	-	26,215
			-	26,215
Total US Department of Agriculture			-	74,959
US Department of Defense				
Passed through Eastern Kentucky University				
Hail-DOD-EKU-IC CAE 16/17	12.598	453336-17-213	-	57,900
HAIL-DOD-EKU-IC CAE 15/16	12.598	452952-16-233	-	28,384
			-	86,284
Total US Department of Defense			-	86,284
US Department of Health and Human Services				
Direct Programs				
Barnett-HHS-Suicide Prevention	93.243		-	21,815
			-	21,815
Passed through Eastern Kentucky University				
GEURIN-PCWCP-ASHLAND 16/17	93.658	453229-17-115	-	5,880
GEURIN-PCWCP-PRESTON 16/17	93.658	453229-17-118	-	5,880
GEURIN-PCWCP-MT STERLING 16/17	93.658	453229-17-117	-	5,880
GEURIN-PCWCP-MOREHEAD 16/17	93.658	453229-17-116	-	6,206
LOGAN-TRAINING RESOURCE 16/17	93.658	453226-17-114	-	89,777
Hesterberg-Train Resource 15/1	93.658	453042-16-110	-	(34)
			-	113,589

*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, 2017

<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 Kentucky Administrative Office of the Courts				
Shannon-HHS-AOC-McCracken 15/1	93.243	PON2-025-1300001380	-	9,818
Shannon-HHS-AOC-Warren 15/16	93.243	PON2-025-1300001507	-	10,427
Shannon-HHS-AOC-Letcher 16	93.243	PON2-025-1600001048	-	10,924
Shannon-HHS-AOC-Hopkins 15/16	93.243	PON2-025-1300002591	-	12,221
Shannon-HHS-AOC-Perry 16/17	93.243	PON2-025-1700001013	-	13,804
Shannon-HHS-AOC-Floyd Crt 15/1	93.243	PON2-025-1600000958	-	12,728
Shannon-HHS-AOC-Christian 16/1	93.243	PON2-025-1700001014	-	14,710
Shannon-HHS-AOC-McCracken 16/1	93.243	PON2-025-1700001017	-	15,156
Shannon-HHS-AOC-Hopkins 16/17	93.243	PON2-025-1700001012	-	15,052
Shannon-HHS-AOC-18th District	93.243	PON2-025-1700001019	-	16,765
Shannon-HHS-AOC-Fayette 15/16	93.243	PON2-025-1400001526	-	29,899
Shannon-HHS-AOC-Fayette 16/17	93.243	PON2-025-1700001018	-	33,131
Shannon-HHS-AOC-Allen/Simp 16/	93.243	PON2-025-1700001015	-	34,950
Shannon-HHS-AOC-Letcher 16/17	93.243	PON2-025-1600001048	-	34,732
Shannon-HHS-AOC-Floyd Crt 16/1	93.243	PON2-025-1600000958	-	35,721
Shannon-HHS-AOC-Clark/Mad 15/1	93.243	PON2-025-1400000391	-	54,487
			-	354,525
Passed through Louisville Metro Government				
JUDD-HHS-CAPACITY BLDG 17/18	93.048	90MP0199-03-00	-	2,632
JUDD-HHS-CAPACITY BLDG 16/17	93.048	90MP0199-02-00	-	31,414
			-	34,046
Passed through Mountain Comprehensive Care Center				
Shannon-HHS-MCCC-AOTP 17	93.243	1H795M063530-01	-	7,957
SHANNON-HHS-MCCC-CABHI 17	93.243	1H795M063368-01	-	2,591
Shannon-HHS-MCCC-AWARE 16/17	93.243	1H795M062838-01	-	2,407
Shannon-HHS-MCCC-AWARE 16	93.243	1H795M062838-01	-	3,924
Shannon-HHS-MCCC-CTS 16/17	93.243	1U795M063045-01	-	15,176
Shannon-HHS-MCCC-FVPS 16/17	93.243	90EV0448-01-00	-	18,733
Shannon-HHS-MCCC-ORP Eval 15/1	93.243	1H79TI024834-01	-	21,555
			-	72,343
Passed through Southern California Alcohol Drug Programs				
Shannon-HHS-SCADP-TCE-HIV 15/1	93.243	TI026178	-	10,210
Shannon-HHS-SCADP-La Casita 15	93.243	TI025554	-	5,222
Shannon-HHS-SCADP-TCE-HIV 16/1	93.243	TI026178	-	21,148
Shannon-HHS-SCADP-La Casita 16	93.243	TI025554	-	24,242
			-	60,822
Passed through Volunteers of America Los Angeles				
Shannon-HHS-VOALA-HIV 15/16	93.243	TI024433	-	4,675
Shannon-HHS-VOALA-MAI 15/16	93.243	TI025799	-	6,350
SHANNON-HHS-VOALA-HVCE 16/17	93.243	TI026488	-	8,570
SHANNON-HHS-VOALA-SHAWL 16/17	93.243	TI080011	-	8,156
Shannon-HHS-VOALA-Barracks 15/	93.243	TI025601	-	9,035
Shannon-HHS-VOALA-MAI 16/17	93.243	TI025799	-	11,595
Shannon-HHS-VOALA-Barracks 16/	93.243	TI025601	-	16,390
Shannon-HHS-VOALA-HIV 16/17	93.243	TI024433	-	20,963
			-	85,734
Passed through Volunteers of America Utah				
PERKINS-HHS-VOAU-CISP 16/17*	93.243		-	18,331
			-	18,331
Total US Department of Health and Human Services				
			-	761,205

