



Financial Statements

for

MOREHEAD STATE UNIVERSITY

For the Years Ended June 30, 2020 and 2019
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, 2020. 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 \$340 million versus \$355 million at June 30, 2019. The decrease is primarily related to a decrease in deferred outflows of resources of \$10 million and a decrease in capital assets, net of \$13 million. This was offset by an increase in cash and cash equivalents of \$2.8 million and an increase in investments of \$4.1 million.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

- Total liabilities and deferred inflows of resources were \$308 million versus \$358 million at June 30, 2019. The decrease is primarily related to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability of \$24.7 million, a decrease in bond and capital lease obligations of \$5.5 million, a decrease in deferred inflows of resources of \$12 million and a decrease in other post-employment benefits (OPEB) liability in the amount of \$7 million.
- Total net position was \$32.1 million at June 30, 2020 and (\$3.2) million at June 30, 2019.

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 the:

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

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

The Statement of Net Position

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

The Statement of Revenues, Expenses and Changes in Net Position

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

The Statement of Cash Flows

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

Reporting Entity

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

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

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

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Current assets	\$ 49,113	\$ 43,244
Capital assets	251,285	264,461
Other noncurrent assets	<u>21,656</u>	<u>18,279</u>
Total assets	<u>322,054</u>	<u>325,984</u>
 Deferred outflows of resources	 <u>18,080</u>	 <u>28,594</u>
Total assets and deferred outflows of resources	 <u>340,134</u>	 <u>354,578</u>
 <u>Liabilities</u>		
Current liabilities	18,762	18,265
Net pension liability	101,444	126,216
Net OPEB Liability	20,625	27,879
Other noncurrent liabilities	<u>83,066</u>	<u>89,091</u>
Total liabilities	<u>223,897</u>	<u>261,451</u>
 Deferred inflows of resources	 <u>84,158</u>	 <u>96,345</u>
Total liabilities and deferred inflows of resources	 <u>308,055</u>	 <u>357,796</u>
 <u>Net Position</u>		
Net investment in capital assets	165,655	173,088
Restricted, expendable	5,607	3,938
Restricted, nonexpendable	11,511	11,525
Unrestricted	<u>(150,694)</u>	<u>(191,769)</u>
Total net position	<u>\$ 32,079</u>	<u>\$ (3,218)</u>

Assets and deferred outflows of resources

As of June 30, 2020, the University's total assets and deferred outflows of resources were approximately \$340 million versus \$355 million at June 30, 2019. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$251 million compared to \$264 million at June 30, 2019. Cash and investments, totaling \$51 million at June 30, 2020 and \$44 million at June 30, 2019, were the University's next largest asset. Total assets and deferred outflows of resources decreased by approximately \$15 million during the year ended June 30, 2020. The principal areas of change were:

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

- Cash and cash equivalents increased approximately \$2.8 million, primarily due to decreases in expenditures as a result of operating expense reductions.
- Capital assets, net of accumulated depreciation, decreased approximately \$13 million due to depreciation.
- Deferred outflows of resources pensions decreased \$10 million, due to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability.

Liabilities and deferred inflows of resources

At June 30, 2020, the University's total liabilities and deferred inflows of resources were approximately \$308 million versus \$358 million in the previous year. Net pension liability represented \$101 million and Net OPEB Liability represented \$21 million of this amount at June 30, 2020. Bonds and capital lease obligations for capital assets represented \$84 million at June 30, 2020 and \$90 million at June 30, 2019. Total liabilities and deferred inflows of resources decreased by \$50 million during the year ended June 30, 2020. This decrease was primarily due to the following:

- Net pension liability decreased \$24.7 million due to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability.
- Net OPEB liability decreased \$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 \$5.5 million, due to debt payments and bond premium amortization.
- Deferred inflows of resources decreased \$12 million, due to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension and OPEB liability.

Net Position

Net position at June 30, 2020 totaled approximately \$32.1 million compared to (\$3.2) million at June 30, 2019. Net investment in capital assets, totaled \$166 million versus \$173 million at June 30, 2019. Restricted net position totaled \$17 million compared to \$15 million at June 30, 2019. Unrestricted net position totaled (\$151) million versus (\$191) million at June 30, 2019. Total net position increased by approximately \$35 million during the year ended June 30, 2020.

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 decreased by (\$7.4) million. This decrease is primarily related to depreciation of capital assets. This was offset by 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 increased by \$1.7 million at June 30, 2020 primarily due to timing of debt service payment transfers.

Unrestricted Net Position

Unrestricted net position increased by \$41 million from the previous year to (\$151) million. This increase is due to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension and OPEB liability. Unrestricted net position is not subject to externally imposed restrictions. However, substantially all of the unrestricted net position is used for the support of academic programs and other initiatives, the completion of capital projects, or working capital requirements.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

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

	<u>2020</u>	<u>2019</u>
<u>Operating Revenues</u>		
Student tuition and fees, net	\$ 31,536	\$ 31,255
Federal grants and contracts	10,888	10,632
State and local grants and contracts	574	586
Nongovernmental grants and contracts	433	465
Sales and services of educational activities	2,798	2,879
Auxiliary enterprises	15,974	19,256
Other operating revenues	<u>5,327</u>	<u>6,088</u>
Total operating revenues	<u>67,530</u>	<u>71,161</u>
<u>Operating Expenses</u>		
Educational and general	105,633	107,207
Auxiliary enterprises	11,001	13,995
Depreciation	13,487	13,048
GASB 68 pension benefit	(32,187)	(20,847)
GASB 75 OPEB benefit	(1,324)	406
Other operating loss	<u>78</u>	<u>220</u>
Total operating expenses	<u>96,688</u>	<u>114,029</u>
Operating loss	<u>(29,158)</u>	<u>(42,868)</u>
<u>Non-operating Revenues (Expenses)</u>		
Grants and contracts	27,960	26,088
State appropriations	38,467	38,852
Investment income, net	694	630
Interest on capital assets – debt related	<u>(2,940)</u>	<u>(3,092)</u>
Net non-operating revenues	<u>64,181</u>	<u>62,478</u>
Income before capital appropriations	35,023	19,610
Capital appropriations	<u>274</u>	<u>9,467</u>
Increase in net position	35,297	29,077
Net position, beginning of year	<u>(3,218)</u>	<u>(32,295)</u>
Net position, end of year	<u>\$ 32,079</u>	<u>\$ (3,218)</u>

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Revenues

Total operating revenues were approximately \$68 million for the year ended June 30, 2020 and \$71 million for the year ended June 30, 2019. The \$3 million decrease was primarily related to a reduction in housing revenue due to housing refunds issued to students due to COVID-19. 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 \$16 million.

- Gross tuition and fees revenue decreased approximately \$2 million due to a projected decrease in enrollment. This decrease was offset by a reduction in the scholarship allowance, which resulted in a \$281 thousand increase in net tuition and fees revenue.

Expenses

Operating expenses totaled approximately \$97 million compared to \$114 million at June 30, 2019. Approximately \$106 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 \$17 million decrease in operating expenses was primarily related to GASB 68 and 75 pension and OPEB expense adjustments.

- Operating expenses (excluding GASB 68 and 75 expense adjustments) decreased approximately \$4.3 million due to reductions in all divisions.
- Student aid expense increased \$2.2 million due to decreases in the scholarship allowance and due to \$1.3 million of Cares Act funds provided to students.
- Pension benefit increased \$11 million as a result of the University's proportionate share of the Commonwealth of Kentucky's net pension expense.
- OPEB benefit increased \$1.7 million as a result of 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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Provided By (Used In):		
Operating activities	\$ (50,924)	\$ (50,917)
Noncapital financing activities	66,428	64,940
Capital and related financing activities	(9,313)	(8,378)
Investing activities	<u>(3,397)</u>	<u>898</u>
Net increase in cash	2,794	6,543
Cash, beginning of the year	<u>32,450</u>	<u>25,907</u>
Cash, end of the year	<u>\$ 35,244</u>	<u>\$ 32,450</u>

Major sources of funds included in operating activities are student tuition and fees, \$31 million for the year ended June 30, 2020 compared to \$32 million in the prior year and grants and contracts, \$9.6 million versus \$11 million in the previous year. The largest cash payments for operating activities were made to suppliers \$65 million versus \$67 million in the previous year and to employees in the amount of \$52 million as compared to \$54 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 for both 2020 and 2019. Cash receipts from non-operating grants and contracts were \$28 million compared to \$26 million in the prior year. Cash used in capital and related financing activities was primarily due to the expenditure of funds for debt service obligations.

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 \$251 million at June 30, 2020 versus \$264 million at June 30, 2019. The decrease of approximately \$13 million was due to depreciation of capital assets.

