



Financial Statements

for

MOREHEAD STATE UNIVERSITY

For the Years Ended June 30, 2019 and 2018
with Report of Independent Auditors

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MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis



MANAGEMENT'S DISCUSSION AND ANALYSIS

Morehead State University's (the University) Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial performance of the University for the year ended June 30, 2019. 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 *SOAR 2018-2022 Vision & Strategic Plan*.
- Total assets and deferred outflows of resources were \$355 million versus \$366 million at June 30, 2018. The decrease is primarily related to a decrease in deferred outflows of \$13 million. This was offset by an increase in cash and cash equivalents of \$6.5 million.
- Total liabilities and deferred inflows of resources were \$358 million versus \$398 million at June 30, 2018. The decrease is primarily related to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability of \$57 million, a decrease in bond and capital

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

lease obligations of \$5 million and a decrease in other post-employment benefits (OPEB) liability in the amount of \$4 million. This was offset by an increase in deferred inflows of resources of \$27 million.

- Total net position was (\$3.2) million at June 30, 2019 and (\$32) million at June 30, 2018.

Using the Annual Report

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

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

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

These statements present financial information of the University in a format similar to that used by corporations and present a long-term view of the University's finances. To get a full understanding of the University's financial condition these statements should be reviewed as a whole and not individually. Further important information can be found in the Notes to the Financial Statements, beginning on page 24 of the Financial Statements. The Notes to the Financial Statements contain policies, explanations and schedules that should be reviewed before, during and after reviewing the Financial Statements in order to get a complete understanding.

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Management's Discussion and Analysis, continued

The Statement of Net Position

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

The Statement of Revenues, Expenses and Changes in Net Position

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

The Statement of Cash Flows

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

Reporting Entity

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

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

**Condensed Financial Information
Statements of Net Position (in thousands)**

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Current assets	\$ 43,244	\$ 36,467
Capital assets	264,461	268,126
Other noncurrent assets	<u>18,279</u>	<u>19,348</u>
Total assets	<u>325,984</u>	<u>323,941</u>
 Deferred outflows of resources	 <u>28,594</u>	 <u>42,004</u>
Total assets and deferred outflows of resources	 <u>354,578</u>	 <u>365,945</u>
 <u>Liabilities</u>		
Current liabilities	18,265	20,123
Net pension liability	126,216	183,737
Net OPEB Liability	27,879	31,623
Other noncurrent liabilities	<u>89,091</u>	<u>93,640</u>
Total liabilities	<u>261,451</u>	<u>329,123</u>
 Deferred inflows of resources	 <u>96,345</u>	 <u>69,117</u>
Total liabilities and deferred inflows of resources	 <u>357,796</u>	 <u>398,240</u>
 <u>Net Position</u>		
Net investment in capital assets	173,088	171,463
Restricted, expendable	3,938	5,273
Restricted, nonexpendable	11,525	11,507
Unrestricted	<u>(191,769)</u>	<u>(220,538)</u>
Total net position	<u>\$ (3,218)</u>	<u>\$ (32,295)</u>

Assets and deferred outflows of resources

As of June 30, 2019, the University's total assets and deferred outflows of resources were approximately \$355 million versus \$366 million at June 30, 2018. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$264 million compared to \$268 million at June 30, 2018. Cash and investments, totaling \$44 million at June 30, 2019 and \$38 million at June 30, 2018, were the University's next largest asset. Total assets and deferred outflows of resources decreased by \$11 million during the year ended June 30, 2019. The principal areas of change were:

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

- Cash and cash equivalents increased approximately \$6.5 million, primarily due to decreases in expenditures as a result of operating expense reductions.
- Capital assets, net of accumulated depreciation, decreased approximately \$3.7 million.
- Deferred outflows of resources pensions decreased \$13 million, due to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability. This decrease resulted from changes in funding levels provided by the Commonwealth of Kentucky.

Liabilities and deferred inflows of resources

At June 30, 2019, the University's total liabilities and deferred inflows of resources were approximately \$358 million versus \$398 million in the previous year. Net pension liability represented \$126 million and Net OPEB Liability represented \$28 million of this amount at June 30, 2019. Bonds and capital lease obligations for capital assets represented \$90 million at June 30, 2019 and \$95 million at June 30, 2018. Total liabilities and deferred inflows of resources decreased by \$40 million during the year ended June 30, 2019. This decrease was primarily due to the following:

- Net pension liability decreased \$57 million due to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability.
- Net OPEB liability decreased \$3.7 million due to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net OPEB liability.
- Bonds, notes and capital lease obligations decreased \$5 million, due to debt payments and bond premium amortization.
- Deferred inflows of resources pensions increased \$24 million, due to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability. This decrease resulted from changes in funding levels provided by the Commonwealth of Kentucky.

Net Position

Net position at June 30, 2019 totaled approximately (\$3.2) million compared to (\$32) million at June 30, 2018. Net investment in capital assets, totaled \$173 million versus \$171 million at June 30, 2018. Restricted net position totaled \$15 million compared to \$17 million at June 30, 2018. Unrestricted net position totaled (\$191) million versus (\$221) million at June 30, 2018. Total net position increased by approximately \$29 million during the year ended June 30, 2019.

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 \$1.6 million. This increase is primarily related to reductions in Bonds and capital lease obligations due to debt service payments made during the year.

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 \$1.3 million. This decrease was primarily due to the completion of construction projects and the clearing of financing receivables from the State.

Unrestricted Net Position

Unrestricted net position increased by \$29 million from the previous year to (\$191) million. This increase is due to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability. This decrease resulted from changes in funding levels provided by the Commonwealth of Kentucky. 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>2019</u>	<u>2018</u>
<u>Operating Revenues</u>		
Student tuition and fees, net	\$ 31,255	\$ 36,717
Federal grants and contracts	10,632	11,300
State and local grants and contracts	586	857
Nongovernmental grants and contracts	465	864
Sales and services of educational activities	2,879	2,525
Auxiliary enterprises	19,256	19,322
Other operating revenues	<u>6,088</u>	<u>5,590</u>
Total operating revenues	<u>71,161</u>	<u>77,175</u>
<u>Operating Expenses</u>		
Educational and general	107,207	119,231
Auxiliary enterprises	13,995	12,739
Depreciation	13,048	11,700
GASB 68 pension benefit	(20,847)	(5,974)
GASB 75 OPEB expense	406	1,127
Other operating loss	<u>220</u>	<u>398</u>
Total operating expenses	<u>114,029</u>	<u>139,221</u>
Operating loss	<u>(42,868)</u>	<u>(62,046)</u>
<u>Non-operating Revenues (Expenses)</u>		
Grants and contracts	26,088	25,032
State appropriations	38,852	41,226
Private construction appropriations	-	550
Investment income, net	630	188
Interest on capital assets – debt related	<u>(3,092)</u>	<u>(3,296)</u>
Net non-operating revenues	<u>62,478</u>	<u>63,700</u>
Income before capital appropriations	19,610	1,654
Capital appropriations	<u>9,467</u>	<u>20,517</u>
Increase in net position	29,077	22,171
Net position, beginning of year	(32,295)	(27,126)
Restatement of beginning net position for OPEB liability	<u>-</u>	<u>(27,340)</u>
Net position, beginning of year (adjusted)	<u>(32,295)</u>	<u>(54,466)</u>
Net position, end of year	<u>\$ (3,218)</u>	<u>\$ (32,295)</u>

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Revenues

Total operating revenues were approximately \$71 million for the year ended June 30, 2019 and \$77 million for the year ended June 30, 2018. The most significant sources of operating revenues for the University are net student tuition and fees \$31 million, federal grants and contracts \$11 million, and auxiliary enterprises revenue \$19 million.

- Net student tuition and fees revenue decreased approximately \$5.5 million. There was a \$3 million decrease in gross tuition and fees revenue due to a projected decrease in enrollment. The University's continued commitment to affordability through increased scholarship budgets resulted in a \$2.3 million increase in the financial aid scholarship allowance for tuition, which reduces student tuition and fees revenue. Scholarship allowances were \$37.1 million at June 30, 2019 as compared to \$34.8 million for the year ended June 30, 2018.

Expenses

Operating expenses totaled approximately \$114 million compared to \$139 million at June 30, 2018. Approximately \$107 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 \$25 million decrease in operating expenses was primarily related to a decrease in the University's proportionate share of the Commonwealth of Kentucky's net pension expense for the Kentucky Teachers Retirement System (TRS). These decreases were offset by increases in scholarship awards, depreciation and auxiliary enterprises.

- Pension benefit increased \$15 million primarily due to decreases in the University's proportionate share of the Commonwealth of Kentucky's net pension expense.
- Operating expenses decreased approximately \$10 million due to budgeted reductions in all divisions.
- Institutional financial aid increased \$1.1 million as part of the University's commitment to student success. This was offset by a \$2.3 million increase in total scholarship allowance which decreases student aid.
- OPEB expense decreased \$721 thousand due to decreases in the University's proportionate share of the Commonwealth of Kentucky's net OPEB expense.

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Provided By (Used In):		
Operating activities	\$ (50,917)	\$ (56,955)
Noncapital financing activities	64,940	66,258
Capital and related financing activities	(8,378)	(16,473)
Investing activities	<u>898</u>	<u>(109)</u>
Net increase (decrease) in cash	6,543	(7,279)
Cash, beginning of the year	<u>25,907</u>	<u>33,186</u>
Cash, end of the year	<u>\$ 32,450</u>	<u>\$ 25,907</u>

Major sources of funds included in operating activities are student tuition and fees, \$32 million for the year ended June 30, 2019 compared to \$37 million in the prior year and grants and contracts, \$11 million versus \$13 million in the previous year. The largest cash payments for operating activities were made to suppliers \$67 million versus \$74 million in the previous year and to employees in the amount of \$54 million as compared to \$60 million in the prior year.

The largest cash receipt in noncapital financing activities was the operating appropriation from the Commonwealth of Kentucky of \$38 million compared to \$41 million in the previous year. Cash receipts from non-operating grants and contracts were \$26 million compared to \$25 million in the prior year. Cash used in capital and related financing activities was primarily due to the expenditure of funds 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 \$264 million at June 30, 2019 versus \$268 million at June 30, 2018. This represents a net decrease of \$4 million from June 30, 2018. Significant changes to capital assets during fiscal 2018 - 2019 included:

Buildings and land improvements	\$ 50.1	million
Net change in construction in progress	(42.3)	million
Increase in accumulated depreciation, net	(11.2)	million

Debt

At year-end, the University had \$90 million in outstanding debt versus \$95 million in the previous year. This includes \$73 million in bonds payable and premium amortization compared to \$79 million at June 30, 2018. In addition, the University had capital lease obligations of \$16.6 million compared to \$15.4 million in the previous year.

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

	June 30,	
	<u>2019</u>	<u>2018</u>
General Receipts bonds	\$ 70,705	\$ 76,890
Premium Amortization	2,334	2,480
Capital lease obligations	<u>16,621</u>	<u>15,409</u>
	<u>\$ 89,660</u>	<u>\$ 94,779</u>

Bonds, notes and capital lease obligations decreased \$5 million, due to debt payments and bond premium amortization.

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, 2020 totaling \$140.3 million.
- State Appropriations for the 2019-20 fiscal year will decrease to \$38.5 million from \$38.9 million in the previous fiscal year. The decrease of \$385,600 is a result of the 1 percent stop-loss provision in the state's performance based funding model that prevents any institution from losing more than 1 percent of state funding as a result of implementing the funding formula outlined in the model.

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, 2019 and 2018, 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, 2019 and 2018, 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 and other post-employment benefits (OPEB) supplementary information on pages 82 - 93 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

The supplemental information contained on pages 82 - 93 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 1, 2019 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.



October 1, 2019
Lexington, Kentucky

MOREHEAD STATE UNIVERSITY

Statements of Net Position

June 30, 2019 and 2018

Assets and Deferred Outflows	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 32,450,769	\$ 25,907,022
Accounts, grants and loans receivable, net	8,569,721	8,214,182
Prepaid interest	16,083	16,083
Inventories	1,962,897	2,094,648
Other current assets	<u>244,601</u>	<u>235,187</u>
Total current assets	43,244,071	36,467,122
Noncurrent assets:		
Accounts, grants and loans receivable, net	3,386,790	4,036,757
Prepaid interest	128,663	144,745
Prepaid lease	3,236,509	3,370,709
Investments	11,527,169	11,795,479
Capital assets, net	<u>264,461,092</u>	<u>268,126,255</u>
Total noncurrent assets	<u>282,740,223</u>	<u>287,473,945</u>
Total assets	<u>325,984,294</u>	<u>323,941,067</u>
Deferred outflows of resources:		
Pensions	25,595,846	38,283,821
OPEB	<u>2,997,853</u>	<u>3,720,183</u>
Total deferred outflows of resources	<u>28,593,699</u>	<u>42,004,004</u>
Total assets and deferred outflows of resources	<u>354,577,993</u>	<u>365,945,071</u>
 Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	7,288,987	7,721,752
Unearned revenue	4,439,014	4,873,795
Other current liabilities	1,095,298	1,333,835
Bonds and capital lease obligations, current portion	<u>5,441,807</u>	<u>6,193,331</u>
Total current liabilities	18,265,106	20,122,713
Long-term liabilities:		
Bonds and capital lease obligations, noncurrent portion	84,218,081	88,585,769
Advances from federal government for student loans	3,296,670	3,405,264
Unearned revenue	290,235	290,235
Deferred gain on disposal	1,286,860	1,358,352
Net pension liability	126,215,896	183,736,890
Net OPEB liability	<u>27,878,680</u>	<u>31,623,052</u>
Total long-term liabilities	<u>243,186,422</u>	<u>308,999,562</u>
Total liabilities	<u>261,451,528</u>	<u>329,122,275</u>
Deferred inflows of resources:		
Deferred bond reoffering premium	1,857,933	2,044,806
Pensions	90,495,047	66,508,954
OPEB	<u>3,991,902</u>	<u>563,591</u>
Total deferred inflows of resources	<u>96,344,882</u>	<u>69,117,351</u>
Net position:		
Net investment in capital assets	173,088,017	171,463,177
Restricted:		
Expendable	3,937,751	5,272,577
Nonexpendable	11,525,427	11,507,295
Unrestricted	<u>(191,769,612)</u>	<u>(220,537,604)</u>
Total net position	<u>\$ (3,218,417)</u>	<u>\$ (32,294,555)</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets:		
Cash	\$ 746,374	\$ 308,762
Accounts receivable	29,857	-
Current portion of net investment in capital leases	<u>1,547,190</u>	<u>1,618,914</u>
Total current assets	<u>2,323,421</u>	<u>1,927,676</u>
Noncurrent assets:		
Investments, at fair value	51,652,526	49,571,101
Cash surrender value – life insurance	135,183	126,897
Property and equipment, net	222,577	208,144
Pledges receivable, net of current portion	<u>1,767,006</u>	<u>2,898,989</u>
Total noncurrent assets	<u>53,777,292</u>	<u>52,805,131</u>
Total assets	<u>\$ 56,100,713</u>	<u>\$ 54,732,807</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of annuities payable	\$ 238,101	\$ 228,901
Accounts Payable	56,798	-
Due to Morehead State University	<u>192,189</u>	<u>235,187</u>
Total current liabilities	487,088	464,088
Long-term liabilities:		
Funds held in trust for Morehead State University	10,427,195	10,427,195
Annuities payable, net of current portion	<u>757,930</u>	<u>740,842</u>
Total long-term liabilities	<u>11,185,125</u>	<u>11,168,037</u>
Total liabilities	<u>11,672,213</u>	<u>11,632,125</u>
Net assets:		
Without Donor Restrictions	(1,542,546)	(1,674,141)
With Donor Restrictions	<u>45,971,046</u>	<u>44,774,823</u>
Total net assets	<u>44,428,500</u>	<u>43,100,682</u>
Total liabilities and net assets	<u>\$ 56,100,713</u>	<u>\$ 54,732,807</u>