*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, 2017

<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 Department of Justice				
Passed through Kentucky Administrative Office of the Courts				
Shannon-DOJ-AOC-Jefferson 15/1	93.243	PON2-025-1300001425	-	590
Shannon-DOJ-AOC-Statewide 15/1	93.243	PON2-025-1600000959	-	811
Shannon-DOJ-AOC-Christian 15/1	93.243	PON2-025-1600000961	-	896
Shannon-DOJ-AOC-Campbell 15/16	93.243	PON2-025-1600000957	-	898
Shannon-DOJ-AOC-Fayette VTC 15	93.243	PON2-025-1500001325	-	1,264
Shannon-DOJ-AOC-Perry 15/16	93.243	PON2-025-1400000892	-	1,609
Shannon-DOJ-AOC-John/Mar/Law 1	93.243	PON2-025-1600000947	-	1,658
Shannon-DOJ-AOC-DUI Crt 15/16	93.243	PON2-025-1500001324	-	1,664
Shannon-DOJ-AOC-Floyd 15/16	93.243	PON2-025-1400001527	-	2,205
Shannon-DOJ-AOC-DUI Crt 16/17	93.243	PON2-025-1500001324	-	4,375
Shannon-DOJ-AOC-Fayette VTC 16	93.243	PON2-025-1500001325	-	4,459
Shannon-DOJ-AOC-Hardin Co Eval	93.243	PON2-025-1500001326	-	5,573
Shannon-DOJ-AOC-Hardin VTC 15/	93.243	PON2-025-1400000814	-	6,647
Shannon-DOJ-AOC-Muhlenberg 15/	93.243	PON2-025-1500001328	-	6,665
Shannon-DOJ-AOC-Campbell 16/17	93.243	PON2-025-1600000957	-	8,196
Shannon-DOJ-AOC-Statewide 16/1	93.243	PON2-025-1600000959	-	10,552
Shannon-DOJ-AOC-John/Mar/Law 1	93.243	PON2-025-1600000947	-	11,242
Shannon-DOJ-AOC-Christian 16/1	93.243	PON2-025-1600000961	-	12,201
Shannon-DOJ-AOC-Muhlenberg 16/	93.243	PON2-025-1500001328	-	19,815
			-	101,320
Total US Department of Justice			-	101,320
US Department of Labor				
Direct Programs				
WILSON-DOL-YOUTHBUILD 12/13	17.274		-	17,119
			-	17,119
Passed through Buffalo Trace Area Development District				
Reynolds-Today's Youth 15/16	17.259	FY 16-5245	-	7
REYNOLDS-TODAY'S YOUTH 16/17	17.259	FY 17-5245	-	150,750
			-	150,757
Total US Department of Labor			-	167,876
US Forest Service				
Direct Programs				
Haight-USFS-BioBlitz 16	10.001		-	4,357
			-	4,357
Total US Forest Service			-	4,357
US Geological Survey				
Direct Programs				
O'KEEFE-USGS-PALYNOLOGY 16*	10.001		-	4,044
			-	4,044
Passed through University of Kentucky Research Foundation				
GEARNER-USGS-UKRF-DETECT 16/17*	15.805	320000437-16-190	-	2,545
			-	2,545
Total US Geological Survey			-	6,589
US Small Business Administration				
Passed through University of Kentucky Research Foundation				
Murphy-SBA-UKRF-SBDC 15/16	59.037	3200000358-16-170	-	34,283
Murphy-SBA-UKRF-SBDC 16/17	59.037	3200001037-17-159	-	94,739
			-	129,022
Total US Small Business Administration			-	129,022
Total			\$ 831,618	\$ 67,876,030