Debt

At year-end, the University had \$84 million in outstanding debt versus \$90 million in the previous year. This includes \$69 million in bonds payable and premium amortization compared to \$73 million at June 30, 2019. In addition, the University had capital lease obligations of \$14.7 million compared to \$16.6 million in the previous year.

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

	June 30,	
	<u>2020</u>	<u>2019</u>
General Receipts bonds	\$ 67,205	\$ 70,705
Premium Amortization	2,189	2,334
Capital lease obligations	<u>14,694</u>	<u>16,621</u>
	<u>\$ 84,088</u>	<u>\$ 89,660</u>

Bonds, notes and capital lease obligations decreased \$5.5 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, 2021 totaling \$135.4 million.
- State Appropriations for the 2020-21 fiscal year will decrease to \$38.3 million from \$38.5 million in the previous fiscal year.
- During March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future.

The extent to which COVID-19 continues to impact the University will depend on future developments, which are highly uncertain and cannot be predicted. As a result, the University has not yet determined the impact this disruption may have on its financial statements for the year ending June 30, 2021.

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, 2020 and 2019, 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, 2020 and 2019, 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 84 - 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 September 30, 2020 on our consideration of Morehead State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Dean Doston Allen Ford, PLLC

Lexington, Kentucky
September 30, 2020

MOREHEAD STATE UNIVERSITY

Statements of Net Position

June 30, 2020 and 2019

Assets and Deferred Outflows	2020	2019
Current assets:		
Cash and cash equivalents	\$ 35,244,092	\$ 32,450,769
Accounts, grants and loans receivable, net	10,623,678	8,524,209
Prepaid expenses	1,218,280	45,512
Prepaid interest	16,083	16,083
Inventories	1,879,090	1,962,897
Other current assets	<u>131,591</u>	<u>244,601</u>
Total current assets	49,112,814	43,244,071
Noncurrent assets:		
Accounts, grants and loans receivable, net	2,826,526	3,386,790
Prepaid interest	112,580	128,663
Prepaid lease	3,098,284	3,236,509
Investments	15,618,856	11,527,169
Capital assets, net	<u>251,285,484</u>	<u>264,461,092</u>
Total noncurrent assets	<u>272,941,730</u>	<u>282,740,223</u>
Total assets	<u>322,054,544</u>	<u>325,984,294</u>
Deferred outflows of resources:		
Pensions	15,232,103	25,595,846
OPEB	<u>2,847,718</u>	<u>2,997,853</u>
Total deferred outflows of resources	<u>18,079,821</u>	<u>28,593,699</u>
Total assets and deferred outflows of resources	<u>340,134,365</u>	<u>354,577,993</u>
 Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	7,669,326	7,288,987
Unearned revenue	5,010,063	4,439,014
Other current liabilities	1,026,722	1,095,298
Bonds and capital lease obligations, current portion	<u>5,056,339</u>	<u>5,441,807</u>
Total current liabilities	18,762,450	18,265,106
Long-term liabilities:		
Bonds and capital lease obligations, noncurrent portion	79,031,763	84,218,081
Advances from federal government for student loans	2,528,556	3,296,670
Unearned revenue	290,235	290,235
Deferred gain on disposal	1,215,367	1,286,860
Net pension liability	101,444,195	126,215,896
Net OPEB liability	<u>20,624,696</u>	<u>27,878,680</u>
Total long-term liabilities	<u>205,134,812</u>	<u>243,186,422</u>
Total liabilities	<u>223,897,262</u>	<u>261,451,528</u>
Deferred inflows of resources:		
Deferred bond reoffering premium	1,671,061	1,857,933
Pensions	72,715,166	90,495,047
OPEB	<u>9,771,825</u>	<u>3,991,902</u>
Total deferred inflows of resources	<u>84,158,052</u>	<u>96,344,882</u>
Net position:		
Net investment in capital assets	165,654,984	173,088,017
Restricted:		
Expendable	5,607,617	3,937,751
Nonexpendable	11,510,851	11,525,427
Unrestricted	<u>(150,694,401)</u>	<u>(191,769,612)</u>
Total net position	<u>\$ 32,079,051</u>	<u>\$ (3,218,417)</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current assets:		
Cash	\$ 336,083	\$ 746,374
Accounts receivable	9,640	29,857
Current portion of net investment in capital leases	<u>647,599</u>	<u>1,547,190</u>
Total current assets	993,322	2,323,421
Noncurrent assets:		
Investments, at fair value	53,713,454	51,652,526
Cash surrender value – life insurance	142,156	135,183
Property and equipment, net	215,605	222,577
Pledges receivable, net of current portion	<u>4,744,172</u>	<u>1,767,006</u>
Total noncurrent assets	<u>58,815,387</u>	<u>53,777,292</u>
Total assets	<u>\$ 59,808,709</u>	<u>\$ 56,100,713</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of annuities payable	\$ 169,811	\$ 238,101
Accounts Payable	46,088	56,798
Due to Morehead State University	<u>336,686</u>	<u>192,189</u>
Total current liabilities	552,585	487,088
Long-term liabilities:		
Funds held in trust for Morehead State University	10,427,195	10,427,195
Annuities payable, net of current portion	<u>492,763</u>	<u>757,930</u>
Total long-term liabilities	<u>10,919,958</u>	<u>11,185,125</u>
Total liabilities	<u>11,472,543</u>	<u>11,672,213</u>
Net assets:		
Without Donor Restrictions	(1,746,576)	(1,542,546)
With Donor Restrictions	<u>50,082,742</u>	<u>45,971,046</u>
Total net assets	<u>48,336,166</u>	<u>44,428,500</u>
Total liabilities and net assets	<u>\$ 59,808,709</u>	<u>\$ 56,100,713</u>

See accompanying notes

MOREHEAD STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$34,696,721 and \$37,167,078)	\$ 31,536,284	\$ 31,254,824
Federal grants and contracts	10,888,087	10,632,323
State and local grants and contracts	573,503	585,678
Nongovernmental grants and contracts	432,582	465,472
Sales and services of educational activities	2,797,658	2,879,440
Auxiliary enterprises:		
Residence halls (net of scholarship allowances of \$1,248,637 and \$1,460,328)	11,203,200	13,917,275
Bookstore	3,208,212	3,551,681
Other auxiliaries	1,563,286	1,786,838
Other operating revenues	<u>5,327,628</u>	<u>6,088,194</u>
Total operating revenues	67,530,440	71,161,725
Operating expenses:		
Education and general:		
Instruction	39,873,939	41,860,425
Research	2,155,861	1,395,435
Public service	4,022,276	4,384,765
Library	2,456,131	2,776,780
Academic support	4,541,864	6,141,662
Student services	17,028,535	16,794,487
Institutional support	11,584,158	11,685,655
Operation and maintenance of plant	9,357,941	9,807,284
Depreciation	13,487,313	13,047,674
Student aid	14,612,139	12,360,719
Auxiliary enterprises:		
Residence halls	6,266,612	6,281,126
Bookstore	3,176,692	3,512,659
Other auxiliaries	1,558,079	4,201,531
GASB 68 pension benefit	(32,187,839)	(20,846,926)
GASB 75 OPEB (benefit) expense	(1,323,926)	406,269
Other operating loss	<u>78,288</u>	<u>220,433</u>
Total operating expenses	<u>96,688,063</u>	<u>114,029,978</u>
Operating loss	(29,157,623)	(42,868,253)

MOREHEAD STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Nonoperating revenues (expenses):		
Grants and contracts	27,960,672	26,087,889
State appropriations	38,466,800	38,852,400
Investment income, net	694,345	629,719
Interest on capital asset-related debt	<u>(2,940,421)</u>	<u>(3,092,135)</u>
Net nonoperating revenues	<u>64,181,396</u>	<u>62,477,873</u>
Income before capital appropriations	35,023,773	19,609,620
Capital appropriations	<u>273,695</u>	<u>9,466,518</u>
Increase in net position	35,297,468	29,076,138
Net position, beginning of year	<u>(3,218,417)</u>	<u>(32,294,555)</u>
Net position, end of year	<u>\$ 32,079,051</u>	<u>\$ (3,218,417)</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 30,890	\$ 8,853,319	\$ 8,884,209
Other revenue and gains:			
Investment income:			
Interest and dividend income, net	47,978	20,211	68,189
Realized and unrealized gains (losses)	59,249	(1,901,149)	(1,841,900)
In-kind contributed services	125,164	-	125,164
Development activities	422,766	276,577	699,343
Annuities payable adjustment	171,015	-	171,015
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>2,886,827</u>	<u>(2,886,827)</u>	<u>-</u>
Total revenues and other support	3,743,889	4,362,131	8,106,020
Expenses:			
Program services expenses:			
Contributions to Morehead State University for:			
Academic programs	1,383,504	-	1,383,504
Athletics	199,277	-	199,277
University support:			
Operations and materials	686,581	-	686,581
Student financial aid	1,172,490	-	1,172,490
Athletics	<u>59,434</u>	<u>-</u>	<u>59,434</u>
Total program expenses	3,501,286	-	3,501,286
General and administrative	246,624	-	246,624
Bad debt expense	41	250,435	250,476
Fundraising	<u>199,968</u>	<u>-</u>	<u>199,968</u>
Total Expenses	<u>3,947,919</u>	<u>250,435</u>	<u>4,198,354</u>
Change in net assets	(204,030)	4,111,696	3,907,666
Net (deficit) assets, beginning of year	<u>(1,542,546)</u>	<u>45,971,046</u>	<u>44,428,500</u>
Net (deficit) assets, end of year	<u>\$ (1,746,576)</u>	<u>\$ 50,082,742</u>	<u>\$ 48,336,166</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
Development activities	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 (deficit) assets, beginning of year	<u>(1,674,141)</u>	<u>44,774,823</u>	<u>43,100,682</u>
 Net (deficit) 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.

Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services								
	Contributions to MSU		University Support			Total	General and Administrative	Fundraising	Total
	Academic Programs	Athletics	Operations and Materials	Student Financial Aid	Athletics				
Transfers to MSU	\$ 1,143,659	\$ 199,277	\$ -	\$ -	\$ -	\$ 1,342,936	\$ -	\$ 139,967	\$ 1,482,903
Scholarship expense	-	-	-	1,172,490	-	1,172,490	-	-	1,172,490
Program expense	-	-	495,198	-	59,434	554,632	-	-	554,632
Contributions to MSU-GIK	236,392	-	-	-	-	236,392	-	-	236,392
General operating expense	-	-	135,607	-	-	135,607	13,815	-	149,422
Software & maintenance	-	-	-	-	-	-	159,038	-	159,038
Special events/Cultivation	-	-	-	-	-	-	-	60,001	60,001
Recognition & awards	-	-	6,736	-	-	6,736	-	-	6,736
Depreciation	-	-	21,494	-	-	21,494	-	-	21,494
External audit	-	-	-	-	-	-	22,400	-	22,400
General operating - CC Fees	-	-	-	-	-	-	13,515	-	13,515
Travel & entertainment	-	-	9,893	-	-	9,893	-	-	9,893
Income tax expense	-	-	-	-	-	-	28,714	-	28,714
President's discretionary fund	-	-	7,828	-	-	7,828	-	-	7,828
Membership	-	-	7,221	-	-	7,221	-	-	7,221
Insurance	-	-	-	-	-	-	5,142	-	5,142
Interest expense	3,453	-	-	-	-	3,453	-	-	3,453
Legal	-	-	-	-	-	-	4,000	-	4,000
Vehicle & maintenance	-	-	934	-	-	934	-	-	934
Materials & supplies	-	-	1,670	-	-	1,670	-	-	1,670
Total expenses by function	\$ 1,383,504	\$ 199,277	\$ 686,581	\$ 1,172,490	\$ 59,434	\$ 3,501,286	\$ 246,624	\$ 199,968	\$ 3,947,878

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	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

MOREHEAD STATE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Tuition and fees	\$ 30,525,979	\$ 32,462,222
Grants and contracts	9,604,052	11,069,747
Payments to suppliers	(65,443,282)	(67,302,442)
Payments to employees	(51,743,705)	(54,382,540)
Collection of loans issued to students	610,301	591,135
Auxiliary enterprises:		
Residence halls	11,203,200	13,917,275
Bookstore	3,002,607	3,492,768
Other auxiliaries	353,412	1,786,480
Sales and services of educational activities	2,782,626	2,790,734
Other receipts	<u>8,180,645</u>	<u>4,657,627</u>
Net cash used in operating activities	<u>(50,924,165)</u>	<u>(50,916,994)</u>
 Cash flows from noncapital financing activities:		
Nonoperating grants and contracts	27,960,672	26,087,889
State appropriations	<u>38,466,800</u>	<u>38,852,400</u>
Net cash provided by noncapital financing activities	<u>66,427,472</u>	<u>64,940,289</u>
 Cash flows from capital and related financing activities:		
Capital appropriations	273,695	9,466,518
Purchase of capital assets	(322,099)	(9,540,236)
Decrease in advances from federal government for student loans	(768,114)	(108,594)
Issuance of new debt	9,462,458	2,674,598
Principal paid on capital debt and leases	(14,888,593)	(7,648,159)
Interest paid on capital debt and leases	<u>(3,069,989)</u>	<u>(3,221,704)</u>
Net cash used in capital and related financing activities	<u>(9,312,642)</u>	<u>(8,377,577)</u>
 Cash flows from investing activities:		
Interest received on investments, net	694,345	629,719
Changes in investments, net	<u>(4,091,687)</u>	<u>268,310</u>
Net cash (used in) provided by investing activities	<u>(3,397,342)</u>	<u>898,029</u>
 Net increase in cash and cash equivalents	2,793,323	6,543,747
Cash and cash equivalents, beginning of year	<u>32,450,769</u>	<u>25,907,022</u>
Cash and cash equivalents, end of year	<u>\$ 35,244,092</u>	<u>\$ 32,450,769</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (29,157,623)	\$ (42,868,253)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	13,487,313	13,047,674
Loss on disposal of capital assets	10,394	157,725
Bad debt expense	650,536	973,257
Changes in assets and liabilities:		
Receivables, net	(2,189,741)	(633,317)
Prepaid expenses	(1,172,768)	(45,512)
Inventories	83,807	131,751
Other current assets	113,010	(9,414)
Prepaid lease	138,225	134,200
Accounts payable and accrued liabilities	380,339	(432,765)
Unearned revenue	571,049	(434,781)
Other liabilities	(68,576)	(238,537)
Deferred gain on disposal	(71,493)	(71,492)
Deferred outflows/inflows	(1,672,952)	40,637,836
Net pension liability	(24,771,701)	(57,520,994)
Net OPEB liability	<u>(7,253,984)</u>	<u>(3,744,372)</u>
 Net cash used in operating activities	 <u>\$ (50,924,165)</u>	 <u>\$ (50,916,994)</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, 2020 and 2019 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.

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

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

Restricted Asset Spending Policy

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Operating Activities

The University defines operating activities, as reported on the statement of revenues, expenses and changes in net 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, 2020 to September 30, 2020 (the date the financial statements were ready to be issued) for items requiring recognition or disclosure in the financial statements.

Recent Accounting Pronouncements

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. The objective of this statement is to address government lessee's recognition of lease liabilities, intangible assets, and report amortization expense for using the lease; interest expense on the lease liability; and, note disclosures about the lease. Another objective of this statement is to address government lessor's recognition of a lease receivable, deferred inflow, and report lease revenue, interest income, and note disclosures about the lease. In May 2020, GASB issued Statement No. 95, which deferred the effective date of Statement 87. The updated statement will be effective for the University for the fiscal year beginning July 1, 2021. The University is evaluating the impact of this statement to its financial reporting.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which established criteria for identifying fiduciary activities of all state and local governments. The statement also clarified whether and how business type activities should report their fiduciary activities. The statement became effective for the University for the fiscal year beginning July 1, 2020. The University does not anticipate this statement to significantly impact its reporting.

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, 2020 and 2019, the University had petty cash funds totaling \$7,937 and \$12,058, respectively, and deposits as reflected by bank balances as follows:

	<u>2020</u>	<u>2019</u>
Insured, commercial banks	\$ 250,000	\$ 250,000
Uninsured, commercial banks; collateral held by pledging institution’s agent in the University’s name	8,915,382	21,477,591
Maintained by Commonwealth of Kentucky	<u>26,070,773</u>	<u>10,711,120</u>
	<u>\$ 35,236,155</u>	<u>\$ 32,438,711</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

2. Cash, Cash Equivalents and Investments, continued

As of June 30, 2020 and 2019, investments consisted of:

	<u>2020</u>	<u>2019</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	\$ 4,108,005	\$ 1,742
Equity mutual funds	<u>965,632</u>	<u>983,540</u>
	5,073,637	985,282
Certificate of deposit	118,024	114,692
Restricted assets held by the Morehead State University Foundation, Inc.	<u>10,427,195</u>	<u>10,427,195</u>
	<u>\$ 15,618,856</u>	<u>\$ 11,527,169</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, 2020 and 2019, are invested as follows:

	<u>2020</u>	<u>2019</u>
Percentage of pool invested in:		
Registered investment companies fixed income funds	7%	10%
Registered investment companies equity fund	10%	12%
Registered investment companies alternative investments	<u>83%</u>	<u>78%</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>2020</u>	<u>2019</u>
Student tuition and fees	\$ 3,440,844	\$ 4,219,261
Financing and interest receivable	131,325	1,497,630
Scholarship receivable	631,004	238,581
Student loans	2,870,516	3,446,784
Grants and contracts	4,503,328	2,737,025
Auxiliary enterprises	1,868,321	574,143
Other	<u>1,284,914</u>	<u>773,709</u>
	14,730,252	13,487,133
Allowance for doubtful accounts	<u>(1,280,048)</u>	<u>(1,576,134)</u>
	13,450,204	11,910,999
Current portion	<u>(10,623,678)</u>	<u>(8,524,209)</u>
Noncurrent portion	<u>\$ 2,826,526</u>	<u>\$ 3,386,790</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net