See accompanying notes

MOREHEAD STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$37,167,078 and \$34,848,357)	\$ 31,254,824	\$ 36,716,745
Federal grants and contracts	10,632,323	11,300,391
State and local grants and contracts	585,678	856,922
Nongovernmental grants and contracts	465,472	863,672
Sales and services of educational activities	2,879,440	2,525,299
Auxiliary enterprises:		
Residence halls (net of scholarship allowances of \$1,460,328 and \$1,281,846)	13,917,275	13,584,196
Bookstore	3,551,681	3,925,263
Other auxiliaries	1,786,838	1,813,012
Other operating revenues	<u>6,088,194</u>	<u>5,589,466</u>
Total operating revenues	71,161,725	77,174,966
Operating expenses:		
Education and general:		
Instruction	41,860,425	42,673,285
Research	1,395,435	1,989,530
Public service	4,384,765	6,156,073
Library	2,776,780	3,238,101
Academic support	6,141,662	8,127,439
Student services	16,794,487	17,237,164
Institutional support	11,685,655	14,832,176
Operation and maintenance of plant	9,807,284	12,325,305
Depreciation	13,047,674	11,699,550
Student aid	12,360,719	12,652,181
Auxiliary enterprises:		
Residence halls	6,281,126	7,305,519
Bookstore	3,512,659	3,705,141
Other auxiliaries	4,201,531	1,727,655
GASB 68 pension benefit	(20,846,926)	(5,973,899)
GASB 75 OPEB expense	406,269	1,127,407
Other operating loss	<u>220,433</u>	<u>398,228</u>
Total operating expenses	<u>114,029,978</u>	<u>139,220,855</u>
Operating loss	(42,868,253)	(62,045,889)

MOREHEAD STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Nonoperating revenues (expenses):		
Grants and contracts	26,087,889	25,031,413
State appropriations	38,852,400	41,226,200
Private construction appropriations	-	550,000
Investment income, net	629,719	188,308
Interest on capital asset-related debt	<u>(3,092,135)</u>	<u>(3,296,201)</u>
Net nonoperating revenues	<u>62,477,873</u>	<u>63,699,720</u>
Income before capital appropriations	19,609,620	1,653,831
Capital appropriations	<u>9,466,518</u>	<u>20,516,936</u>
Increase in net position	29,076,138	22,170,767
Net position, beginning of year	(32,294,555)	(27,126,270)
Restatement of beginning net position for OPEB liability	<u>-</u>	<u>(27,339,052)</u>
Net position, beginning of year (adjusted)	<u>(32,294,555)</u>	<u>(54,465,322)</u>
Net position, end of year	<u>\$ (3,218,417)</u>	<u>\$ (32,294,555)</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 46,599	\$ 3,470,762	\$ 3,517,361
Other revenue and gains:			
Investment income:			
Interest and dividend income, net	86,248	233,743	319,991
Realized and unrealized gains	51,348	1,631,574	1,682,922
In-kind contributed services	119,635	-	119,635
Other Income	659,773	395,783	1,055,556
Annuities payable adjustment	(184,284)	-	(184,284)
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>4,442,897</u>	<u>(4,442,897)</u>	<u>-</u>
Total revenues and other support	5,222,216	1,288,965	6,511,181
Expenses:			
Program services expenses:			
Contributions to Morehead State University for:			
Academic programs	2,683,383	-	2,683,383
Athletics	259,391	-	259,391
University support:			
Operations and materials	905,796	-	905,796
Student financial aid	924,265	-	924,265
Athletics	<u>104,055</u>	<u>-</u>	<u>104,055</u>
Total program expenses	4,876,890	-	4,876,890
General and administrative	166,978	-	166,978
Bad debt expense	1,285	92,742	94,027
Fundraising	<u>45,468</u>	<u>-</u>	<u>45,468</u>
Total Expenses	<u>5,090,621</u>	<u>92,742</u>	<u>5,183,363</u>
Change in net assets	131,595	1,196,223	1,327,818
Net assets, beginning of year	<u>(1,674,141)</u>	<u>44,774,823</u>	<u>43,100,682</u>
Net assets, end of year	<u>\$ (1,542,546)</u>	<u>\$ 45,971,046</u>	<u>\$ 44,428,500</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2018

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 154,172	\$ 2,268,003	\$ 2,422,175
Other revenue and gains:			
Investment income:			
Interest and dividend income, net	55,400	1,004,145	1,059,545
Realized and unrealized (losses) gains	(91,819)	1,973,363	1,881,544
In-kind contributed services	142,525	-	142,525
Development activities	503,339	276,433	779,772
Annuities payable adjustment	(66,126)	-	(66,126)
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>4,046,870</u>	<u>(4,046,870)</u>	<u>-</u>
Total revenues and other support	4,744,361	1,475,074	6,219,435
Expenses:			
Program services expenses:			
Contributions to Morehead State University for:			
Academic programs	1,948,131	-	1,948,131
Athletics	279,668	-	279,668
University support:			
Operations and materials	1,099,175	-	1,099,175
Student financial aid	902,760	-	902,760
Athletics	<u>163,855</u>	<u>-</u>	<u>163,855</u>
Total program expenses	4,393,589	-	4,393,589
General and administrative	112,154	-	112,154
Bad debt expense	9,675	134,300	143,975
Fundraising	<u>53,895</u>	<u>-</u>	<u>53,895</u>
Total expenses	<u>4,569,313</u>	<u>134,300</u>	<u>4,703,613</u>
Change in net assets	175,048	1,340,774	1,515,822
Net assets, beginning of year	<u>(1,849,189)</u>	<u>43,434,049</u>	<u>41,584,860</u>
Net assets, end of year	<u>\$ (1,674,141)</u>	<u>\$ 44,774,823</u>	<u>\$ 43,100,682</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services								
	Contributions to MSU		University Support				General and Administrative	Fundraising and Development	Total
	Academic Programs	Athletics	Operations and Materials	Student Financial Aid	Athletics	Total			
Transfers to MSU	\$ 2,163,720	\$ 259,391	\$ -	\$ -	\$ -	\$ 2,423,111	\$ -	\$ -	\$ 2,423,111
Scholarship expense	-	-	-	924,265	-	924,265	-	-	924,265
Program expense	-	-	659,556	-	98,753	758,309	-	-	758,309
Contributions to MSU-GIK	515,072	-	-	-	-	515,072	-	-	515,072
General operating expense	-	-	153,218	-	-	153,218	-	-	153,218
Software & maintenance	-	-	-	-	-	-	111,751	-	111,751
Special events/Cultivation	-	-	-	-	-	-	-	45,468	45,468
Recognition & awards	-	-	36,599	-	-	36,599	-	-	36,599
Depreciation	-	-	23,874	-	-	23,874	-	-	23,874
External audit	-	-	-	-	-	-	21,392	-	21,392
General operating - CC Fees	-	-	-	-	-	-	17,455	-	17,455
Travel & entertainment	-	-	14,079	-	-	14,079	-	-	14,079
Income tax expense	-	-	-	-	-	-	12,380	-	12,380
President's discretionary fund	-	-	6,998	-	-	6,998	-	-	6,998
Membership	-	-	6,920	-	-	6,920	-	-	6,920
Insurance	-	-	-	-	5,302	5,302	-	-	5,302
Interest expense	4,591	-	-	-	-	4,591	-	-	4,591
Legal	-	-	-	-	-	-	4,000	-	4,000
Vehicle & maintenance	-	-	2,369	-	-	2,369	-	-	2,369
Materials & supplies	-	-	2,183	-	-	2,183	-	-	2,183
Total expenses by function	\$ 2,683,383	\$ 259,391	\$ 905,796	\$ 924,265	\$ 104,055	\$ 4,876,890	\$ 166,978	\$ 45,468	\$ 5,089,336

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statement of Functional Expenses

Year ended June 30, 2018

	Program Services								
	Contributions to MSU		University Support				General and Administrative	Fundraising and Development	Total
	Academic Programs	Athletics	Operations and Materials	Student Financial Aid	Athletics	Total			
Transfers to MSU	\$ 1,768,044	\$ 279,668	\$ -	\$ -	\$ -	\$ 2,047,712	\$ -	\$ -	\$ 2,047,712
Program expense	-	-	873,684	-	155,784	1,029,468	-	-	1,029,468
Scholarship expense	-	-	-	902,760	-	902,760	-	-	902,760
Contributions to MSU-GIK	174,481	-	-	-	-	174,481	-	-	174,481
General operating expense	-	-	163,765	-	-	163,765	-	-	163,765
Software & maintenance	-	-	-	-	-	-	74,186	-	74,186
Special events/Cultivation	-	-	-	-	-	-	-	53,895	53,895
Depreciation	-	-	24,457	-	-	24,457	-	-	24,457
External audit	-	-	-	-	-	-	20,043	-	20,043
President's discretionary fund	-	-	15,830	-	-	15,830	-	-	15,830
General operating - CC Fees	-	-	-	-	-	-	13,925	-	13,925
Travel & entertainment	-	-	12,987	-	-	12,987	-	-	12,987
Insurance	-	-	-	-	8,071	8,071	-	-	8,071
Membership	-	-	6,190	-	-	6,190	-	-	6,190
Interest expense	5,606	-	-	-	-	5,606	-	-	5,606
Legal	-	-	-	-	-	-	4,000	-	4,000
Materials & supplies	-	-	1,580	-	-	1,580	-	-	1,580
Vehicle & maintenance	-	-	429	-	-	429	-	-	429
Recognition & awards	-	-	253	-	-	253	-	-	253
Total expenses by function	\$ 1,948,131	\$ 279,668	\$ 1,099,175	\$ 902,760	\$ 163,855	\$ 4,393,589	\$ 112,154	\$ 53,895	\$ 4,559,638

MOREHEAD STATE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Tuition and fees	\$ 32,462,222	\$ 36,926,912
Grants and contracts	11,069,747	12,498,347
Payments to suppliers	(67,302,442)	(74,280,270)
Payments to employees	(54,382,540)	(60,178,253)
Loans issued to students	-	(633,359)
Collection of loans issued to students	591,135	588,007
Auxiliary enterprises:		
Residence halls	13,917,275	13,584,196
Bookstore	3,492,768	4,433,049
Other auxiliaries	1,786,480	1,720,390
Sales and services of educational activities	2,790,734	2,481,695
Other receipts	<u>4,657,627</u>	<u>5,904,173</u>
Net cash used in operating activities	(50,916,994)	(56,955,113)
 Cash flows from noncapital financing activities:		
Nonoperating grants and contracts	26,087,889	25,031,413
State appropriations	<u>38,852,400</u>	<u>41,226,200</u>
Net cash provided by noncapital financing activities	64,940,289	66,257,613
 Cash flows from capital and related financing activities:		
Capital appropriations	9,466,518	20,516,936
Private construction appropriations	-	550,000
Purchase of capital assets	(9,540,236)	(26,570,716)
(Decrease) increase in advances from federal government for student loans	(108,594)	7,510
Issuance of new debt	2,674,598	-
Principal paid on capital debt and leases	(7,648,159)	(7,550,560)
Interest paid on capital debt and leases	<u>(3,221,704)</u>	<u>(3,425,769)</u>
Net cash used in capital and related financing activities	(8,377,577)	(16,472,599)
 Cash flows from investing activities:		
Interest received on investments, net	629,719	188,308
Changes in investments, net	<u>268,310</u>	<u>(297,069)</u>
Net cash provided by (used in) investing activities	<u>898,029</u>	<u>(108,761)</u>
 Net increase (decrease) in cash and cash equivalents	6,543,747	(7,278,860)
Cash and cash equivalents, beginning of year	<u>25,907,022</u>	<u>33,185,882</u>
Cash and cash equivalents, end of year	<u>\$ 32,450,769</u>	<u>\$ 25,907,022</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss		
to net cash used in operating activities:		
Operating loss	\$ (42,868,253)	\$ (62,045,889)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	13,047,674	11,699,550
Loss on disposal of capital assets	157,725	339,429
Bad debt expense	973,257	926,855
Changes in assets and liabilities:		
Receivables, net	(678,829)	2,830
Inventories	131,751	(529,861)
Other current assets	(9,414)	(22,749)
Prepaid lease	134,200	130,291
Accounts payable and accrued liabilities	(432,765)	(1,744,463)
Unearned revenue	(434,781)	(937,851)
Deferred gain on disposal	(71,492)	(71,492)
Deferred outflows/inflows	40,637,836	71,375,921
Net pension liability	(57,520,994)	(80,693,285)
Net OPEB liability	(3,744,372)	4,284,000
Other liabilities	<u>(238,537)</u>	<u>331,601</u>
 Net cash used in operating activities	 <u>\$ (50,916,994)</u>	 <u>\$ (56,955,113)</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

Morehead State University (the University) is a comprehensive public university with robust undergraduate and graduate programs, emerging doctoral programs, and an emphasis on community engagement. MSU aspires to be the best public regional university in the South through prioritizing and focusing on the goals of student success; outcomes (performance based funding); academic excellence; and rankings, reputation, and regional responsiveness. 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. 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 67% of total inventories at both June 30, 2019 and 2018 are stated at the lower of cost (retail inventory method) or market. The remainder of the inventories is stated at the lower of moving-average-cost or market.