*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, 2017 are summarized as follows:

Federal Perkins Loan Program:		
Loans disbursed	\$	800,167
Federal Direct Loan Program:		
Federal Unsubsidized Loans	\$	24,009,900
Federal Subsidized Loans		13,306,976
Federal Plus Loans		3,362,222

As of June 30, 2017, the University had loans outstanding, in the amount of \$3,525,139 with an allowance for doubtful accounts of \$81,713 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. Joseph A. Morgan, 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 net position as of June 30, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 3, 2017.

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. Joseph A. Morgan, President
Page 2

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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

October 3, 2017
Lexington, Kentucky

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

Report of Independent Auditors

Members of the Board of Regents and
Dr. Joseph A. Morgan, 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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, 2017.

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.

The results of our auditing procedures and those of other accountants disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to this matter.

The University's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards

We have audited the financial statements of the University as of and for the year ended June 30, 2017, and have issued our report thereon dated October 3, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Dean Dotson Allen Ford, PLLC

October 26, 2017
Lexington, Kentucky

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Section I – Summary of Auditors’ Results

Financial Statements:

- a. The type of auditors’ report issued on the financial statements: **Unmodified Opinion**
- b. Internal control over financial reporting:
Material weaknesses identified: **No**
Significant deficiencies identified: **None reported**
- c. Noncompliance material to the financial statements noted: **No**

Federal Award:

- d. Internal control over major programs:
Material weaknesses identified: **No**
Significant deficiencies identified: **Yes**
- e. The type of report issued on compliance for major federal programs: **Unmodified Opinion**
- f. Any audit findings which are required to be reported under 2 CFR 200.516(a): **Yes**
- g. Major programs:
Total Student Financial Aid – Cluster (consisting of):
 - 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**Research and Development Cluster:**
 - Biomedical Research and Research Training, CFDA 93.859
 - Child Health and Human Development Extramural Research, CFDA 93.865
 - Science – National Aeronautics and Space Administration, CFDA 43.001
 - Social, Behavioral, and Economic Sciences, CFDA 47.075**Adult Education – Basic Grants to States, CFDA 84.002**
 - Carl D. Perkins Vocational Training Center, CFDA 84.346
 - Supporting Effective Instruction State Grant, CFDA 84.367B
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- i. Auditee qualified as a low-risk auditee: **Yes**

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

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:

Finding 2017-001

Federal Program: U.S. Department of Education - Student Financial Aid Cluster

Criteria:

The University must comply with 34 CFR Section 685.309(b).

Condition:

During our testing of student status changes for withdrawals, we noted some students for which the National Student Loan Data System (NSLDS) was not notified timely of the correct student status change. During the fall and spring semesters, 5 students were not reported to the NSLDS within 60 days of the school's determination date that the student withdrew.

Cause:

The withdrawn status for 5 students was not reported to the NSLDS in a timely manner.

Effect:

Student status changes were not reported within the required timeframe under federal regulations. The provisions of 34 CFR Section 685.309(b) were not followed and thus some students were not reported timely and subsequently were not placed into loan repayment status in a timely manner.

Recommendation:

We recommend that the University implement a control to ensure data is being reviewed for accuracy by the appropriate personnel before roster files are submitted to the NSLDS.

Views of Responsible Officials and Planned Corrective Actions:

We agree with this recommendation and we are in process of implementing a control to ensure data is being reviewed for accuracy by the appropriate personnel before roster files are submitted to the NSLDS.



Office of Accounting and Financial Services

207 Howell-McDowell Administration Bldg.

Morehead, KY 40351

P: 606-783-2019 | F: 606-783-5011

www.moreheadstate.edu

Corrective Action Plan

Morehead State University

Audit Firm: Dean Dorton Allen Ford, PLLC

Audit Period: June 30, 2017

Findings:

1. Student enrollment status changes

Comment: Student enrollment status changes were not reported within the required timeframe under federal regulations for some students, therefore; these students were not placed into loan repayment status in a timely manner.

Action: The University is in process of implementing a control to ensure student enrollment status changes are reported within the required timeframe under federal regulations. We are working with our ERP consultant to ensure accurate and timely data is submitted to the NSLDS.

There were no findings in the prior year.

Kelli Alderman Owen, CPA

Director of Accounting & Financial Services