Capital assets as of June 30, 2020, 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	378,078,902	11,749	-	-	378,090,651
Library books	27,749,340	26,374	-	-	27,775,714
Vehicles	1,653,310	-	-	64,822	1,588,488
Equipment and livestock	32,901,520	312,288	-	411,972	32,801,836
Colleague	4,202,200	-	-	-	4,202,200
Art collection	1,106,605	-	-	-	1,106,605
Construction in progress	<u>92,270</u>	<u>75,706</u>	<u>-</u>	<u>104,018</u>	<u>63,958</u>
	469,452,535	426,117	-	580,812	469,297,840
<u>Accumulated depreciation</u>					
Land improvements	11,016,625	546,583	-	-	11,563,208
Buildings	140,714,102	9,581,800	-	-	150,295,902
Library books	25,785,182	558,906	-	-	26,344,088
Vehicles	1,609,597	34,281	-	64,822	1,579,056
Equipment and livestock	21,663,737	2,765,743	-	401,578	24,027,902
Colleague	<u>4,202,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,202,200</u>
	<u>204,991,443</u>	<u>13,487,313</u>	<u>-</u>	<u>466,400</u>	<u>218,012,356</u>
Capital assets, net	<u>\$ 264,461,092</u>	<u>\$ (13,061,196)</u>	<u>\$ -</u>	<u>\$ (114,412)</u>	<u>\$ 251,285,484</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net, continued

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

5. Accounts Payable and Accrued Liabilities

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

	<u>2020</u>	<u>2019</u>
Payable to vendors and contractors	\$ 1,964,158	\$ 1,720,445
Accrued vacation	2,094,945	1,918,015
Accrued sick leave liability	713,103	665,922
Accrued salaries and other liabilities	<u>2,897,120</u>	<u>2,984,605</u>
	<u>\$ 7,669,326</u>	<u>\$ 7,288,987</u>

6. Long-Term Liabilities

Long-term liabilities at June 30, 2020, 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	\$ 70,705,000	\$ -	\$ 3,500,000	\$ 67,205,000	\$ 3,800,000	\$ 63,405,000
Premium amortization	2,334,274	-	145,651	2,188,623	145,651	2,042,972
Capital lease obligations	11,233,656	9,462,458	10,548,991	10,147,123	248,615	9,898,508
Energy Savings Capital Lease	<u>5,386,958</u>	-	<u>839,602</u>	<u>4,547,356</u>	<u>862,073</u>	<u>3,685,283</u>
Total bonds and capital lease obligations	89,659,888	9,462,458	15,034,244	84,088,102	5,056,339	79,031,763
Federal refundable grants	<u>3,296,670</u>	-	<u>768,114</u>	<u>2,528,556</u>	-	<u>2,528,556</u>
Total long-term liabilities	<u>\$ 92,956,558</u>	<u>\$ 9,462,458</u>	<u>\$ 15,802,358</u>	<u>\$ 86,616,658</u>	<u>\$ 5,056,339</u>	<u>\$ 81,560,319</u>

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>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>108,594</u>	<u>3,296,670</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>

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>2020</u>	<u>2019</u>
2.00-4.125% General Receipts Bonds, 2011 Series A Improvement Bonds, repayable in semi-annual installments with the final installment due November, 2030	\$ 3,285,000	\$ 3,525,000
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	3,485,000	3,725,000
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	6,755,000	7,175,000
2.00-5.00% General Receipts Refunding Bonds, 2014 Series A, repayable in semi-annual installments with the final installment due October, 2028	15,040,000	16,385,000
1.00-5.00% General Receipts Refunding Bonds, 2014 Series B, repayable in semi-annual installments with the final installment due October, 2029	3,345,000	3,605,000
3.00-5.00% General Receipts Bonds, 2015 Series A, repayable in semi-annual installments with the final installment due April, 2035	26,685,000	27,100,000
1.00-3.00% General Receipts Refunding Bonds, 2016 Series A, repayable in semi-annual installments with the final installment due November, 2027	2,815,000	3,135,000
2.00-3.75% General Receipts Bonds, 2016 Series B, repayable in semi-annual installments with the final installment due November, 2036	5,795,000	6,055,000
General Receipts Bonds, 2015 Series A Reoffering Premium, amortized over semi-annual installments with the final installment amortized April 2035	2,188,623	2,334,274
2.65% Capital lease obligation with JP Morgan/Chase, repayable in quarterly installments with the final installment due June, 2025	4,547,356	5,386,958
4.50-5.99% Capital lease obligation for land acquisition, repayable in monthly installments with the final installment due June, 2023	140,911	233,936
6.139% Capital lease obligation for land acquisition, repayable in annual installments with the final installment due November, 2020	63,919	124,141
3.50-4.50% Capital lease obligation with Kentucky Bank, refinanced by the capital lease obligation with Kentucky Bank	-	8,200,981
3.65% Capital lease obligation with Kentucky Bank, refinanced by the capital lease obligation with Kentucky Bank	-	2,066,763
5.063% Capital lease obligation with Dell financial, repayable in annual installments with the final installment due August, 2023	479,835	607,835
3.99-5.25% Capital lease obligation with Kentucky Bank, repayable in monthly installments with the final installment due January, 2040	<u>9,462,458</u>	<u>-</u>
	<u>\$ 84,088,102</u>	<u>\$ 89,659,888</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>2020</u>	<u>2019</u>
Real estate and equipment	\$ 20,826,564	\$ 20,826,564
Less: accumulated depreciation	<u>(5,616,473)</u>	<u>(5,131,591)</u>
	<u>\$ 15,210,091</u>	<u>\$ 15,694,973</u>

During the year ended June 30, 2020, the University entered into a capital lease obligation with Kentucky Bank that had a principal balance of \$9,462,458 as of June 30, 2020. 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, 2020:

Year ending June 30,		
2021		\$ 1,639,662
2022		1,539,613
2023		1,515,971
2024		1,669,100
2025		1,778,276
Thereafter		<u>12,543,510</u>
Total minimum lease payments		20,686,132
Less: amounts representing interest		<u>(5,991,653)</u>
Present value of minimum lease payments		<u>\$ 14,694,479</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, 2020, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
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	5,245,000	1,798,378	7,043,378
2026-2037	<u>43,240,000</u>	<u>7,638,545</u>	<u>50,878,545</u>
	<u>\$ 67,205,000</u>	<u>\$ 18,746,857</u>	<u>\$ 85,951,857</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, 2019 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.

The University's contributions to TRS for the years ended June 30, 2019 and 2018 were \$3,934,245 and \$4,778,344, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System – Pension, continued

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

At June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
University's proportionate share of the net pension liability	\$48,065,129	\$52,598,012
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>52,083,266</u>	<u>39,132,513</u>
Total	<u>\$100,148,395</u>	<u>\$91,730,525</u>

The net pension liability was measured as of June 30, 2019 and 2018 (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 0.336 and 0.383 percent, respectively.

For the years ended June 30, 2020 and 2019, the valuation of the University's net pension liability resulted in the recognition of pension (benefit) expense of (\$20,187,325) and (\$19,139,324), respectively.

At June 30, 2020, 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	\$ 143,293	\$ 3,066,427
Changes of assumptions	4,073,563	25,594,190
Net difference between projected and actual earnings on pension plan investments	-	403,203
Changes in proportion and differences between University contributions and proportionate share of contributions	3,096,554	27,779,939
University contributions subsequent to the measurement date	<u>3,890,979</u>	<u>-</u>
Total	<u>\$ 11,204,389</u>	<u>\$ 56,843,759</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System - Pension, continued

\$3,890,979 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, 2021. 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:	
2021	(\$ 25,744,044)
2022	(16,901,749)
2023	(6,426,520)
2024	<u>(458,036)</u>
	<u>(\$ 49,530,349)</u>

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>

\$3,934,245 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, 2020.

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, 2019 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	3.89%
Measurement Date	3.50%
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	7.50%
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.

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	\$ 61,328,590	\$ 48,065,129	\$ 36,840,552

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, 2019 and 2018 were \$729,285 and \$778,263, respectively.