Investments

The University values investments at fair value based on quoted market prices. Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Capital Assets

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

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

Accrued Vacation Pay

Accrued vacation pay is included in accounts payable and accrued liabilities in the statement of net 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 re-loaned 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.

Pensions and OPEB

It is the University's policy to present total pension and other post-employment benefits (OPEB) expense related to the implementation of Governmental Accounting Standards Board (GASB) Statements No. 68 and 75 discretely on the Statements of Revenues, Expenses, and Changes in Net Position.

The University participates in the Kentucky Teachers Retirement System and the Kentucky Retirement System. These are cost sharing, multiple employer defined benefit pension and OPEB plans, which cover all eligible full-time employees and provide for retirement, disability, death and survivor benefits and medical insurance.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Pensions and OPEB, continued

Effective July 1, 2017, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)* (Statement 75). Statement 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB 75 is applicable for government agencies that provide defined benefit OPEB and requires these agencies to recognize their long-term obligation for OPEB as a liability to more comprehensively and comparably measure the annual cost. The University participates in the Kentucky Teachers Retirement System (TRS) and the Kentucky Retirement System (KRS) OPEB plans, which are each administered by their Board of Trustees. These are cost sharing, multiple employer defined benefit OPEB plans, which cover all eligible full-time employees and provide health insurance benefits. Cost-sharing governmental employers, such as the University, are required to report a net OPEB liability, OPEB expense and OPEB-related assets and liabilities based on their proportionate share of the collective amounts for all government agencies in the plan. For these purposes amounts have been determined on the same basis as they are reported by TRS and KRS. The TRS and KRS financial statements are prepared using the accrual basis of accounting with benefits being recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value. All governments participating in the defined benefit OPEB plan are also required to disclose various information in the footnotes to the combined financial statements – see Note 7.

The University has elected to utilize the cumulative effect of a change in accounting principle option permitted by Statement 75 as the University has determined that restatement of all prior periods presented is not practical.

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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Restricted Asset Spending Policy

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

Operating Activities

The University defines operating activities, as reported on the statement of revenues, expenses and changes in net 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.

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.

Subsequent Events

Management evaluated the period from July 1, 2019 to October 1, 2019 (the date the financial statements were ready to be issued) for items requiring recognition or disclosure in the financial statements.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

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 in the University’s name.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the University’s deposits may not be returned to the University. As a means of limiting its exposure to losses from custodial credit risk, the University’s deposits and investments are held by the state treasurer, collateralized by securities in the University’s name, insured by the FDIC or in the University’s name.

At June 30, 2019 and 2018, the University had petty cash funds totaling \$12,058 and \$16,665, respectively, and deposits as reflected by bank balances as follows:

	<u>2019</u>	<u>2018</u>
Insured, commercial banks	\$ 250,000	\$ 250,000
Uninsured, commercial banks; collateral held by pledging institution’s agent in the University’s name	21,477,591	16,329,456
Maintained by Commonwealth of Kentucky	<u>10,711,120</u>	<u>9,310,901</u>
	<u>\$ 32,438,711</u>	<u>\$ 25,890,357</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

2. Cash, Cash Equivalents and Investments, continued

As of June 30, 2019 and 2018, investments consisted of:

	<u>2019</u>	<u>2018</u>
Insured and registered, with securities held by the counterparty or by its trust department or agent, in the University's name:		
Money market funds – restricted for capital purposes	\$ 1,742	\$ 288,184
Equity mutual funds	<u>983,540</u>	<u>966,382</u>
	985,282	1,254,566
Certificate of deposit	114,692	113,718
Restricted assets held by the Morehead State University Foundation, Inc.	<u>10,427,195</u>	<u>10,427,195</u>
	<u>\$ 11,527,169</u>	<u>\$ 11,795,479</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.

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, 2019 and 2018, are invested as follows:

	<u>2019</u>	<u>2018</u>
Percentage of pool invested in:		
Registered investment companies fixed income funds	10%	26%
Registered investment companies equity fund	12%	30%
Registered investment companies alternative investments	<u>78%</u>	<u>44%</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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

2. Cash, Cash Equivalents and Investments, continued

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.

3. Accounts, Grants and Loans Receivable

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

	<u>2019</u>	<u>2018</u>
Student tuition and fees	\$ 4,219,261	\$ 4,615,156
Financing and interest receivable	1,497,630	305,652
Scholarship receivable	238,581	329,254
Student loans	3,446,784	4,117,462
Grants and contracts	2,737,025	2,587,926
Auxiliary enterprises	574,143	514,676
Other	<u>819,221</u>	<u>1,401,115</u>
	13,532,645	13,871,241
Allowance for doubtful accounts	<u>(1,576,134)</u>	<u>(1,620,302)</u>
	11,956,511	12,250,939
Current portion	<u>(8,569,721)</u>	<u>(8,214,182)</u>
Noncurrent portion	<u>\$ 3,386,790</u>	<u>\$ 4,036,757</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net

Capital assets as of June 30, 2019, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>CIP Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 23,668,388	\$ -	\$ -	\$ -	\$ 23,668,388
Buildings	327,929,312	1,424,320	49,630,039	904,769	378,078,902
Library books	27,718,962	30,378	-	-	27,749,340
Vehicles	1,814,431	-	-	161,121	1,653,310
Equipment and livestock	33,067,157	771,888	-	937,525	32,901,520
Colleague	4,202,200	-	-	-	4,202,200
Art collection	1,106,605	-	-	-	1,106,605
Construction in progress	<u>42,408,659</u>	<u>7,463,112</u>	<u>(49,630,039)</u>	<u>149,462</u>	<u>92,270</u>
	461,915,714	9,689,698	-	2,152,877	469,452,535
<u>Accumulated depreciation</u>					
Land improvements	10,458,710	557,915	-	-	11,016,625
Buildings	132,433,335	9,043,060	-	762,293	140,714,102
Library books	25,103,618	681,564	-	-	25,785,182
Vehicles	1,717,024	53,694	-	161,121	1,609,597
Equipment and livestock	19,874,572	2,711,441	-	922,276	21,663,737
Colleague	<u>4,202,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,202,200</u>
	<u>193,789,459</u>	<u>13,047,674</u>	<u>-</u>	<u>1,845,690</u>	<u>204,991,443</u>
Capital assets, net	<u>\$ 268,126,255</u>	<u>\$ (3,357,976)</u>	<u>\$ -</u>	<u>\$ (307,187)</u>	<u>\$ 264,461,092</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net, continued

Capital assets as of June 30, 2018, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>CIP Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 23,668,388	\$ -	\$ -	\$ -	\$ 23,668,388
Buildings	322,348,773	604,704	5,928,301	952,466	327,929,312
Library books	27,445,876	273,086	-	-	27,718,962
Vehicles	1,916,333	-	-	101,902	1,814,431
Equipment and livestock	24,854,831	321,070	9,272,602	1,381,346	33,067,157
Colleague	4,202,200	-	-	-	4,202,200
Art collection	1,048,555	58,050	-	-	1,106,605
Construction in progress	<u>32,295,756</u>	<u>25,520,634</u>	<u>(15,200,903)</u>	<u>206,828</u>	<u>42,408,659</u>
	437,780,712	26,777,544	-	2,642,542	461,915,714
<u>Accumulated Depreciation</u>					
Land improvements	9,892,778	565,932	-	-	10,458,710
Buildings	124,388,506	8,680,493	-	635,664	132,433,335
Library books	24,389,158	714,460	-	-	25,103,618
Vehicles	1,737,535	81,391	-	101,902	1,717,024
Equipment and livestock	19,576,017	1,657,274	-	1,358,719	19,874,572
Colleague	<u>4,202,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,202,200</u>
	<u>184,186,194</u>	<u>11,699,550</u>	<u>-</u>	<u>2,096,285</u>	<u>193,789,459</u>
Capital assets, net	<u>\$ 253,594,518</u>	<u>\$ 15,077,994</u>	<u>\$ -</u>	<u>\$ (546,257)</u>	<u>\$ 268,126,255</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>2019</u>	<u>2018</u>
Payable to vendors and contractors	\$ 1,720,445	\$ 375,726
Accrued vacation	1,918,015	2,069,734
Accrued sick leave liability	665,922	803,029
Accrued salaries and other liabilities	<u>2,984,605</u>	<u>4,473,263</u>
	<u>\$ 7,288,987</u>	<u>\$ 7,721,752</u>

6. Long-Term Liabilities

Long-term liabilities at June 30, 2019, 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	\$ 76,890,000	\$ -	\$ 6,185,000	\$ 70,705,000	\$ 3,500,000	\$ 67,205,000
Premium amortization	2,479,925	-	145,651	2,334,274	145,651	2,188,623
Capital lease obligations	9,204,501	2,674,598	645,443	11,233,656	956,554	10,277,102
Energy Savings Capital Lease	<u>6,204,674</u>	<u>-</u>	<u>817,716</u>	<u>5,386,958</u>	<u>839,602</u>	<u>4,547,356</u>
Total bonds and capital lease obligations	94,779,100	2,674,598	7,793,810	89,659,888	5,441,807	84,218,081
Federal refundable grants	<u>3,405,264</u>	<u>-</u>	<u>108,594</u>	<u>3,296,670</u>	<u>-</u>	<u>3,296,670</u>
Total long-term liabilities	<u>\$ 98,184,364</u>	<u>\$ 2,674,598</u>	<u>\$ 7,902,404</u>	<u>\$ 92,956,558</u>	<u>\$ 5,441,807</u>	<u>\$ 87,514,751</u>

Long-term liabilities at June 30, 2018, 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	\$ 80,860,000	\$ -	\$ 3,970,000	\$ 76,890,000	\$ 4,125,000	\$ 72,765,000
Premium amortization	2,625,576	-	145,651	2,479,925	145,651	2,334,274
Capital lease obligations	11,988,660	-	2,784,159	9,204,501	1,104,964	8,099,537
Energy Savings Capital Lease	<u>7,001,075</u>	<u>-</u>	<u>796,401</u>	<u>6,204,674</u>	<u>817,716</u>	<u>5,386,958</u>
Total bonds and capital lease obligations	102,475,311	-	7,696,211	94,779,100	6,193,331	88,585,769
Federal refundable grants	<u>3,397,754</u>	<u>7,510</u>	<u>-</u>	<u>3,405,264</u>	<u>-</u>	<u>3,405,264</u>
Total long-term liabilities	<u>\$ 105,873,065</u>	<u>\$ 7,510</u>	<u>\$ 7,696,211</u>	<u>\$ 98,184,364</u>	<u>\$ 6,193,331</u>	<u>\$ 91,991,033</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>2019</u>	<u>2018</u>
4.00% General Receipts Bonds, 2007 Series A, partially advance refunded with issuance of 2016 Series A Bonds, remaining principle repayable in semiannual installments with the final installment paid in November, 2018	\$ -	\$ 275,000
3.00-3.80% General Receipts Bonds, 2008 Series A, advance refunded with issuance of capital lease obligation with Kentucky Bank in June, 2019	-	2,895,000
2.00-4.125% General Receipts Bonds, 2011 Series A Improvement Bonds, repayable in semi-annual installments with the final installment due November, 2030	3,525,000	3,765,000
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	3,725,000	3,960,000
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	7,175,000	7,580,000
2.00-5.00% General Receipts Refunding Bonds, 2014 Series A, repayable in semi-annual installments with the final installment due October, 2028	16,385,000	17,670,000
1.00-5.00% General Receipts Refunding Bonds, 2014 Series B, repayable in semi-annual installments with the final installment due October, 2029	3,605,000	3,860,000
3.00-5.00% General Receipts Bonds, 2015 Series A, repayable in semi-annual installments with the final installment due April, 2035	27,100,000	27,405,000
1.00-3.00% General Receipts Refunding Bonds, 2016 Series A, repayable in semi-annual installments with the final installment due November, 2027	3,135,000	3,170,000
2.00-3.75% General Receipts Bonds, 2016 Series B, repayable in semi-annual installments with the final installment due November, 2036	6,055,000	6,310,000
General Receipts Bonds, 2015 Series A Reoffering Premium, amortized over semi-annual installments with the final installment amortized April 2035	2,334,274	2,479,925
2.65% Capital lease obligation with JP Morgan/Chase, repayable in quarterly installments with the final installment due June, 2025	5,386,958	6,204,674
4.50-5.99% Capital lease obligation for land acquisition, repayable in monthly installments with the final installment due June, 2023	233,936	344,493
6.139% Capital lease obligation for land acquisition, repayable in annual installments with the final installment due November, 2020	124,141	180,881
3.50-4.50% Capital lease obligation with Kentucky Bank, repayable in monthly installments with the final installment due September, 2033	8,200,981	8,679,127
3.65% Capital lease obligation with Kentucky Bank, repayable in monthly installments with the final installment due June, 2027	2,066,763	-
5.063% Capital lease obligation with Dell financial, repayable in annual installments with the final installment due August, 2023	<u>607,835</u>	<u>-</u>
	<u>\$ 89,659,888</u>	<u>\$ 94,779,100</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

6. Long-Term Liabilities, continued

Capital Leases

The capital leases consist of leases of real estate and equipment. The leased equipment includes items related to an energy savings project and information technology (IT) infrastructure upgrade.