TRS OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
University's proportionate share of the net OPEB liability	\$ 12,258,000	\$ 15,159,000
Commonwealth of Kentucky's proportionate share of the		
Net OPEB liability associated with the University	<u>5,468,000</u>	<u>7,419,000</u>
Total	<u>\$ 17,726,000</u>	<u>\$ 22,578,000</u>

The net OPEB liability was measured as of June 30, 2019 and 2018, 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, 2019 and 2018, the University's proportion was 0.418 and 0.437 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, 2020 and 2019, the University recognized OPEB expense of \$202,000 and \$683,000. At June 30, 2020, 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	\$ -	\$ 2,967,000
Changes of assumptions	326,000	-
Net difference between projected and actual earnings on pension plan investments	52,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	1,183,000
University contributions subsequent to the measurement date	<u>715,179</u>	<u>-</u>
Total	<u>\$ 1,093,179</u>	<u>\$ 4,150,000</u>

\$715,179 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, 2021. 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:	
2021	(\$ 720,000)
2022	(720,000)
2023	(693,000)
2024	(698,000)
2025	(580,000)
Thereafter	<u>(361,000)</u>
Total	<u>(\$3,772,000)</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, 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>729,285</u>	<u>-</u>
Total	<u>\$ 937,285</u>	<u>\$ 1,606,000</u>

\$729,285 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, 2020.

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	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	7.50% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2024
Ages 65 and Older	5.50% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2021
Medicare Part B Premiums	2.63% for FY 2019 with an ultimate rate of 5.00% by 2031
Municipal Bond Index Rate	3.50%
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, 2018 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%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	6.5%	3.8%
Private Equity	8.5%	6.3%
Other Additional Categories	17.0%	3.2%
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-

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System – Medical Insurance, continued

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, 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	\$ 14,521,000	\$ 12,258,000	\$ 10,362,000

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:

	1% Decrease	Current Healthcare Trend Rates	1% Increase
University's share of net OPEB liability	\$ 9,979,000	\$ 12,258,000	\$ 15,061,000

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, four 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, 2019 and 2018 were \$11,786 and \$9,321, respectively.

TRS OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2020 and 2019, the University reported a liability of \$279,000 and \$268,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019 and 2018, 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, 2019 and 2018, the University's proportion was 0.897 and 0.950 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, 2020 and 2019, the University recognized OPEB expense of \$48,000 and \$44,000, respectively. At June 30, 2020, 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	57,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	12,000
University contributions subsequent to the measurement date	<u>14,563</u>	<u>-</u>
Total	<u>\$ 71,563</u>	<u>\$ 18,000</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Teachers Retirement System – Life Insurance, continued

\$14,563 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, 2021. 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:		
2021	\$	18,000
2022		18,000
2023		7,000
2024		(2,000)
2025		(1,000)
Thereafter		<u>(1,000)</u>
Total		<u>\$ 39,000</u>

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 <u>Resources</u>	Deferred Inflows of <u>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>

\$11,786 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, 2020.

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	3.50%
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, 2018 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%	4.3%
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%	3.2%
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/>		
	(7.50%)	(7.50%)	(8.50%)
University's share of net OPEB liability	\$ 412,000	\$ 279,000	\$ 169,000

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, 2019 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 36.85% 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, 2019 and 2018 were \$2,356,672 and \$3,431,036, respectively.

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

At June 30, 2020 and 2019, the University reported a liability of \$53,379,066 and \$73,617,884, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018 (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 allocation of the employers' proportionate share of the Net Pension Liability and Pension Expense was determined using the employers' actual contributions for the fiscal year ending June 30, 2019 for the KERS Hazardous fund. For June 30, 2018 the University's proportion of the net Pension liability was based on a projection of

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - Pension, continued

the University's long-term share of contributions for both KERS Non-Hazardous and Hazardous pension plans relative to the projected contributions of all participating University's and the State, actuarially determined. At June 30, 2020 and 2019, the University's proportion was 0.36 percent and 0.52 percent, respectively.

House Bill 265, passed during the 2018 legislative session, allowed certain employers within the KERS Non-Hazardous System to contribute less than the actuarially determined contribution in the 2018/2019 fiscal year. Since this is not expected to be an ongoing contribution reduction, determining the KERS Non-Hazardous employers' proportionate share based on the employers' actual contributions would not be reflective of the employers' long-term contribution effort. Instead, the proportionate share calculations for employers of the KERS Non-Hazardous System were based on the employers' covered payroll provided for fiscal year ending June 30, 2019, which would result in the same proportionate share allocation if all participating employers contributed the same contribution rate.

For the years ended June 30, 2020 and 2019, the University recognized pension (benefit) expense of (\$6,332,638) and \$4,583,547, respectively. At June 30, 2020, 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	\$ 335,646	\$ -
Changes of assumptions	1,685,552	-
Net difference between projected and actual earnings on pension plan investments	166,652	298,466
Changes in proportion and differences between University contributions and proportionate share of contributions	-	15,572,941
University contributions subsequent to the measurement date	<u>1,839,864</u>	<u>-</u>
Total	<u>\$ 4,027,714</u>	<u>\$ 15,871,407</u>

\$1,839,864 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, 2021. 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:

2021	\$ (9,084,201)
2022	(4,559,007)
2023	(39,550)
2024	(799)
Total	<u>\$ (13,683,557)</u>

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	\$ 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 was recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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, 2019, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles.

The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the H titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The Total Pension liability as of June 30, 2019, was determined using these updated assumptions:

Inflation	2.30%
Salary Increases	3.30% to 15.30% varies by service for KERS non-hazardous 3.55% to 20.05% varies by service for KERS hazardous
Investment Rate of Return	6.25% for KERS hazardous, 5.25% for KERS non-hazardous

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for health retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Non-hazardous plan to elect to cease participation in the System as of June 30, 2020. Since each employer's election was unknown at the time of the valuation, and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation. There were no other plan provision changes.

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	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class		
Growth		
US Equity	15.75%	4.30%
Non-US Equity	15.75%	4.80%
Private Equity	7.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity		
Core Bonds	20.50%	1.35%
Cash	3.00%	0.20%
Diversifying Strategies		
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

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
Growth		
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High	15.00%	2.60%
Yield		
Liquidity		
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies		
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

Discount rate. The projection of cash flows used to determine the discount rate of 5.25% for the KERS Non-hazardous, and 6.25% for KERS Hazardous, assumes that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability.

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:

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - Pension, continued

	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	\$ 1,960,823	\$ 1,520,673	\$ 1,159,087

	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	\$ 59,448,766	\$ 51,858,393	\$ 45,585,639

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, 2020 and 2019, the University reported a liability of \$8,087,696 and \$12,451,680 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019 and 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The allocation of the employers' proportionate share of the Net OPEB Liability and OPEB Expense was determined using the employers' actual contributions for the fiscal year ending June 30, 2019 for the KERS Hazardous fund. For June 30, 2018 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, 2019 and 2018, the University's proportion was 0.368 and 0.533 percent. The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at www.kyret.ky.gov.

House Bill 265, passed during the 2018 legislative session, allowed certain employers within the KERS Non-Hazardous System to contribute less than the actuarially determined contribution in the 2018/2019 fiscal year. Because this is not expected to be an ongoing contribution reduction, determining the KERS Non-Hazardous employers' proportionate share based on the employers' actual contributions would not be reflective of the employers' long-term contribution effort. Instead, the proportionate share

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - OPEB, continued

calculations for employers of the KERS Non-Hazardous System were based on the employers' covered payroll provided for fiscal year ending June 30, 2019, which would result in the same proportionate share allocation if all the participating employers contributed the same contribution rate.

The University's contributions to KRS for the years ended June 30, 2019 and 2018 were \$462,518 and \$692,007, respectively.

For the year ended June 30, 2020 and 2019, the University recognized OPEB (benefit) expense of (\$410,077) and \$968,987. At June 30, 2020, 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	\$ -	\$ 1,435,086
Changes of assumptions	1,274,296	25,656
Net difference between projected and actual earnings on OPEB plan investments	42,683	139,421
Changes in proportion and differences between University contributions and proportionate share of contributions	6,142	4,003,662
University contributions subsequent to the measurement date	359,855	-
Total	\$ 1,682,976	\$ 5,603,825

\$359,855 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - OPEB, continued

Year ending June 30:		
2021	\$	(1,112,214)
2022		(1,112,214)
2023		(1,312,797)
2024		(740,592)
2025		(3,290)
Thereafter		<u>403</u>
Total	\$	<u><u>(4,280,704)</u></u>

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 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	<u>471,310</u>	<u>-</u>
Total	\$ <u><u>1,975,783</u></u>	\$ <u><u>2,376,902</u></u>

\$471,310 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, 2020.