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

	<u>2019</u>	<u>2018</u>
Real estate and equipment	\$ 20,826,564	\$ 20,218,729
Less: accumulated depreciation	<u>(5,131,591)</u>	<u>(2,793,514)</u>
	<u>\$ 15,694,973</u>	<u>\$ 17,425,215</u>

During the year ended June 30, 2019, the University entered into a capital lease obligation with Kentucky Bank that had a principal balance of \$2,066,763 as of June 30, 2019. This obligation is secured by various fixed assets as defined in the agreement.

The following is a schedule by years of future minimum payments required for the capital lease obligations as of June 30, 2019:

Year ending June 30,		
2020		2,306,812
2021		2,290,003
2022		2,189,954
2023		2,166,312
2024		2,156,012
Thereafter		<u>8,873,550</u>
Total minimum lease payments		19,982,643
Less: amounts representing interest		<u>(3,362,029)</u>
Present value of minimum lease payments		<u>\$ 16,620,614</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

6. Long-Term Liabilities, continued

The principal and interest repayment requirements relating to the outstanding bonds at June 30, 2019, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2020	3,500,000	2,739,579	6,239,579
2021	3,800,000	2,603,235	6,403,235
2022	4,800,000	2,446,891	7,246,891
2023	5,030,000	2,239,748	7,269,748
2024	5,090,000	2,020,060	7,110,060
2025-2037	<u>48,485,000</u>	<u>9,436,923</u>	<u>57,921,923</u>
	<u>\$ 70,705,000</u>	<u>\$ 21,486,436</u>	<u>\$ 92,191,436</u>

If the University fails to make timely payment of any General Receipts Bond, the Secretary of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet") is obligated, pursuant to KRS 164A.608, to apply to such payment, any funds that have been appropriated to the University that have not yet been disbursed.

7. Pension & OPEB Plans

Kentucky Teachers Retirement System - Pension

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 (TRS). TRS, a cost sharing, multiple-employer defined benefit pension and OPEB plan with a special funding situation, provides retirement and OPEB 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. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://trs.ky.gov/financial-reports-information>.

Funding for the plan for the year ended June 30, 2018 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 TRS through appropriations to the University. Contribution requirements of the plan members and the University are established by Kentucky Revised Statute and the TRS Board of Trustees.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System – Pension, continued

The University's contributions to TRS for the years ended June 30, 2018 and 2017 were \$4,778,344 and \$4,826,174, respectively.

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

At June 30, 2019 and 2018, 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>2019</u>	<u>2018</u>
University's proportionate share of the net pension liability	\$52,598,012	\$103,481,662
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>39,132,513</u>	<u>82,472,921</u>
Total	<u>\$91,730,525</u>	<u>\$185,954,583</u>

The net pension liability was measured as of June 30, 2018 and 2017 (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, 2018 and 2017, the University's proportion was 0.383 and 0.366 percent, respectively.

For the years ended June 30, 2019 and 2018, the valuation of the University's net pension liability resulted in the recognition of pension (benefit) expense of (\$19,139,324) and \$(6,993,727), respectively.

At June 30, 2019, 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	\$ 426,354	\$ 5,300,457
Changes of assumptions	8,860,561	41,970,212
Net difference between projected and actual earnings on pension plan investments	-	1,300,069
Changes in proportion and differences between University contributions and proportionate share of contributions	5,392,158	35,227,372
University contributions subsequent to the measurement date	<u>3,934,245</u>	<u>-</u>
Total	<u>\$ 18,613,318</u>	<u>\$ 83,798,110</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System - Pension, continued

\$3,934,245 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, 2020. 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:	
2020	(\$ 23,228,680)
2021	(24,864,086)
2022	(16,174,872)
2023	<u>(4,851,398)</u>
	<u><u>(\$ 69,119,036)</u></u>

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 596,649	\$ 2,188,564
Changes of assumptions	12,812,158	7,183,864
Net difference between projected and actual earnings on pension plan investments	-	800,659
Changes in proportion and differences between University contributions and proportionate share of contributions	5,154,845	50,543,620
University contributions subsequent to the measurement date	<u>4,778,253</u>	<u>-</u>
Total	<u><u>\$ 23,341,905</u></u>	<u><u>\$ 60,716,707</u></u>

\$4,778,253 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, 2019.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System - Pension, continued

Actuarial assumptions. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	3.50-7.30%, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Municipal Bond Index Rate	
Prior Measurement Date	3.56%
Measurement Date	3.89%
Year fiduciary net position (FNP)	
is projected to be depleted	N/A
Single Equivalent Interest rate, net of pension plan investment expense, including inflation	
Prior Measurement Date	4.49%
Measurement Date	7.50%
Post-Retirement Benefit Increases	1.50% annually

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 BB to 2025, set forward two years for males and one year for females.

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	40.0%	4.2%
International Equity	22.0%	5.2%
Fixed Income	15.0%	1.2%
Additional Categories*	8.0%	3.3%
Real Estate	6.0%	3.8%
Private Equity	7.0%	6.3%
Cash	2.0%	0.9%

*Includes High Yield, Non-US Developed Bonds and Private Credit Strategies

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System - Pension, continued

Discount rate. The discount rate used to measure the Total Pension Liability (TPL) as of the Measurement Date was 7.50%. 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 the Actuarially Determined Contribution rates, adjusted by 95%, for all fiscal years in the future. 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. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The change in the discount rate from the 4.49% used in the 2017 disclosure reports 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 7.50 percent, as well as what the University’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Morehead State University’s proportionate share of the Collective Net Pension Liability	\$ 67,425,209	\$ 52,598,012	\$ 40,128,641

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

Kentucky Teachers Retirement System – Medical Insurance

In addition to the pension benefits, Kentucky Revised Statute 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member’s supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System – Medical Insurance, continued

Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

In order to fund the post-retirement healthcare benefit, 5.55% of the gross annual payroll is contributed for members who began before July 1, 2008 with 2.775% paid by member contributions that are matched by the employer. For members who began on or after July 1, 2008, 4.55% of the gross annual payroll of members is contributed, with 2.775% paid by member contributions and 1.775% matched by the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The University's contributions to TRS for the years ended June 30, 2018 and 2017 were \$778,263 and \$791,901, respectively.

TRS OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2019 and 2018, the University reported a liability for its proportionate share of the net OPEB liability. The amount recognized by the University as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the University is as follows:

	<u>2019</u>	<u>2018</u>
University's proportionate share of the net OPEB liability	\$ 15,159,000	\$ 16,482,000
Commonwealth of Kentucky's proportionate share of the		
Net OPEB liability associated with the University	<u>7,419,000</u>	<u>7,474,000</u>
Total	<u>\$ 22,578,000</u>	<u>\$ 23,956,000</u>

The net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating organizations, actuarially determined. At June 30, 2018 and 2017, the University's proportion was 0.437 and 0.462 percent. The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at <https://trs.ky.gov/financial-reports-information>.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System – Medical Insurance, continued

For the year ended June 30, 2019 and 2018, the University recognized OPEB expense of \$778,263 and \$1,072,000. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 776,000
Changes of assumptions	208,000	-
Net difference between projected and actual earnings on pension plan investments	-	62,000
Changes in proportion and differences between University contributions and proportionate share of contributions	-	768,000
University contributions subsequent to the measurement date	<u>729,284</u>	<u>-</u>
Total	<u>\$ 937,284</u>	<u>\$ 1,606,000</u>

\$729,284 reported as deferred outflows of resources related to the University's contributions to the TRS OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred (inflows) of resources will be recognized in OPEB expense as follows:

Year ending June 30:	
2020	(\$ 269,000)
2021	(269,000)
2022	(269,000)
2023	(241,000)
2024	(247,000)
Thereafter	<u>(103,000)</u>
Total	<u>(\$1,398,000)</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System – Medical Insurance, continued

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	170,000
Changes in proportion and differences between University contributions and proportionate share of contributions	-	-
University contributions subsequent to the measurement date	<u>778,250</u>	<u>-</u>
Total	<u>\$ 778,250</u>	<u>\$ 170,000</u>

\$778,250 reported as deferred outflows of resources related to the University's contributions to the TRS OPEB plan subsequent to the measurement date was recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Actuarial assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2024
Ages 65 and Older	5.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2021
Medicare Part B Premiums	0.00% for FY 2018 with an ultimate rate of 5.00% by 2030
Municipal Bond Index Rate	3.89%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System – Medical Insurance, continued

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2015 valuation.

The long-term expected rate of return on OPEB 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 OPEB 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.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	58.0%	4.6%
Fixed Income	9.0%	1.2%
Real Estate	5.5%	3.8%
Private Equity	6.5%	6.3%
Other Additional Categories	20.0%	3.3%
Cash (LIBOR)	1.0%	0.9%
Total	100.0%	

Discount rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System – Medical Insurance, continued

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the discount rate - The following presents the University's proportionate share of the net OPEB liability, calculated using the discount rate of 8.00% as well as what the University's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
University's share of net OPEB liability	\$ 17,777,000	\$ 15,159,000	\$ 12,979,000

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates - The following presents the University's proportionate share of the net OPEB liability, as well as what the University's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Current Healthcare		
	1% Decrease	Trend Rates	1% Increase
University's share of net OPEB liability	\$ 12,570,000	\$ 15,159,000	\$ 18,354,000

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

Kentucky Teachers Retirement System – Life Insurance

TRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the TRS Board of Trustees and the General Assembly.

TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System – Life Insurance, continued

In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.04%) of the gross annual payroll of members is contributed by the state.

The University's contributions to TRS for the years ended June 30, 2018 and 2017 were \$9,321 and \$9,392, respectively.

TRS OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2019 and 2018, the University reported a liability of \$268,000 and \$214,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating organizations, actuarially determined. At June 30, 2018 and 2017, the University's proportion was 0.950 and 0.974 percent. The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at <https://trs.ky.gov/financial-reports-information>.

For the year ended June 30, 2019 and 2018, the University recognized OPEB expense of \$9,321 and \$32,000. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 6,000
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	73,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	3,000
University contributions subsequent to the measurement date	<u>11,786</u>	<u>-</u>
Total	<u>\$ 84,786</u>	<u>\$ 9,000</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System – Life Insurance, continued

\$11,786 reported as deferred outflows of resources related to the University's contributions to the TRS OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30:		
2020		\$ 19,000
2021		19,000
2022		19,000
2023		8,000
2024		(3,000)
Thereafter		<u>2,000</u>
Total		<u>\$ 64,000</u>

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	45,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	-
University contributions subsequent to the measurement date	<u>9,317</u>	<u>-</u>
Total	<u>\$ 54,317</u>	<u>\$ -</u>

\$9,317 reported as deferred outflows of resources related to the University's contributions to the TRS OPEB plan subsequent to the measurement date was recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System – Life Insurance, continued

Actuarial assumptions – The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.89%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2015 valuation.

The long-term expected rate of return on OPEB 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 OPEB 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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System – Life Insurance, continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class*</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. Equity	40.0%	4.2%
International Equity	23.0%	5.2%
Fixed Income	18.0%	1.2%
Real Estate	6.0%	3.8%
Private Equity	5.0%	6.3%
Other Additional Categories	6.0%	3.3%
Cash (LIBOR)	2.0%	0.9%
Total	<u>100.0%</u>	

**As the LIF investment policy is to change, the above reflects the pension allocation and returns that achieve the target 7.5% long-term rate of return.*

Discount rate - The discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the discount rate - The following presents the University's proportionate share of the net OPEB liability using the discount rate of 7.50% as well as what the University's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease	Current	1% Increase
	(6.50%)	Discount Rate	(8.50%)
	<hr/>		
	(6.50%)	(7.50%)	(8.50%)
University's share of net OPEB liability	\$ 409,000	\$ 268,000	\$ 153,000

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - Pension

Under the provisions of Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Retirement System (KRS), County Employees Retirement System (CRS), and State Police Retirement System (SPRS). These are cost sharing, multiple employer defined benefit pension and insurance plans. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving a benefit, in accordance with the provisions of KRS Sections 16.510, 61.515, 61.702, 78.520, and 78.630. The University has elected to participate in KRS pursuant to KRS Section 78.530. Under the provisions of KRS Section 61.701, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Retirement Systems' Insurance Fund (Insurance Fund). The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems: (1) KRS; (2) CRS; and (3) SPRS. The assets of the Insurance Fund are also segregated by plan.

The KRS Pension and Insurance Funds are cost sharing, multiple employer defined benefit pension and OPEB plans, which cover all eligible full-time employees and provide retirement, disability and death benefits, and health insurance benefits. Benefit contributions and provisions are established by statute. KRS issues a publicly available financial report that includes financial statements and required supplementary information. That report is publicly available on the website at www.kyret.ky.gov or may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502) 696-8800.

Funding for the plan for the year ended June 30, 2018 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. The Commonwealth of Kentucky also indirectly contributes 23.7% and 49.47%, respectively, of current eligible hazardous and non-hazardous employees' salaries to the KRS through appropriations to the University. University contribution rates are determined by the Kentucky Revised Statute and the Board of Trustees of the Kentucky Retirement Systems each biennium.

The University's contributions to KRS for the years ended June 30, 2018 and 2017 were \$3,431,036 and \$3,766,727, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - Pension, continued

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

At June 30, 2019 and 2018, the University reported a liability of \$73,617,884 and \$80,255,228, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017 (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, 2019 and 2018, the University's proportion was 0.52 percent and 0.58 percent, respectively.