Actuarial assumptions - For financial reporting the actuarial valuation as of June 30, 2019, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2019, were based on an actuarial valuation date of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date to the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - OPEB, continued

The Board of Trustees has adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The Total OPEB liability as of June 30, 2019 is determined using these updated assumptions. House Bill 1 passed during the 2019 Special Legislative Session and allows certain employers in the Non-Hazardous plan to elect to cease participating in the System as of June 30, 2020. Since each employer's election is unknown at this time and the legislation was enacted after the June 30, 2019 measurement date, we did not make any adjustments to the Total OPEB Liability to reflect this legislation. There were no other plan provision changes. The total OPEB liability as of June 30, 2019, is determined using these updated benefit provisions:

Inflation	2.30%
Payroll Growth Rate	0.0% for KRS non-hazardous and hazardous
Salary Increase	3.55 - 15.55% KERS Non-Hazardous, varies by service 3.55% - 19.55% KERS Hazardous, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates:	
Pre – 65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 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 – Single discount rates of 5.73% for the non-hazardous system and 5.66% for the hazardous system were used to measure the total OPEB liability as of June 30, 2019. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA index" as of June 28, 2019. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The projection of cash flows used to determine

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension & OPEB Plans, continued

Kentucky Retirement System - OPEB, continued

the single discount rate assumes the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute.

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 (4.73%)	Current Discount Rate (5.73%)	1% Increase (6.73%)
University's share of net OPEB liability for Non-Hazardous	\$ 9,718,897	\$ 8,162,274	\$ 6,880,849
	Hazardous 1% Decrease (4.66%)	Current Discount Rate (5.66%)	1% Increase (6.66%)
University's share of net OPEB liability for Hazardous	\$ 125,283	\$ (74,578)	\$ (236,278)

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	\$ 6,934,402	\$ 8,162,274	\$ 9,647,583
	Hazardous 1% Decrease	Current Healthcare Trend Rates	1% Increase
University's share of net OPEB liability for Hazardous	\$ (216,968)	\$ (74,578)	\$ 98,683

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%. The University's contributions to these plans for the years ended June 30, 2020 and 2019 were \$1,049,267 and \$1,037,409 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 \$138,225 and \$134,200 as lease expense in 2020 and 2019, respectively. The University also recognized \$71,493 as a gain on disposal of the property in both 2020 and 2019, 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 \$637,719 and \$708,000 in 2020 and 2019, 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, 2020.

The University has made certain commitments related to the completion of various construction projects in progress totaling approximately \$126,782. 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, 2020 and 2019 were \$6,889,483 and \$7,775,836, 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, 2020 and 2019 was \$45,109,704 and \$43,413,305, 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, 2020 and 2019, 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, 2020 and 2019, 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 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 125,164	\$ 119,635
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	131,591	244,601
Unearned revenues provided to the University by the Foundation	4,000	-

The University entered into an agreement with the Foundation where the University will provide personnel, office space, support equipment and other services that may be necessary to the operation of the Foundation. The Foundation reimburses the University for these services at an annual rate determined mutually by the two entities, \$147,805 for the year ended June 30, 2020 and \$148,935 for the year ended June 30, 2019. 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, 2020 and 2019.

15. CARES Act

The Federal Government passed the Coronavirus Aid, Relief and Economic Security (CARES) Act on March 27, 2020 which included funding for the Higher Education Emergency Relief Fund (HEERF). These funds were awarded to institutions of higher education in two equal allotments: institutional aid to provide support for pivoting instruction to online delivery, and a student portion to provide emergency financial aid grants to students. The University received an allocation of \$3,008,220 in each category. As of June 30, 2020, the University has expended \$2,823,635 in cost related to moving instructional activities to an online delivery and recognized \$1,292,229 in revenues to fund the cost, and had expenditures of \$1,292,229 for emergency student grants and recognized \$1,292,229 in revenues to fund the grants. These revenues are reported in the Nonoperating Revenues (Expenses) section and the expenses are reported in Operating Expenses of the 2020 Statement of Revenues, Expenses, and Changes in Net Position. \$1,531,406 of allocations have been deferred and are reported in the current unearned revenue on the University's 2020 Statement of Net Position.

16. 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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

A. Nature of the Organization, continued

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.

Adoption of New Accounting Standard

The Foundation has adopted Accounting Standards Updated (ASU) 2018-08 Not for Profit Entities: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* as management believes the standard improves the usefulness and understandability of the Foundation's Financial Reporting. The Foundation adopted the new standard effective June 30, 2020, with no impact on recognition of revenue.

Basis of Presentation

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Basis of Presentation, continued

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.

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 .29% 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 (\$599,086 and \$368,244 as of June 30, 2020 and 2019, 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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Investments, continued

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.

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, 2020 and 2019 were \$162,442 and \$190,466, respectively.

The June 30, 2020 and 2019 annuity liability balances of \$662,574 and \$996,031, 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 13.36 years and 0.00 to 17.80 years for the years ended June 30, 2020 and 2019, 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 both of the years ended June 30, 2020 and 2019, the Foundation held \$10,427,195 for the University's investment purposes.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Income Taxes

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

Risks and Uncertainties

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

Contributions

Gifts of cash and other assets received without donor stipulations are reported as 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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

B. Summary of Significant Accounting Policies, continued

Donated Materials and Property

Donated materials and property are recorded at their estimated fair value when received. The statements of activities for the years ended June 30, 2020 and 2019 include in-kind contributions of \$225,735 and \$515,072, respectively.

Functional Allocation of Expenses

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. Additionally, the ASU will require enhanced qualitative and quantitative disclosures regarding customer contracts. 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 with cumulative effect transition method. In June 2020, the FASB issued ASU 2020-05, which deferred the effective date of ASU 2014-09. The updated standard will be effective for the Foundation for the year ending June 30, 2021. The Foundation has not yet selected a transition method and is currently evaluating the effect that the new standard will have on its financial statements.

Subsequent Events

The Foundation has evaluated subsequent events and transactions for accounting and disclosure requirements through September 30, 2020, 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

16. Morehead State University Foundation, Inc., continued

C. Liquidity and Availability

As of June 30, 2020 and 2019, the below assets, held by the Foundation, could readily be made available within one year of the statement of financial position date to meet general expenditures.

	<u>2020</u>	<u>2019</u>
Financial assets available to meet general expenditures over the next 12 months:		
Cash and equivalents	336,083	746,374
Investments without donor restrictions	<u>2,841,678</u>	<u>2,680,753</u>
	<u>\$ 3,177,761</u>	<u>\$ 3,427,127</u>

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, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Mutual funds	\$ 8,964,926	\$ 11,390,762
Alternative investments	44,694,199	40,215,956
Corporate bonds and stock	<u>54,329</u>	<u>45,808</u>
	<u>\$ 53,713,454</u>	<u>\$ 51,652,526</u>

Investment management fees were approximately \$130,000 and \$126,000 during the years ended June 30, 2020 and 2019, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

E. Pledges Receivable

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

Year ended June 30,		
2021	\$	1,278,119
2022		1,117,210
2023		1,017,900
2024		1,005,109
2025		992,601
Thereafter		<u>800,319</u>
		6,211,258
Less: present value discount		(219,716)
Less: allowance for uncollectible pledges		<u>(599,771)</u>
Pledges receivable, net		5,391,771
Less: current pledges receivable		<u>(647,599)</u>
Noncurrent pledges receivable	\$	<u><u>4,744,172</u></u>

During the years ending June 30, 2020 and 2019, the Foundation had bad debt expense of \$250,476 and \$94,027, respectively.

F. Property and Equipment

As of June 30, 2020 and 2019, property consists of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 53,000	\$ 53,000
Furniture and equipment	214,816	250,234
Buildings	<u>175,000</u>	<u>175,000</u>
	442,816	478,234
Less: accumulated depreciation	<u>(227,211)</u>	<u>(255,657)</u>
	<u><u>\$ 215,605</u></u>	<u><u>\$ 222,577</u></u>

Depreciation expense was \$21,494 and \$23,874 for the years ended June 30, 2020 and 2019, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

G. Deferred Giving Program

The Foundation established a life insurance deferred giving program during 1983. The program consists of donors designating the Foundation as the owner and beneficiary of life insurance policies. There are eighteen giving programs with life insurance in effect totaling \$903,042 for both of the years ended June 30, 2020 and 2019. The cash surrender value of these policies as of June 30, 2020 and 2019 was \$142,156 and \$135,183, respectively.