For the years ended June 30, 2019 and 2018, the University recognized pension expense of \$4,583,547 and \$9,233,104, respectively. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 592,263	\$ 201,626
Changes of assumptions	3,358,424	-
Net difference between projected and actual earnings on pension plan investments	612,201	562,640
Changes in proportion and differences between University contributions and proportionate share of contributions	-	5,932,671
University contributions subsequent to the measurement date	<u>2,419,640</u>	<u>-</u>
Total	<u>\$ 6,982,528</u>	<u>\$ 6,696,937</u>

\$2,419,640 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - Pension, continued

Years ended June 30:

2020	\$ (437,288)
2021	(1,474,879)
2022	(168,739)
2023	(53,143)
Total	<u>\$ (2,134,049)</u>

At June 30, 2018, 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	\$ 72,560	\$ 506,833
Changes of assumptions	10,270,404	-
Net difference between projected and actual earnings on pension plan investments	1,105,090	707,307
Changes in proportion and differences between University contributions and proportionate share of contributions	-	4,578,107
University contributions subsequent to the measurement date	<u>3,493,862</u>	<u>-</u>
Total	<u>\$ 14,941,916</u>	<u>\$ 5,792,247</u>

\$3,493,862 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, 2019.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - Pension, continued

Actuarial assumptions. For financial reporting, the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

Inflation	2.30%
Salary Increases	3.05%, average
Investment Rate of Return	6.25% for KRS hazardous, 5.25% for KRS non-hazardous

However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied 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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - Pension, continued

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

KRS Non-Hazardous

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity		
US Large Cap	8.50%	4.50%
US Mid Cap	5.00%	4.50%
US Small Cap	4.00%	5.50%
Non US Equity		
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	10.00%	3.00%
Credit Fixed		
Global IG Credit	10.00%	3.75%
High Yield	3.00%	5.50%
EMD	4.00%	6.00%
Private Equity	10.00%	6.50%
Real Estate	5.00%	7.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	5.00%
Cash	3.00%	1.50%
Total	100.00%	5.13%

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - Pension, continued

KRS Hazardous

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity		
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity		
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed		
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private Credit	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate*	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return*	10.00%	7.00%
Cash	2.00%	1.50%
Total	100.00%	6.09%

Discount rate. Single discount rates of 5.25% for the Non-Hazardous and 6.25% for the Hazardous System were used to measure the total pension liability for the fiscal year ending June 30, 2018. The single discount rate was based on the expected rate of return on pension plan investments for each system. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for each system. The projection of cash flows used to determine the single discount rate assumes that the State contributes the actuarially determined contribution rate in all future years.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - Pension, continued

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate. The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 6.25% for Hazardous and 5.25% 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 (5.25 percent/4.25 percent) or 1-percentage-point higher (7.25 percent/6.25 percent) than the current rate:

	Hazardous		
	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Morehead State University's proportionate share of the Collective Net Pension Liability	\$ 1,960,107	\$ 1,531,887	\$ 1,176,306

	Non-Hazardous		
	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Morehead State University's proportionate share of the Collective Net Pension Liability	\$ 82,122,448	\$ 72,085,997	\$ 63,726,893

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

Kentucky Retirement System - OPEB

KRS OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2019 and 2018, the University reported a liability of \$12,451,680 and \$14,927,052 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating organizations, actuarially determined. At June 30, 2018 and 2017, the University's proportion was 0.533 and 0.587 percent. The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at www.kyret.ky.gov.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - OPEB, continued

The University's contributions to KRS for the years ended June 30, 2018 and 2017 were \$692,007 and \$773,154, respectively.

For the year ended June 30, 2019 and 2018, the University recognized OPEB expense of \$968,987 and \$1,512,407. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual liability experience	\$ -	\$ 901,556
Changes of assumptions	1,504,473	48,924
Net difference between projected and actual earnings on OPEB plan investments	-	264,037
Changes in proportion and differences between University contributions and proportionate share of contributions	-	1,162,385
University contributions subsequent to the measurement date	471,310	-
Total	\$ 1,975,783	\$ 2,376,902

\$471,310 reported as deferred outflows of resources related to the University's contributions to the KRS OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30:		
2020	\$	(137,605)
2021		(137,605)
2022		(137,605)
2023		(451,241)
2024		(3,148)
Thereafter		(5,225)
Total	\$	(872,429)

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - OPEB, continued

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual liability experience	\$ -	\$ 21,145
Changes of assumptions	2,186,184	-
Net difference between projected and actual earnings on OPEB plan investments	-	260,245
Changes in proportion and differences between University contributions and proportionate share of contributions	-	112,201
University contributions subsequent to the measurement date	701,432	-
Total	\$ 2,887,616	\$ 393,591

\$701,432 reported as deferred outflows of resources related to the University's contributions to the KRS OPEB plan subsequent to the measurement date was recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Actuarial assumptions - For financial reporting the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions:

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - OPEB, continued

There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

Inflation	2.30%
Payroll Growth Rate	0.0% for KRS non-hazardous and hazardous
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates:	
Pre – 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied 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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

Discount Rate - The projection of cash flows used to determine the discount rate of 5.86% for KRS Non-hazardous and 5.88% for KRS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized Comprehensive Annual Financial Report (CAFR).

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - OPEB, continued

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

	Non- Hazardous 1% Decrease (4.86%)	Current Discount Rate (5.86%)	1% Increase (6.86%)
University's share of net OPEB liability for Non-Hazardous	\$ 14,727,471	\$ 12,552,295	\$ 10,741,994
	Hazardous 1% Decrease (4.88%)	Current Discount Rate (5.88%)	1% Increase (6.88%)
University's share of net OPEB liability for Hazardous	\$ 101,255	\$ (100,615)	\$ (262,479)

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates - The following presents the University's proportionate share of the net OPEB liability, as well as what the University's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Non-Hazardous 1% Decrease	Current Healthcare Trend Rates	1% Increase
University's share of net OPEB liability for Non-Hazardous	\$ 10,672,071	\$ 12,552,295	\$ 14,813,538
	Hazardous 1% Decrease	Current Healthcare Trend Rates	1% Increase
University's share of net OPEB liability for Hazardous	\$ (258,370)	\$ (100,615)	\$ 94,560

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

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, 2019 and 2018 were \$1,037,409 and \$1,101,125 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 as a deferred gain on disposal of the property, which will be recognized over the term of the lease. The University amortized \$134,200 and \$130,291 as lease expense in 2019 and 2018, respectively. The University also recognized \$71,492 as a gain on disposal of the property in both 2019 and 2018, respectively.

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 \$708,000 and \$736,000 in 2019 and 2018, respectively.

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, 2019.

The University has made certain commitments related to the completion of various construction projects in progress totaling approximately \$138,408. Such construction is principally financed by appropriations from the Commonwealth of Kentucky and proceeds from bonds.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

11. Insurance Programs

The University maintains a self-insurance program for employees' health insurance which has three plan options; a PPO plan, Enhanced Value HRA and Life Long Savings Plan. Expenses incurred to cover claims paid by the University under the plan for the fiscal years ended June 30, 2019 and 2018 were \$7,775,836 and \$8,222,003, respectively.

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 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. 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, 2019 and 2018 was \$43,413,305 and \$41,885,094, 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, 2019 and 2018, 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, 2019 and 2018, and is included in investments held by the Foundation.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

14. Related Parties

The University and the Foundation are related parties. The Foundation's purpose is to assist in the development, growth, expansion and progress of the student programs of Morehead State University. The University authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to the University. Related party transactions and funds held by the Foundation on behalf of the University are as follows during 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 119,635	\$ 142,525
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	244,593	235,187
Funds due to the Foundation by the University	-	-

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, \$148,935 for the year ended June 30, 2019 and \$164,307 for the year ended June 30, 2018. 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, 2019 and 2018.

15. Morehead State University Foundation, Inc.

A. Nature of the Organization

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

B. Summary of Significant Accounting Policies

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Basis of Presentation

For the year ended June 30, 2019, Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, became effective and was adopted by the Foundation. This standard changed the presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) including qualitative and quantitative requirements in the following areas: 1) net asset classes; 2) investment return; 3) expenses; 4) liquidity and availability of resources; and 5) presentation of operating cash flows. The 2018 financial statements have been reformatted and various amounts have been reclassified to conform to the 2019 presentation with no impact on total assets, liabilities, net assets or changes in net assets.

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

Net Assets Without Donor Restrictions include the portion of expendable funds that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined statements of activities as net assets released from restrictions. The Foundation treats donor-restricted contributions whose restrictions are met in the same reporting period as support without donor restrictions.

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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Revenue Recognition

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions 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 discount rates ranging from .72% to 2.74%, depending upon the age of the pledge and the expected timing of the payment.

Pledges receivable are presented net of an allowance for doubtful accounts (\$368,244 and \$501,989 as of June 30, 2019 and 2018, 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 with or without donor restrictions 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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Annuities Payable

The Foundation pays stipulated amounts periodically to individuals (annuitants) who have given to the Foundation certain assets and who have entered into agreements that such payments cease at the death of the annuitant. Total annuity payments for the years ended June 30, 2019 and 2018 were \$190,466 and \$228,799, respectively.

The June 30, 2019 and 2018 annuity liability balances of \$996,031 and \$969,743, 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 0.00 to 17.80 years and 2.77 to 15.32 years for the years ended June 30, 2019 and 2018, respectively.

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. 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, 2019 and 2018, 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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

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 revenue and net assets without donor restrictions. Gifts received with donor stipulations that limit their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction. 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 net assets without donor restrictions.

Gifts of land, buildings, equipment, and other long-lived assets are reported as revenue and net assets without donor restriction unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in the reclassification of net assets with donor restrictions to net assets without donor restrictions 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, 2019 and 2018 include in-kind contributions of \$515,072 and \$174,481, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Other Income

Other income in the statements of activities primarily consist of revenue received from special events and related sponsorships.

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.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or modified retrospective transition method. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date by one year. The updated standard becomes effective for the Foundation in 2020. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. This standard should assist entities in 1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance, and 2) determining whether a contribution is conditional. This standard will be effective for the year ending June 30, 2020. The Foundation is currently evaluating the effect that the updated standard will have on the financial statements.

Subsequent Events

The Foundation has evaluated subsequent events and transactions for accounting and disclosure requirements through October 1, 2019, the date on which the financial statements were ready to be issued, for items requiring recognition or disclosure in the financial statements.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

C. Liquidity and Availability

As of June 30, 2019, \$195,040 of cash held by the Foundation could readily be made available within one year of the statement of financial position date to meet general expenditures.

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, as well as investment securities. The Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses. The Finance Committee meets semi-annually to review cash needs and investment performance.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities of providing scholarships and other reimbursements to the University, restricted expenditures on behalf of the University, as well as its own operating needs to be general expenditures. The Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restricted resources.

D. Investments

Investments held as of June 30, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Mutual funds	\$ 11,390,762	\$ 29,408,768
Alternative investments	40,215,956	19,930,859
Corporate bonds and stock	45,808	67,786
Annuity investments	<u>-</u>	<u>163,688</u>
	<u>\$ 51,652,526</u>	<u>\$ 49,571,101</u>

Investment management fees were approximately \$126,000 and \$176,000 during the years ended June 30, 2019 and 2018, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

E. Fair Value Measurements

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

June 30, 2019	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:				
Equities:				
Domestic	\$ 2,786,478	\$ 2,786,478	\$ -	\$ -
International	2,115,824	2,115,824	-	-
Energy Sector	1,217,975	1,217,975	-	-
Fixed income and cash:				
Cash	2,616,236	2,616,236	-	-
Fixed income	2,654,249	2,654,249	-	-
Alternative investments:				
Hedge funds	7,411,613	-	-	7,411,613
Real assets	3,425,973	-	-	3,425,973
Private Equity	2,010,467	-	-	2,010,467
Domestic equity	10,495,702	-	-	10,495,702
International equity	5,869,572	-	-	5,869,572
Fixed income	9,685,841	-	-	9,685,841
Global credit	1,316,788	-	-	1,316,788
Corporate bonds and stocks	45,808	-	45,808	-
Total assets	\$ 51,652,526	\$ 11,390,762	\$ 45,808	\$ 40,215,956
Annuities	\$ 996,031	\$ -	\$ -	\$ 996,031
Total liabilities	\$ 996,031	\$ -	\$ -	\$ 996,031

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

E. Fair Value Measurements, continued

June 30, 2018	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:				
Equities:				
Domestic	\$ 6,605,034	\$ 6,605,034	\$ -	\$ -
International	8,159,808	8,159,808	-	-
Energy Sector	1,964,794	1,964,794	-	-
Fixed income and cash:				
Cash	295,792	295,792	-	-
Fixed income	12,383,340	12,383,340	-	-
Alternative investments:				
Hedge funds	7,462,430	-	-	7,462,430
Real assets	2,175,182	-	-	2,175,182
Private Equity	1,177,084	-	-	1,177,084
Domestic equity	4,270,474	-	-	4,270,474
International equity	3,852,388	-	-	3,852,388
Global credit	993,301	-	-	993,301
Corporate bonds and stocks	67,786	-	67,786	-
Annuity investment	163,688	-	163,688	-
Total assets	\$ 49,571,101	\$ 29,408,768	\$ 231,474	\$ 19,930,859
Annuities	\$ 969,743	\$ -	\$ -	\$ 969,743
Total liabilities	\$ 969,743	\$ -	\$ -	\$ 969,743

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

E. 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, 2018 and 2017.

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

15. Morehead State University Foundation, Inc., continued

E. 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
Alternative investments - hedge funds, domestic equity, international equity, fixed income, global credit	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.	- 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)
Alternative investments - real assets	Investment is in various funds, which are valued individually using the following methods: 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	- 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
Alternative investments - private equities	Market comparable companies	- 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

15. Morehead State University Foundation, Inc., continued

E. 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:

Balance, June 30, 2017	\$ 12,172,362
Additional investment	10,036,982
Funds sold	(2,449,235)
Realized and unrealized gains	199,794
Fees	<u>(29,044)</u>
Balance, June 30, 2018	19,930,859
Additional investment	18,737,376
Funds sold	(324,362)
Realized and unrealized (losses) gains	1,887,958
Fees	<u>(15,875)</u>
Balance, June 30, 2019	<u>\$ 40,215,956</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 net assets with donor restrictions (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations made pursuant to an applicable gift agreement. The Foundation has determined that the balance of its endowments includes funds that require that the income and net appreciation be restricted to certain uses for the benefit of participants.

The Foundation, on the advice of legal counsel, has determined that the majority of contributions are subject to the terms of its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation. Under the terms of the Foundation's governing documents, the Foundation has the ability to distribute as much of the original principal of any trust or separate gift, devise, bequest, or fund as the Foundation in its sole discretion shall determine. As a result of the ability to distribute the original principal, all contributions not classified with donor restrictions are classified as net assets without donor restrictions for financial statement purposes.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

E. Fair Value Measurements, continued

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

The current financial management and investment policy establishes an annual maximum approved spending goal for distributions of up to 3.5% of endowment assets, a combined Foundation management fee to support the annual operating budget and investment consultant fees shall not be greater than 2.5% of the portfolio value, and 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, 2019 and 2018, 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, 2019 and 2018, the amount of funds included in the Foundation's investments held for the RUETF Endowment Match Program was \$7,774,998 each year. These amounts are shown as funds held in trust for Morehead State University on the statements of financial position and are therefore not included in donor-designated endowment net assets.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

E. Fair Value Measurements, continued

Donor-Designated Endowments, continued

As of June 30, 2019, all endowment net assets were subject to donor restrictions. Changes in endowment net assets subject to donor restrictions as of June 30, 2019 are as follows:

Endowment net assets, beginning of year	\$ 41,885,094
Contributions, net of bad debt expense	1,737,475
Other income	40
Interest and dividend income	230,234
Net appreciation	1,636,624
Amounts appropriated for expenditure and transfers	<u>(2,076,162)</u>
 Endowment net assets, end of year	 \$ <u>43,413,305</u>

As of June 30, 2018, all endowment net assets were subject to donor restrictions. Changes in endowment net assets subject to donor restrictions as of June 30, 2018 are as follows:

Endowment net assets, beginning of year	\$ 39,402,117
Contributions, net of bad debt expense	386,937
Other income	1,275
Interest and dividend income	998,904
Net appreciation	1,962,407
Amounts appropriated for expenditure and transfers	<u>(866,546)</u>
 Endowment net assets, end of year	 \$ <u>41,885,094</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

F. Pledges Receivable

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

Year ended June 30,		
2020	\$	1,578,735
2021		375,040
2022		372,575
2023		316,625
2024		254,266
Thereafter		<u>1,004,000</u>
		3,901,241
Less: present value discount		(218,801)
Less: allowance for uncollectible pledges		<u>(368,244)</u>
Pledges receivable, net		3,314,196
Less: current pledges receivable		<u>(1,547,190)</u>
Noncurrent pledges receivable	\$	<u><u>1,767,006</u></u>

During the years ending June 30, 2019 and 2018, the Foundation had bad debt expense of \$94,027 and \$143,975, respectively.

G. Property and Equipment

As of June 30, 2019 and 2018, property consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 53,000	\$ 53,000
Furniture and equipment	250,234	211,927
Buildings	<u>175,000</u>	<u>175,000</u>
	478,234	439,927
Less: accumulated depreciation	<u>(255,657)</u>	<u>(231,783)</u>
	<u>\$ 222,577</u>	<u>\$ 208,144</u>

Depreciation expense was \$23,874 and \$24,457 for the years ended June 30, 2019 and 2018, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

H. 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 eighteen giving programs with life insurance in effect totaling \$903,042 for the years ended June 30, 2019 and 2018. The cash surrender value of these policies as of June 30, 2019 and 2018 was \$135,183 and \$126,897, respectively.

I. 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.

J. Net Investment With Donor Restrictions

Net assets with donor restrictions as of June 30, 2019 and 2018 are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Funds restricted for specific purposes	\$ 19,939,160	\$ 20,361,693
Scholarships	22,042	27,647
Athletics	<u>2,532</u>	<u>47,353</u>
	19,963,734	20,436,693
Funds held in perpetuity	<u>26,007,312</u>	<u>24,338,130</u>
Total net assets with donor restrictions	<u>\$ 45,971,046</u>	<u>\$ 44,774,823</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

J. Net Investment With Donor Restrictions, continued

Net assets with donor restrictions as of June 30, 2019 and 2018 of the following as of June 30:

Purpose restricted net assets:

	<u>2019</u>	<u>2018</u>
Cash	\$ 435,583	\$ 175,338
Pledges receivable, net	2,557,750	3,364,268
Accounts receivable	29,857	-
Investments	16,825,792	16,778,835
Buildings	<u>114,752</u>	<u>118,252</u>
Total purpose restricted net assets	<u>\$ 19,963,734</u>	<u>\$ 20,436,693</u>

Funds held in perpetuity:

Cash	\$ 115,751	\$ 92,624
Pledges receivable, net	753,793	1,012,343
Investments	25,084,768	23,180,163
Land	<u>53,000</u>	<u>53,000</u>
Total perpetual in nature net assets	<u>26,007,312</u>	<u>24,338,130</u>
Total net assets with donor restrictions	<u>\$ 45,971,046</u>	<u>\$ 44,774,823</u>

During the years ended June 30, 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2019</u>	<u>2018</u>
Academic programs	\$ 2,469,908	\$ 1,770,586
Student financial aid	924,265	902,760
Operations and materials	688,902	763,952
Athletics	359,822	443,523
General and administrative expenses	-	112,154
Fundraising	<u>-</u>	<u>53,895</u>
	<u>\$ 4,442,897</u>	<u>\$ 4,046,870</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Morehead State University Foundation, Inc., continued

K. Related-Party Transactions

The University entered into an agreement with the Foundation where the University will provide personnel, office space, support equipment and other services that may be necessary to the operation of the Foundation. The Foundation reimburses the University for these services at a rate determined mutually by the two entities, \$148,935 and \$164,307 for the years ended June 30, 2019 and 2018, 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 for the year ended June 30:

	<u>2019</u>	<u>2018</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 119,635	\$ 142,525
Funds due to the University by the Foundation	244,593	235,187

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

SUPPLEMENTAL INFORMATION

MOREHEAD STATE UNIVERSITY

Schedule of Bonds and Capital Lease Obligations

June 30, 2019

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2018</u>	<u>Payments/ Reductions 2018-19</u>	<u>New Issues</u>	<u>Premium Amortization</u>	<u>Outstanding June 30, 2019</u>	<u>Interest Paid 2018-19</u>	<u>Debt Service Requirements 2019-20</u>	
										<u>Principal</u>	<u>Interest</u>
General Receipts:											
2007 Series A Bonds	08/14/07	\$ 6,445,000	4.00	\$ 275,000	\$ 275,000	\$ -	\$ -	\$ -	\$ 5,500	\$ -	\$ -
2008 Series A Bonds	06/10/08	10,000,000	3.00-3.80	2,895,000	2,895,000	-	-	-	97,873	-	-
2011 Series A Bonds	07/25/11	5,090,000	2.00-4.125	3,765,000	240,000	-	-	3,525,000	138,006	240,000	130,806
2012 Series A Bonds	06/15/12	5,060,000	2.00-3.625	3,960,000	235,000	-	-	3,725,000	120,931	240,000	116,181
2013 Series A Bonds	09/10/13	9,475,000	1.00-4.375	7,580,000	405,000	-	-	7,175,000	272,919	420,000	264,819
2014 Series A Bonds	07/24/14	22,620,000	2.00-5.00	17,670,000	1,285,000	-	-	16,385,000	748,775	1,345,000	683,025
2014 Series B Bonds	07/24/14	4,840,000	1.00-5.00	3,860,000	255,000	-	-	3,605,000	141,966	260,000	132,991
2015 Series A Bonds	03/25/15	28,185,000	3.00-5.00	27,405,000	305,000	-	-	27,100,000	1,163,488	415,000	1,148,238
2015 Reoffering Premium	03/25/15	2,835,829	-	2,479,925	-	-	145,651	2,334,274	-	-	-
2016 Series A Bonds	03/22/16	3,280,000	1.00-3.00	3,170,000	35,000	-	-	3,135,000	74,060	320,000	70,650
2016 Series B Bonds	12/01/16	<u>6,560,000</u>	2.00-3.75	<u>6,310,000</u>	<u>255,000</u>	<u>-</u>	<u>-</u>	<u>6,055,000</u>	<u>198,019</u>	<u>260,000</u>	<u>192,869</u>
Total General Receipts		104,390,829		79,369,925	6,185,000	-	145,651	73,039,274	2,961,537	3,500,000	2,739,579

MOREHEAD STATE UNIVERSITY

Schedule of Bonds and Capital Lease Obligations, continued

June 30, 2019

	Issue Date	Net Amount of Issue	Interest Cost	Outstanding June 30, 2018	Payments/Reductions 2018-19	New Issues	Premium Amortization	Outstanding June 30, 2019	Interest Paid 2018-19	Debt Service Requirements 2019-20	
										Principal	Interest
Lease Purchase Agreements:											
JP Morgan/Chase	03/31/12	9,671,127	2.65	6,204,674	817,716	-	-	5,386,958	156,343	839,602	134,457
Mabry Property	12/19/13	875,000	4.50-5.99	344,493	110,557	-	-	233,936	14,304	93,025	10,748
IT Infrastructure (estimated)	06/19/15	10,000,000	3.50-4.50	8,679,127	478,146	-	-	8,200,981	265,289	449,270	284,952
Caudill Property	11/21/14	400,000	6.139	180,881	56,740	-	-	124,141	11,104	60,222	7,621
KY Bank	06/03/19	2,066,763	3.65	-	-	2,066,763	-	2,066,763	-	226,037	72,878
Dell Financial	04/26/19	<u>607,835</u>	5.063	<u>-</u>	<u>-</u>	<u>607,835</u>	<u>-</u>	<u>607,835</u>	<u>-</u>	<u>128,000</u>	<u>-</u>
Total lease purchase		<u>23,620,725</u>		<u>15,409,175</u>	<u>1,463,159</u>	<u>2,674,598</u>	<u>-</u>	<u>16,620,614</u>	<u>447,040</u>	<u>1,796,156</u>	<u>510,656</u>
Total		<u>\$128,011,554</u>		<u>\$ 94,779,100</u>	<u>\$7,648,159</u>	<u>\$ 2,674,598</u>	<u>\$ 145,651</u>	<u>\$ 89,659,888</u>	<u>\$ 3,408,577</u>	<u>\$ 5,296,156</u>	<u>\$ 3,250,235</u>

SCHEDULE OF MOREHEAD STATE UNIVERSITY'S PROPORTIONATE SHARE

OF THE NET PENSION LIABILITY

Kentucky Teachers Retirement System

Last 10 Fiscal Years

(Dollar amounts in thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
University's proportion of the net pension liability (asset)	0.614%	0.617%	0.623%	0.366%	0.383%
University's proportionate share of the net pension liability (asset)	\$132,575	\$150,686	\$192,662	\$103,482	\$52,598
University's covered-employee payroll	\$44,381	\$45,275	\$46,253	\$44,838	\$44,111
University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	298.72%	332.82%	416.54%	230.79%	119.24%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	42.49%	35.22%	39.83%	59.30%

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.

SCHEDULE OF MOREHEAD STATE UNIVERSITY'S PENSION CONTRIBUTIONS

Kentucky Teachers Retirement System

Last 10 Fiscal Years

(Dollar amounts in thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$4,770	\$4,852	\$4,957	\$4,826	\$4,778
Contributions in relation to the contractually required contribution	\$(4,770)	\$(4,852)	\$(4,957)	\$(4,826)	\$(4,778)
Contribution deficiency (excess)	-	-	-	-	-
University's covered-employee payroll	\$44,381	\$45,275	\$46,253	\$44,838	\$44,111
Contributions as a percentage of covered-employee payroll	10.75%	10.72%	10.72%	10.76%	10.83%

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 OPEB LIABILITY – MEDICAL INSURANCE PLAN**

Kentucky Teachers Retirement System
Last 10 Fiscal Years
(Dollar amounts in thousands)

	<u>2017</u>	<u>2018</u>
University's proportion of the net OPEB liability (asset)	0.462%	0.437%
University's proportionate share of the net OPEB liability (asset)	\$16,482	\$15,159
University's covered-employee payroll	\$44,838	\$44,111
University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	36.75%	34.37%
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%	25.50%

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

MEDICAL INSURANCE PLAN

Kentucky Teachers Retirement System

Last 10 Fiscal Years

(Dollar amounts in thousands)

	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$792	\$778
Contributions in relation to the contractually required contribution	\$(792)	\$(778)
Contribution deficiency (excess)	-	-
University's covered-employee payroll	\$44,838	\$44,111
Contributions as a percentage of covered-employee payroll	1.77%	1.76%

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 OPEB LIABILITY – LIFE INSURANCE PLAN**

Kentucky Teachers Retirement System
Last 10 Fiscal Years
(Dollar amounts in thousands)

	<u>2017</u>	<u>2018</u>
University's proportion of the net OPEB liability (asset)	0.974%	0.950%
University's proportionate share of the net OPEB liability (asset)	\$214	\$268
University's covered-employee payroll	\$44,838	\$44,111
University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	0.48%	0.61%
Plan fiduciary net position as a percentage of the total OPEB liability	79.99%	75.00%

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 –
LIFE INSURANCE PLAN**

Kentucky Teachers Retirement System
Last 10 Fiscal Years
(Dollar amounts in thousands)

	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$9	\$9
Contributions in relation to the contractually required contribution	\$(9)	\$(9)
Contribution deficiency (excess)	-	-
University's covered-employee payroll	\$44,838	\$44,111
Contributions as a percentage of covered-employee payroll	0.02%	0.02%

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 Retirement System
Last 10 Fiscal Years
(Dollar amounts in thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
University's proportion of the net pension liability (asset)	0.67%	0.66%	0.61%	0.58%	0.52%
University's proportionate share of the net pension liability (asset)	\$62,124	\$68,784	\$71,768	\$80,255	\$73,618
University's covered-employee payroll	\$11,898	\$11,750	\$10,723	\$9,842	\$8,829
University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	522.14%	585.40%	669.29%	815.43%	833.82%
Plan fiduciary net position as a percentage of the total pension liability	25.39%	21.73%	17.54%	16.07%	15.81%

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 PENSION CONTRIBUTIONS

Kentucky Retirement System

Last 10 Fiscal Years

(Dollar amounts in thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$3,199	\$3,587	\$3,249	\$3,766	\$3,431
Contributions in relation to the contractually required contribution	\$(3,199)	\$(3,587)	\$(3,249)	\$(3,766)	\$(3,431)
Contribution deficiency (excess)	-	-	-	-	-
University's covered-employee payroll	\$11,898	\$11,750	\$10,723	\$9,842	\$8,829
Contributions as a percentage of covered-employee payroll	26.89%	30.53%	30.30%	38.26%	38.86%

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 OPEB LIABILITY**

Kentucky Retirement System
Last 10 Fiscal Years
(Dollar amounts in thousands)

	<u>2017</u>	<u>2018</u>
University's proportion of the net OPEB liability (asset)	0.587%	0.533%
University's proportionate share of the net OPEB liability (asset)	\$14,927	\$12,452
University's covered-employee payroll	\$9,842	\$8,829
University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	151.67 %	141.04%
Plan fiduciary net position as a percentage of the total OPEB liability	33.94%	37.63%

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 OPEB CONTRIBUTIONS –

Kentucky Retirement System
 Last 10 Fiscal Years
 (Dollar amounts in thousands)

	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$830	\$692
Contributions in relation to the contractually required contribution	\$(830)	\$(692)
Contribution deficiency (excess)	-	-
University's covered-employee payroll	\$9,842	\$8,829
Contributions as a percentage of covered-employee payroll	8.43%	7.84%

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.