H. Fair Value Measurements

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

June 30, 2020	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	\$ 3,075,594	\$ 3,075,594	\$ -	\$ -
International	1,149,342	1,149,342	-	-
Energy sector	925,625	925,625	-	-
Fixed income and cash:				
Cash	482,518	482,518	-	-
Fixed income	3,331,847	3,331,847	-	-
Alternative investments:				
Hedge funds	6,762,550	-	-	6,762,550
Real assets	3,887,207	-	-	3,887,207
Private equity	3,037,763	-	-	3,037,763
Domestic equity	10,518,812	-	-	10,518,812
International equity	8,734,892	-	-	8,734,892
Fixed income	10,245,278	-	-	10,245,278
Global credit	1,507,697	-	-	1,507,697
Corporate bonds and stocks	54,329	-	54,329	-
Total assets	\$ 53,713,454	\$ 8,964,926	\$ 54,329	\$ 44,694,199
Annuities payable	\$ 662,574	\$ -	\$ -	\$ 662,574
Total liabilities	\$ 662,574	\$ -	\$ -	\$ 662,574

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

H. Fair Value Measurements, continued

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 payable	\$ 996,031	\$ -	\$ -	\$ 996,031
Total liabilities	\$ 996,031	\$ -	\$ -	\$ 996,031

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

H. 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, 2020 and 2018.

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

H. 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

16. Morehead State University Foundation, Inc., continued

H. 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, 2018	\$ 19,930,859
Additional investment	18,737,376
Funds sold	(324,362)
Realized and unrealized gains	1,887,958
Fees	<u>(15,875)</u>
Balance, June 30, 2019	40,215,956
Additional investment	9,187,526
Funds sold	(3,164,958)
Realized and unrealized (losses)	(1,527,966)
Fees	<u>(16,359)</u>
Balance, June 30, 2020	<u>\$ 44,694,199</u>

I. Endowment Funds

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

16. Morehead State University Foundation, Inc., continued

I. Endowment Funds, 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, 2020 and 2019, 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, 2020 and 2019, the amount of funds included in the Foundation's investments held for the RUETF Endowment Match Program was \$7,774,998 each year. These amounts are shown as funds held in trust for Morehead State University on the statements of financial position and are therefore not included in donor-designated endowment net assets.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

I. Endowment Funds, continued

Donor-Designated Endowments, continued

As of June 30, 2020, all endowment net assets were subject to donor restrictions. Changes in endowment net assets subject to donor restrictions as of June 30, 2020 are as follows:

Endowment net assets, beginning of year	\$ 43,413,305
Contributions, net of bad debt expense	4,247,829
Other income	3,297
Interest and dividend income	11,081
Net depreciation	(1,909,194)
Amounts appropriated for expenditure and transfers	<u>(656,614)</u>
Endowment net assets, end of year	\$ <u>45,109,704</u>

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>

J. 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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

K. Net Investment With Donor Restrictions

Net assets with donor restrictions as of June 30, 2020 and 2019 are restricted for the following purposes or periods:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Funds restricted for specific purposes	\$ 19,349,857	\$ 19,939,160
Scholarships	29,084	22,042
Athletics	<u>2,770</u>	<u>2,532</u>
	<u>19,381,711</u>	<u>19,963,734</u>
 Funds held in perpetuity	 <u>30,701,031</u>	 <u>26,007,312</u>
 Total net assets with donor restrictions	 <u>\$ 50,082,742</u>	 <u>\$ 45,971,046</u>

Net assets with donor restrictions as of June 30, 2020 and 2019 of the following as of June 30:

Purpose restricted net assets:

	<u>2020</u>	<u>2019</u>
Cash	\$ 336,083	\$ 435,583
Pledges receivable, net	4,822,204	2,557,750
Accounts receivable	9,640	29,857
Investments	14,102,531	16,825,792
Buildings	<u>111,253</u>	<u>114,752</u>
 Total purpose restricted net assets	 <u>19,381,711</u>	 <u>19,963,734</u>
 Funds held in perpetuity:		
Cash	\$ -	\$ 115,751
Pledges receivable, net	544,044	753,793
Investments	30,103,987	25,084,768
Land	<u>53,000</u>	<u>53,000</u>
 Total perpetual in nature net assets	 <u>30,701,031</u>	 <u>26,007,312</u>
 Total net assets with donor restrictions	 <u>\$ 50,082,742</u>	 <u>\$ 45,971,046</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

K. Net Investment With Donor Restrictions, continued

During the years ended June 30, 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2020</u>	<u>2019</u>
Student financial aid	\$ 1,172,490	\$ 924,265
Academic programs	777,058	2,469,908
Operations and materials	556,696	688,902
Athletics	260,594	359,822
General and administrative expenses	74,989	-
Fundraising	45,000	-
	<u>\$ 2,886,827</u>	<u>\$ 4,442,897</u>

L. 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, \$147,805 and \$148,935 for the years ended June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 125,164	\$ 119,635
Funds due to the University by the Foundation	336,686	192,189

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

M. Risks and Uncertainties

During March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. The continued spread of the disease represents a significant risk that

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

M. Risks and Uncertainties, continued

operations could be disrupted in the near future.

The extent to which COVID-19 continues to impact the Foundation will depend on future developments, which are highly uncertain and cannot be predicted. As a result, the Foundation has not yet determined the impact this disruption may have on its financial statements for the year ending June 30, 2021.

SUPPLEMENTAL INFORMATION

MOREHEAD STATE UNIVERSITY

Schedule of Bonds and Capital Lease Obligations

June 30, 2020

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2019</u>	<u>Payments/ Reductions 2019-20</u>	<u>New Issues</u>	<u>Premium Amortization</u>	<u>Outstanding June 30, 2020</u>	<u>Interest Expense 2019-20</u>	<u>Debt Service Requirements 2020-21</u>	
										<u>Principal</u>	<u>Interest</u>
General Receipts:											
2011 Series A Bonds	07/25/11	\$ 5,090,000	2.00-4.125	\$ 3,525,000	\$ 240,000	\$ -	\$ -	\$ 3,285,000	\$ 130,806	\$ 250,000	\$ 123,143
2012 Series A Bonds	06/15/12	5,060,000	2.00-3.625	3,725,000	240,000	-	-	3,485,000	116,181	245,000	111,025
2013 Series A Bonds	09/10/13	9,475,000	1.00-4.375	7,175,000	420,000	-	-	6,755,000	264,819	430,000	252,219
2014 Series A Bonds	07/24/14	22,620,000	2.00-5.00	16,385,000	1,345,000	-	-	15,040,000	683,025	1,415,000	614,025
2014 Series B Bonds	07/24/14	4,840,000	1.00-5.00	3,605,000	260,000	-	-	3,345,000	132,991	275,000	123,516
2015 Series A Bonds	03/25/15	28,185,000	3.00-5.00	27,100,000	415,000	-	-	26,685,000	1,148,238	595,000	1,127,488
2015 Reoffering Premium	03/25/15	2,835,829	-	2,334,274	-	-	145,651	2,188,623	-	-	-
2016 Series A Bonds	03/22/16	3,280,000	1.00-3.00	3,135,000	320,000	-	-	2,815,000	70,650	325,000	64,200
2016 Series B Bonds	12/01/16	<u>6,560,000</u>	2.00-3.75	<u>6,055,000</u>	<u>260,000</u>	<u>-</u>	<u>-</u>	<u>5,795,000</u>	<u>192,869</u>	<u>265,000</u>	<u>187,619</u>
Total General Receipts		\$ 87,945,829		\$ 73,039,274	\$ 3,500,000	\$ -	\$ 145,651	\$ 69,393,623	\$ 2,739,579	\$ 3,800,000	\$ 2,603,235

MOREHEAD STATE UNIVERSITY

Schedule of Bonds and Capital Lease Obligations, continued

June 30, 2020

	Issue Date	Net Amount of Issue	Interest Cost	Outstanding June 30, 2019	Payments/Reductions 2019-20	New Issues	Premium Amortization	Outstanding June 30, 2020	Interest Expense 2019-20	Debt Service Requirements 2020-21	
										Principal	Interest
Lease Purchase Agreements:											
JP Morgan/Chase	03/31/12	\$ 9,671,127	2.65	\$ 5,386,958	\$ 839,602	\$ -	\$ -	\$ 4,547,356	\$ 134,457	\$ 862,074	\$ 111,985
Mabry Property	12/19/13	875,000	4.50-5.99	233,936	93,025	-	-	140,911	10,748	73,472	5,976
IT Infrastructure (estimated)	06/19/15	10,000,000	3.50-4.50	8,200,981	8,200,981	-	-	-	168,329	-	-
Caudill Property	11/21/14	400,000	6.139	124,141	60,222	-	-	63,919	7,621	63,919	3,924
KY Bank	06/03/19	2,066,763	3.65	2,066,763	2,066,763	-	-	-	37,767	-	-
Dell Financial	04/26/19	607,835	5.063	607,835	128,000	-	-	479,835	-	111,223	24,293
KY Bank	01/31/20	<u>9,462,458</u>	3.99-5.25	<u>-</u>	<u>-</u>	<u>9,462,458</u>	<u>-</u>	<u>9,462,458</u>	<u>158,362</u>	<u>-</u>	<u>382,796</u>
Total lease purchase		<u>33,083,183</u>		<u>16,620,614</u>	<u>11,388,593</u>	<u>9,462,458</u>	<u>-</u>	<u>14,694,479</u>	<u>517,284</u>	<u>1,110,688</u>	<u>528,974</u>
Total		<u>\$121,029,012</u>		<u>\$ 89,659,888</u>	<u>\$14,888,593</u>	<u>\$ 9,462,458</u>	<u>\$ 145,651</u>	<u>\$ 84,088,102</u>	<u>\$ 3,256,863</u>	<u>\$ 4,910,688</u>	<u>\$ 3,132,209</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>	<u>2019</u>
University's proportion of the net pension liability (asset)	0.614%	0.617%	0.623%	0.366%	0.383%	0.336%
University's proportionate share of the net pension liability (asset)	\$132,575	\$150,686	\$192,662	\$103,482	\$52,598	\$48,065
University's covered-employee payroll	\$44,381	\$45,275	\$46,253	\$44,838	\$44,111	\$41,776
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%	115.05%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	42.49%	35.22%	39.83%	59.30%	58.80%