**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 Morehead State University (the University) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 1, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dean Dotson Allen Ford, PLLC

October 1, 2019

Lexington, Kentucky

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Responses

Year ended June 30, 2019

Section I – Summary of Auditors’ Results

- a. The type of report issued on the financial statements: **Unmodified Opinion**
- b. Significant deficiencies identified in the internal control over financial reporting: **None noted**

Material Weaknesses: **No**

- c. Non-compliance which is material to the financial statements: **No**



Single Audit Report

for

MOREHEAD STATE UNIVERSITY

Year Ended June 30, 2019
with Report of Independent Auditors

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**Report on Compliance For Each Major Federal Program; 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 Morehead State University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2019. 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 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 latest available report (for the fiscal year ended June 30, 2018) has been furnished to us. The report of the other accountants indicates that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization accountant's report, we have determined that all of the compliance requirements included in the *Compliance Supplement* that are applicable to the major program in which the University participates are addressed in either our report or the report of the service organization accountants. Further, based on our review of the service organization accountant's report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on the University's major program.

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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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, 2019.

Other Matters

The results of our auditing procedures and those of other accountants disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and are described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

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, 2019, and have issued our report thereon dated October 1, 2019, 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 1, 2019
Lexington, Kentucky

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

<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		\$ -	\$ 683,458
Federal Pell Grant Program	84.063		-	14,971,066
Federal Supplemental Educational Opportunity Grants Program	84.007		-	483,605
Federal Direct Loan Program	84.268		-	36,501,574
Teacher Educational Assistance for College and Higher Education Grant	84.405		-	31,852
			-	52,671,555
TRIO Cluster:				
Talent Search II 16/21	84.044A		-	386,407
Talent Search 16/21	84.044A		-	523,411
UPWARD BOUND EAST 17/22	84.047A		-	297,777
UPWARD BOUND CENTRAL 18/23	84.047A		-	655,604
UPWARD BOUND MATH/SCI 17/22	84.047M		-	291,175
UPWARD BOUND MATH/SCI-S 17/22	84.047M		-	308,860
Student Support 15/20	84.042		-	341,260
CEOC-SE 17/22	84.066A		-	233,206
CEOC-NE 14/19	84.066A		-	495,972
			-	3,533,672
MCLAREN-PEEAK 15/19	84.325K		-	263,425
			-	263,425
Passed through Berea College				
Connell-USED-Berea-GEAR UP 17/18	84.334	P33A11029-1	-	14,829
Connell-USED-Berea-GEAR UP 17/19	84.334	P33A11029-1	-	54,290
			-	69,119
Passed through Kentucky Council on Postsecondary Education				
NILES-CPE-Adult Prof Dev 17/18	84.002	PO2 415 1600001699	-	500
McKinney-Powell-Adult LC 18/19	84.002A	SC 415 1900000638	-	74,147
McKinney-Bath-Adult LC 18/19	84.002A	SC 415 1900000638	-	84,225
McKinney-WL-Adult LC 18/19	84.002A	SC 415 1900000638	-	119,561
McKinney-Montgomery LC 18/19	84.002A	SC 415 1900000638	-	129,797
McKinney-MSU-Adult LC 18/15	84.02A	SC 415 1900000638	-	150,840
Connell-Adult Ed-USED-CPE 18/1	84.002A	SC 415 1900000265	-	370,279
McKinney-Perform-Bath 18/19	84.002A	SC 415 1900000638	-	380
Connell-Adult Ed-USED-CPE 17/1	84.002A	PO2 415 1800000428 1	-	607
Henderson-Bath-Adult LC 16/17	84.002	PO2 415 1700001260 1	-	(358)
McKinney-Perform-Mont. 18/19	84.002A	SC 415 1900000638	-	1,034
McKinney-Perform-MSU 18/19	84.002A	SC 415 1900000638	-	7,094
McKinney-Wolfe-Adult LC 18/19	84.002A	SC 415 1900000638	-	59,712
Miller-USED-CPE-STEM 17/8	84.367B	PO2 415 1700004407 1	-	9,831
BLACKWELL-USED-CPE-MATH 17/18	84.367B	PO2 415 1700003267	-	(877)
			-	1,006,772
Passed through Kentucky Department of Education				
Stubbs-USED-KDE-PD 18/19	84.048A	PON2 540 1900001874	-	3,059
STUBBS-TITLE 1C-IMAGING 18/19	84.048A	PON2 540 1900001525	-	8,896
STUBBS-TITLE 1C-NURSE 18/19	84.048A	PON2 540 1900001525	-	9,169
STUBBS-TITLE 1C-VET 18/19	84.048A	PON2 540 1900001525	-	9,202
			-	30,326
Passed through Kentucky Education Cabinet				
MATTINGLY-CDP REHAB 18/20	84.346	PON2 531 1900000700 1	-	451,548
			-	451,548
Passed through National Writing Project Corp				
MASCLE-USED-NWP-SEED 17/18	84.367D	94-KY07-SEED2017-ILI	-	2,400
Mascle-USED-NWP-SEED 18/19	84.367D	94-KY07-SEED2018-C3WPPD	-	17,582
			-	19,982
Total U.S. Department of Education			-	58,046,399

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

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2019

<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>
Appalachian Regional Commission				
Direct Programs				
MILLER-ARC-SOAR-STEM 17/18	23.001		-	169,735
			-	169,735
Total Appalachian Regional Commission			-	169,735
Corporation for National and Community Service				
Direct Programs				
JUDD-CNCS-RSVP-EXPAND 17/20	94.002		-	113,546
JUDD-CNCS-RSVP 18/21	94.002		-	82,569
			-	196,115
Passed through Kentucky Cabinet for Health and Family Services				
WILLIAMS-CNCS-CHFS-MSU CORPS	94.006	PON2 730 180000078 1	-	12,739
Williams-CHFS-MSU Corps 18/19	94.006	PON2 730 1900002169	-	387,763
			-	400,502
Total Corporation for National and Community Service			-	596,617
Corporation for Public Broadcasting				
Direct Programs				
HITCHCOCK-CPB-RADIO-REST 18/20	11.550		-	8,971
Hitchcock-CPB-Radio 18/20	11.550		-	1,457
Hitchcock-CPB-Radio-Rest 17/19	11.550		-	5,457
HITCHCOCK-CPB-RADIO 16/18	11.550		-	17,618
Hitchcock-CPB-Radio 17/19	11.550		-	101,225
			-	134,728
Total Corporation for Public Broadcasting			-	134,728
US Environmental Protection Agency				
Passed through Kentucky Division of Water				
HAIGHT-TRIPLETT CREEK 16/18	66.605	PON2 129 1600001087	-	110,037
			-	110,037
Passed through Kentucky Energy and Environment Cabinet				
GEARNER-PRINCIPAL LAB 18/20	66.468	PON2 129 1900000626	-	39,525
			-	39,525
Total US Environmental Protection Agency			-	149,562
National Aeronautics and Space Administration				
Direct Programs				
MALPHRUS-NASA-ICECUBE 15/20*	43.001		105,600	413,328
			105,600	413,328
Passed through Busek Company, INC				
Malphrus-BCI-Lunar Cube 15/17*	43.001	S1080	-	84,953
			-	84,953
Passed through Exomedicine, INC				
Malphrus-NASA-Exomedicine 17/1*	43.001	219-602-17-001	-	85,534
			-	85,534
Passed through Jet Propulsion Laboratory				
Malphrus-NASA-JPL-AAGO 19*	43.001	1622608	-	15,849
			-	15,849
Passed through Massachusetts Institute of Technology				
Malphrus-NASA-MIT-AERO 18/22*	43.001	S4745 / PO 253307	-	23,588
			-	23,588
Passed through Space Telescope Science Institute				
GRUPE-NASA-STSCI-AGN 18/21*	43.001	HST-GO-15439.002-A	-	10,367
			-	10,367
Total National Aeronautics and Space Administration			105,600	633,619

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

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2019

<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>
National Endowment for the Humanities				
Passed through Kentucky Humanities Council				
Hill-KHC-Video Vault 19	45.129	2018-012	-	220
			-	220
Total National Endowment for the Humanities			-	220
National Highway Traffic Safety Administration				
Passed through Kentucky Transportation Cabinet				
Stidam-NHTSA-KYTC-Sober 18	20.616	PO2 625 1800004519 1	-	2,254
			-	2,254
Total National Highway Traffic Safety Administration			-	2,254
National Institute of Health				
Direct Programs				
Gibbs-NIH-Expression 14/17*	93.865		-	39,282
Hare-NIH-MOA of UmuD 17/20*	93.113		-	111,918
CARLSON-NIH 17/20*	93.173		-	136,322
			-	287,522
Passed through University of Louisville Research Foundation				
Henson-NIH-ULRF-Xlerator 18/19*	93.859	ULRF 18-0680-04	-	804
INBRE-KBRIN-CARLSON 19/20*	93.389		-	4,676
INBRE-KBRIN-HARE-BRIDGE 19/20*	93.389		-	7,493
INBRE-KBRIN-HARE-LEAD 19/20*	93.389		-	21,659
INBRE-KBRIN-MEFFORD 18/19*	93.859	ULRF 13-1493D-05	-	27,853
INBRE-KBRIN-MEFFORD 19/20*	93.389		-	4,648
INBRE-KBRIN-HARE-BRIDGE 18/19*	93.859	ULRF 13-1493D-05	-	25,411
INBRE-KBRIN-CARLSON 18/19*	93.859	ULRF 13-1493D-05	-	19,828
INBRE-KBRIN-MATTINGLY 19/20*	93.389		-	18,440
INBRE-KBRIN-HARE-LEAD 18/19*	93.859	ULRF 13-1493D-05	-	195,009
INBRE-KBRIN-MATTINGLY 18/19*	93.859	ULRF 13-1493D-05	-	86,111
			-	411,932
Passed through Western Kentucky University				
Bush-WKU-BINGOCIZE 17/20*	93.859	596441-17-001	-	2,510
			-	2,510
Total National Institute of Health			-	701,964
National Science Foundation				
Direct Programs				
SCHACK-NSF-NOYCE 17/22*	47.076		-	108,082
SCHACK-NSF-TECHNO 14/17*	47.076		-	10,531
			-	118,613
Passed through Kentucky EPSCOR				
OKeeffe-NSF-EPSCoR-Data 17/18*	47.079	320000271-18-062	-	6,508
			-	6,508
Total National Science Foundation			-	125,121
US Department of Agriculture				
Passed through Kentucky Department of Education				
COOPER-SUMMER FOOD 18	10.558	12018	-	37,103
			-	37,103
Passed through Natural Resources Conservation Service				
Harrelson-USDA-NRCS-Compost 18	10.902	NRCS-ADS-093	-	285
			-	285
Passed through University of Kentucky Research Foundation				
Murphy-USDA-UKRF-Youth 16/19	10.001	3200001042-18-26	-	5,750
			-	5,750
Passed through The University of Central Florida				
Getchell-USDA-UCF-Pest 17/20*	10.310	24048020	-	12,864
			-	12,864
Total US Department of Agriculture			-	56,002

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

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2019

<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 Defense				
Passed through Eastern Kentucky University				
Hail-DOD-EKU-IC CAE 17/18	12.598	453530-18-195	-	50,806
HAIL-DOD-EKU-IC CAE 18/19	12.598	453703-19-195	-	76,939
			-	127,745
Total US Department of Defense			-	127,745
US Department of Health and Human Services				
Passed through Kentucky Administrative Office of the Courts				
Shannon-HHS-AOC-Muhlenberg 18	93.243	PON2 025 1900002775	-	9,129
Shannon-HHS-AOC-Knott/Mag 18/1	93.243	PON2 025 1900002776	-	15,338
Shannon-HHS-AOC-Allen/Simp 17/	93.243	PON2-025-1700001015	-	15,626
Shannon-HHS-AOC-18th District	93.243	PON2-025-1700001019	-	4,054
Shannon-HHS-AOC-Floyd CRT 18/1	93.243	PON2-025-1600000958	-	14,120
Shannon-HHS-AOC-Fayette 18/19	93.243	PON2-025-1700001018	-	43,997
Shannon-HHS-AOC-Christian 18/1	93.243	PON2-025-1700001014	-	26,318
Shannon-HHS-AOC-Hopkins 17/18	93.243	PON2-025-1700001012	-	7,246
Shannon-HHS-AOC-Letcher 17/18	93.243	PON2-025-1600001048	-	8,666
Shannon-HHS-AOC-McCracken 18/1	93.243	PON2-025-1700001017	-	29,776
Shannon-HHS-AOC-Perry 18/19	93.243	PON2-025-1700001013	-	23,361
Shannon-HHS-AOC-Clark/Mad 18	93.243	PON2 025 1800001090	-	16,034
Shannon-HHS-AOC-Clark/Mad 18/1	93.243	PON2-025-1400000391	-	48,236
Shannon-HHS-AOC-Floyd CRT 17/1	93.243	PON2-025-1600000958	-	10,765
Shannon-HHS-AOC-Letcher 18/19	93.243	PON2-025-1600001048	-	13,488
Shannon-HHS-AOC-Allen/Simp 18/1	93.243	PON2-025-1700001015	-	49,420
Shannon-HHS-AOC-Christian 17/1	93.243	PON2-025-1700001014	-	12,294
Shannon-HHS-AOC-18th District	93.243	PON2-025-1700001019	-	31,288
Shannon-HHS-AOC-Hopkins 18/15	93.243	PON2-025-1700001012	-	18,553
Shannon-HHS-AOC-Fayette 17/18	93.243	PON2-025-1700001018	-	14,305
Shannon-HHS-AOC-Perry 17/18	93.243	PON2-025-1700001013	-	7,067
Shannon-HHS-AOC-McCracken 17/1	93.243	PON2-025-1700001017	-	7,172
			-	426,253
Passed through Community Action Council for Lexington-Fayette				
Shannon-HHS-CAC-CSTS 18/19	93.243		-	8,948
			-	8,948
Passed through Mountain Comprehensive Care Center				
Shannon-HHS-MCCC-AOTP 18/19	93.243	1H79SM063530-01	-	16,873
Shannon-HHS-MCCC-FVPS 18/19	93.592	90EV0448-03-00	-	30,833
Shannon-HHS-MCCC-ORP 18/19	93.243	1H789T1080967-01	-	28,443
Shannon-HHS-MCCC-CTS 17/18	93.243	1U79SM063045-01	-	15,380
Perkins-HHS-MCCC-CBHC 18/19	93.829	1H79SM081813-01	-	61,876
Shannon-HHS-MCCC-FVPS 17/18	93.243	90EV0448-01-00	-	17,770
Shannon-HHS-MCCC-AOTP 17/18	93.243	1H79SM063530-01	-	7,047
Shannon-HHS-MCCC-CABHI 18/19	93.243	1H79SM063368-01	-	10,108
Shannon-HHS-MCCC-CABHI 17/18	93.243	1H79SM063368-01	-	5,578
Nash-SAMHSA-MCCC-MHATP 18/19	93.243	1H79SM081174-01	-	11,669
Shannon-HHS-MCCC-CTS 18/19	93.243	1U79SM063045-01	-	24,072
			-	229,649
Passed through Southern California Alcohol Drug Programs				
Shannon-HHS-SCADP-TCE-HIV 17/1	93.243	TI026178	-	4,435
Shannon-HHS-SCADP-TCE-HIV 18/1	93.243	TI026178	-	4,791
			-	9,226
Passed through Volunteers of America Los Angeles				
Shannon-HHS-VOALA-Orange 18/19	93.243	TI080417	-	2,474
Shannon-HHS-VOALA-YFTP 18/19	93.243	TI081321	-	3,815
Shannon-HHS-VOALA-GBHI 18/19	93.243	TI080416	-	11,500
SHANNON-HHS-VOALA-SHAWL 18/19	93.243	TI080011	-	13,983
SHANNON-HHS-VOALA-HVCE 17/18	93.243	TI026488	-	7,361
Shannon-HHS-VOALA-MAI 17/18	93.243	TI025799	-	9,523
Shannon-HHS-VOALA-HVCE 18/19	93.243	TI026488	-	13,238
Shannon-HHS-VOALA-SHAWL 17/18	93.243	TI080011	-	7,420
Shannon-HHS-VOALA-HIV 17/18	93.243	TI024433	-	320
Shannon-HHS-VOALA-GBHI 17/18	93.243	TI080416	-	2,888
			-	72,522

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

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2019

<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 Eastern Kentucky University				
GEURIN-PCWCP-ASHLAND 18/19	93.658	453605-19-153	-	6,090
GEURIN-PCWCP-MT STERLING 18/19	93.658	453605-19-154	-	6,090
GEURIN-PCWCP-PRESTON 18/19	93.658	453605-19-138	-	6,127
GEURIN-PCWCP-MOREHEAD 18/19	93.658	453605-19-152	-	6,343
LOGAN-TRAINING RESOURCE 18/19	93.658	453442-18-108	-	84,624
			-	109,274
Passed through Louisville Government				
JUDD-HHS-CAPACITY BLDG 18/19*	93.048	90MPPG0020-01-00	-	32,776
JUDD-HHS-CAPACITY BLDG 19/20*	93.048	90MPPG0020-02-00	-	2,876
			-	35,652
Total US Department of Health and Human Services			-	891,524
US Department of Justice				
Passed through Kentucky Administrative Office of the Courts				
Shannon-DOJ-AOC-Campbell 17/18	16.585	PON2-025-1600000957	-	2,643
Shannon-DOJ-AOC-Christian 17/1	16.585	PON2-025-1600000961	-	3,192
Shannon-DOJ-AOC-Statewide 17/1	16.585	PON2-025-1600000959	-	5,685
Shannon-DOJ-AOC-Muhlenberg 17/	16.585	PON2-025-1500001328	-	4,859
Shannon-DOJ-AOC-Fayette VTC 17	16.585	PON2-025-1500001325	-	1,528
Shannon-DOJ-AOC-Enhance 18/18	16.585	PON2 025 1800001091	-	5,117
Shannon-DOJ-AOC-Enhance 18	16.585	PON2 025 1800001091	-	1,425
Shannon-DOJ-AOC-Standards 18	16.585	PON2 025 1800001092	-	1,790
Shannon-DOJ-AOC-Standards 18/1	16.585	PON2 025 1800001092	-	5,025
Shannon-DOJ-AOC-Christian 18/1	16.585	PON2 025 1600000961	-	11,174
Shannon-DOJ-AOC-Campbell 18/15	16.585	PON2 025 1600000957	-	11,150
Shannon-DOJ-AOC-Statewide 18/1	16.585	PON2 025 1600000959	-	16,608
			-	70,196
Passed through Mountain Comprehensive Care Center				
Shannon-DOJ-MCCC-RCDC 18/19	16.812	2019-64-BX-0013	-	3,935
			-	3,935
Total US Department of Justice			-	74,131
US Department of Labor				
Passed through Buffalo Trace Area Development District				
Reynolds-Today's Youth 18/19	17.259	FY19-5245	-	174,345
			-	174,345
Total US Department of Labor			-	174,345
US Small Business Administration				
Passed through University of Kentucky Research Foundation				
Murphy-SBA-UKRF-SBDC 17/18	59.037	3200001644-18-228	-	40,033
Murphy-SBA-UKRF-SBDC 18/19	59.037	6200002292-19-150	-	71,131
			-	111,164
Total US Small Business Administration			-	111,164
Total			\$ 105,600	\$ 61,995,130

*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 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

Federal student loans issued by the Federal Direct Loan Program during the year ended June 30, 2019 are summarized as follows:

Federal Direct Loan Program:	
Federal Unsubsidized Loans	\$ 20,939,194
Federal Subsidized Loans	11,869,631
Federal Plus Loans	3,692,749

As of June 30, 2019, the University had loans outstanding, in the amount of \$2,909,752 with an allowance for doubtful accounts of \$59,994 under the Federal Perkins Loan Program.

3. Facilities and Administrative Costs Rates

Predetermined fixed facilities and administrative costs rates have been approved as follows:

Period Covered	From 7/1/2015 to 6/30/2019
Based on Financial Information for fiscal year	
Predetermined rate – on campus	40%
Predetermined rate – off campus	13%

These rates are applied to modified total direct costs (as defined by the agreement) for on-campus programs. The University does not utilize the 10% de Minimis indirect cost rate.

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

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**
- 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, 2019

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 2019-001

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

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. 6 students who officially withdrew from the University during the fall semester for the fiscal year ended June 30, 2019 were not reported to the NSLDS within 60 days of the school's determination date that the student withdrew. We noted no instances of late reporting in our sample for students who withdrew after the fall semester.

Cause:

The withdrawn status for 6 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.

Finding Number	Student Identifier	OPEID	Pell Disbursed (\$)	Pell Under-payment (\$)	Pell Over-payment (\$)	Direct Loan Disbursed (\$)	Direct Loan Under-payment (\$)	Direct Loan Over-payment (\$)
2019-001	Student 1	00197600	\$0	\$0	\$0	\$6,184	\$0	\$0
2019-001	Student 2	00197600	\$0	\$0	\$0	\$10,141	\$0	\$0
2019-001	Student 3	00197600	\$3,048	\$0	\$0	\$5,196	\$0	\$0
2019-001	Student 4	00197600	\$3,048	\$0	\$0	\$1,582	\$0	\$0
2019-001	Student 5	00197600	\$0	\$0	\$0	\$5,195	\$0	\$0
2019-001	Student 6	00197600	\$0	\$0	\$0	\$2,721	\$0	\$0

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

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. In addition, we recommend that the University submit roster files on a regular basis.

Views of Responsible Officials:

We agree with this finding and recommendation. Refer to Corrective Action Plan for planned response.

Finding 2019-002

Federal Program: U.S. Department of Education - 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

Criteria:

The University must comply with Gramm-Leach-Bliley Act (GLBA) section 16 CRF 314.4(b).

Condition:

During our audit procedures, we noted the following conditions:

- Several staff members have shared responsibilities when it comes to security; however, a Security Program Coordinator has not been designated to run the Security Program of the University.
- The University has not had a risk assessment conducted in several years to identify a reasonable and foreseeable security and privacy risk. The University should evaluate and assess the GLBA safeguards against risks identified from a formal risk assessment.

Cause:

The University has not designated a Security Program Coordinator and has not conducted a recent formal risk assessment.

Effect:

We noted the following effects:

- If a Security Program Coordinator or roles similar to that are not appointed, then the University will not meet the GLBA compliance standard thus impacting their security maturity level.

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

- If a risk assessment is not conducted on the current IT infrastructure and environment, then the University will not be able to establish their current level of risk (baseline) or determine vulnerabilities to be mitigated based on their level of risk (High, Medium, Low).

Recommendation:

We have the following recommendations:

- The University should designate an individual to coordinate the information security program.
- The University should contract with a qualified Firm to conduct a formal risk assessment along with a cyber-security assessment (internal & external) that addresses the following three required areas.
 - a. Employee training and management;
 - b. Information systems, including network and software design, as well as information processing, storage, transmission and disposal; and
 - c. Detecting, preventing and responding to attacks, intrusions, or other systems failures.

Views of Responsible Officials:

We agree with this finding and recommendation. Refer to Corrective Action Plan for planned response.

MOREHEAD STATE UNIVERSITY

Schedule of Prior Year Findings

Year ended June 30, 2019

Finding 2018-001

Condition:

During our testing of student status changes for withdrawals and graduates, we noted some students for which the National Student Loan Data System (NSLDS) was not notified timely of the correct student status change. 9 graduates from the fall semester and 9 students who officially withdrew from the University during the fiscal year ended June 30, 2018 were not reported to the NSLDS within 60 days of the graduation date or school's determination date that the student withdrew.

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. In addition, we recommend that the University submit roster files on a regular basis.

Views of responsible officials and planned corrective actions:

We agree with this finding and recommendation. The University worked with an Ellucian ERP system consultant to develop and implement a control to ensure data is being reviewed for accuracy before roster files are submitted to the National Student Clearinghouse (NSC) to be forwarded on to the NSLDS. The University also implemented a control to ensure roster files are submitted on a regular basis and student enrollment status changes are reported within the required timeframe under federal regulations. These controls were developed during the fall 2017 semester, but were not fully implemented until the beginning of the spring 2018 semester.

Status of Prior Year Finding:

The University worked with an Ellucian ERP system consultant during the fiscal year ended 06/30/18 to develop and implement a control to ensure data is reviewed for accuracy before roster files are submitted to the National Student Clearinghouse (NSC) to be forwarded on to the NSLDS.

After implementation of these controls, the process continued to require a significant amount of manual review before reports could be submitted to the NSC for the Fall 2018 semester. It was determined that there was still an existing defect in the Ellucian Colleague ERP system, which increased the time needed to process the reports.

Refer to finding 2019-001.



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MOREHEAD STATE UNIVERSITY

Corrective Action Plan

Year ended June 30, 2019

Identifying Number: 2019-001

Finding:

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. 6 students who officially withdrew from the University during the fall semester for the fiscal year ended June 30, 2019 were not reported to the NSLDS within 60 days of the school's determination date that the student withdrew. We noted no instances of late reporting in our sample for students who withdrew after the fall semester.

Corrective Actions Taken or Planned:

The University worked with an Ellucian ERP system consultant during the fiscal year ended 06/30/18 to develop and implement a control to ensure data is reviewed for accuracy before roster files are submitted to the National Student Clearinghouse (NSC) to be forwarded on to the NSLDS.

After implementation of these controls, the process continued to require a significant amount of manual review before reports could be submitted to the NSC for the Fall 2018 semester. It was determined that there was still an existing defect in the Ellucian Colleague ERP system, which increased the time needed to process the reports.

During January - March 2019, responsibility for enrollment reporting was transitioned from the Office of Financial Aid to the Office of Information Technology. The Office of Information Technology worked with Ellucian and the National Student Clearinghouse to develop a number of efficiencies to further improve controls to ensure data is reviewed for accuracy by the appropriate personnel before roster files are submitted to the NSC to be forwarded on to the NSLDS. The Office of Information Technology leveraged IT knowledge and available resources to develop reports to reduce the overall processing time to ensure roster files are submitted on a regular and timely basis. Several of the process improvements are listed below:

- Established regular communication with the NSC Audit Resource team.
- Acquisition of dedicated NSC processing specialist to review all MSU report submissions to the NSC.
- Established communication with sister institutions to determine reporting "best practices" and discuss processes, procedures and challenges.
- Establishment of official NSC Enrollment Reporting schedule with all campus stakeholders.



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MOREHEAD STATE UNIVERSITY

Corrective Action Plan, continued

Year ended June 30, 2019

Identifying Number: 2019-002

Finding: During our audit procedures, we noted the following conditions:

- Several staff members have shared responsibilities when it comes to security; however, a Security Program Coordinator has not been designated to run the Security Program of the University.
- The University has not had a risk assessment conducted in several years to identify a reasonable and foreseeable security and privacy risk. The University should evaluate and assess the GLBA safeguards against risks identified from a formal risk assessment.

Corrective Actions Taken or Planned:

- The University will designate an Information Security Program Coordinator to lead the information security and compliance program. The University will identify the appropriate resource based on related experience, needed skillset, and availability. The University will fill this role by internal or external channels, including existing University partnerships. The Information Security Program Coordinator will lead information security for the University, including employee training, information technology environment security, regulatory compliance, and incident response planning.
- The University will conduct a formal information security risk assessment to identify the current level of risk and determine vulnerabilities to be mitigated. The University will partner with appropriate external vendors to complete the risk assessment. The risk assessment will include analysis of information security employee training, information technology environment security, regulatory compliance, and incident response planning.