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>	<u>2019</u>
Contractually required contribution	\$4,770	\$4,852	\$4,957	\$4,826	\$4,778	\$3,934
Contributions in relation to the contractually required contribution	\$(4,770)	\$(4,852)	\$(4,957)	\$(4,826)	\$(4,778)	\$(3,934)
Contribution deficiency (excess)	-	-	-	-	-	-
University's covered-employee payroll	\$44,381	\$45,275	\$46,253	\$44,838	\$44,111	\$41,776
Contributions as a percentage of covered-employee payroll	10.75%	10.72%	10.72%	10.76%	10.83%	9.42%

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>	<u>2019</u>
University's proportion of the net OPEB liability (asset)	0.462%	0.437%	0.418%
University's proportionate share of the net OPEB liability (asset)	\$16,482	\$15,159	\$12,258
University's covered-employee payroll	\$44,838	\$44,111	\$41,776
University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	36.75%	34.37%	29.34%
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%	25.50%	32.58%

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>	<u>2019</u>
Contractually required contribution	\$792	\$778	\$729
Contributions in relation to the contractually required contribution	\$(792)	\$(778)	\$(729)
Contribution deficiency (excess)	-	-	-
University's covered-employee payroll	\$44,838	\$44,111	\$41,776
Contributions as a percentage of covered-employee payroll	1.77%	1.76%	1.75%

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

**SCHEDULE OF MOREHEAD STATE UNIVERSITY'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY – LIFE INSURANCE PLAN**

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>
University's proportion of the net OPEB liability (asset)	0.974%	0.950%	0.897%
University's proportionate share of the net OPEB liability (asset)	\$214	\$268	\$279
University's covered-employee payroll	\$44,838	\$44,111	\$41,776
University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	0.48%	0.61%	0.67%
Plan fiduciary net position as a percentage of the total OPEB liability	79.99%	75.00%	73.40%

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>	<u>2019</u>
Contractually required contribution	\$9	\$9	\$12
Contributions in relation to the contractually required contribution	\$(9)	\$(9)	\$(12)
Contribution deficiency (excess)	-	-	-
University's covered-employee payroll	\$44,838	\$44,111	\$41,776
Contributions as a percentage of covered-employee payroll	0.02%	0.02%	0.03%

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>	<u>2019</u>
University's proportion of the net pension liability (asset)	0.67%	0.66%	0.61%	0.58%	0.52%	0.36%
University's proportionate share of the net pension liability (asset)	\$62,124	\$68,784	\$71,768	\$80,255	\$73,618	\$53,379
University's covered-employee payroll	\$11,898	\$11,750	\$10,723	\$9,842	\$8,829	\$5,972
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%	893.82%
Plan fiduciary net position as a percentage of the total pension liability	25.39%	21.73%	17.54%	16.07%	15.81%	16.57%

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>	<u>2019</u>
Contractually required contribution	\$3,199	\$3,587	\$3,249	\$3,766	\$3,431	\$2,357
Contributions in relation to the contractually required contribution	\$(3,199)	\$(3,587)	\$(3,249)	\$(3,766)	\$(3,431)	(\$2,357)
Contribution deficiency (excess)	-	-	-	-	-	-
University's covered-employee payroll	\$11,898	\$11,750	\$10,723	\$9,842	\$8,829	\$5,972
Contributions as a percentage of covered-employee payroll	26.89%	30.53%	30.30%	38.26%	38.86%	39.47%

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>	<u>2019</u>
University's proportion of the net OPEB liability (asset)	0.587%	0.533%	0.368%
University's proportionate share of the net OPEB liability (asset)	\$14,927	\$12,452	\$8,088
University's covered-employee payroll	\$9,842	\$8,829	\$5,972
University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	151.67 %	141.04%	135.43%
Plan fiduciary net position as a percentage of the total OPEB liability	33.94%	37.63%	41.05%

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>	<u>2019</u>
Contractually required contribution	\$830	\$692	463
Contributions in relation to the contractually required contribution	\$(830)	\$(692)	\$(463)
Contribution deficiency (excess)	-	-	-
University's covered-employee payroll	\$9,842	\$8,829	\$5,972
Contributions as a percentage of covered-employee payroll	8.43%	7.84%	7.75%

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

**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, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated September 30, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dean Dotson Allen Ford, PLLC

September 30, 2020

Lexington, Kentucky

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Responses

Year ended June 30, 2020

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, 2020
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, 2020. 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, 2019) has been furnished to us. The report of the other accountants indicates that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization accountant's report, we have determined that all of the compliance requirements included the *Compliance Supplement* that are applicable to the major program in which the University participates are addressed in either our report or the report of the service organization accountants. Further, based on our review of the service organization accountant's report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on the University's major program.

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, 2020.

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, 2020, and have issued our report thereon dated September 30, 2020, 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 Doston Allen Ford, PLLC

May 24, 2021
Lexington, Kentucky

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2020

<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		\$ -	\$ 693,105
Federal Pell Grant Program	84.063		-	14,148,002
Federal Supplemental Educational Opportunity Grants Program	84.007		-	603,729
Federal Direct Loan Program	84.268		-	31,635,357
Teacher Educational Assistance for College and Higher Education Grant	84.379		-	46,798
			-	47,126,991
TRIO Cluster:				
Talent Search II 16/21	84.044A		-	297,637
Talent Search 16/21	84.044A		-	453,954
Talent Search STEM 19/21	84.044A		-	16,899
Talent Search II STEM 19/21	84.044A		-	16,899
UPWARD BOUND EAST 17/22	84.047A		-	236,225
UPWARD BOUND CENTRAL 18/23	84.047A		-	652,585
UPWARD BOUND MATH/SCI 17/22	84.047M		-	255,039
UPWARD BOUND MATH/SCI-S 17/22	84.047M		-	254,292
Student Support 15/20	84.042		-	354,492
CEOC-SE 17/22	84.066A		-	251,564
CEOC-NE 14/19	84.066A		-	97,271
CEOC-NE 19/24	84.066A		-	396,441
			-	3,283,298
Direct Programs				
COVID-19 HEERF CARES-STUDENT	84.425E		-	1,292,229
COVID-19 HEERF CARES-INSTITUTION	84.425F		-	2,823,635
COVID-19 HEERF CARES-SIP	84.425M		-	294,865
McLaren-PEEAK 15/19	84.325K		-	115,052
GEAR UP IRAPP 08/14	84.334A		-	42
			-	4,525,823
Passed through Berea College				
Connell-USED-Berea-GEAR UP 19	84.334	P334A140030	-	24,567
			-	24,567
Passed through Kentucky Council on Postsecondary Education				
McKinney-Powell-Adult LC 19/20	84.002A	SC 531 2000000434	-	67,297
McKinney-Perform-Powell 19/20	84.002A	SC 531 2000000434	-	1,671
McKinney-Bath-Adult LC 19/20	84.002A	SC 531 2000000434	-	79,427
McKinney-WL-Adult LC 19/20	84.002A	SC 531 2000000434	-	108,342
McKinney-Montgomery LC 19/20	84.002A	SC 531 2000000434	-	121,142
McKinney-MSU-Adult LC 19/20	84.002A	SC 531 2000000434	-	140,358
Connell-Adult Ed-USED-CPE 19/2	84.002A	SC 531 200000148	-	366,734
McKinney-Perform-Bath 19/20	84.002A	SC 531 2000000434	-	1,000
McKinney-Perform-Mont. 19/20	84.002A	SC 531 2000000434	-	3,889
McKinney-Perform-MSU 19/20	84.002A	SC 531 2000000434	-	6,445
McKinney-Wolfe-Adult LC 18/19	84.002A	SC 415 1900000638	-	(56)
McKinney-Wolfe-Adult LC 19/20	84.002A	SC 531 2000000434	-	51,352
McKinney-Perform-Wolfe 19/20	84.002A	SC 531 2000000434	-	2,071
			-	949,672
Passed through Kentucky Department of Education				
STUBBS-USED-KDE-FIELD 19/20	84.048A	PON2 540 1900004239	-	4,014
STUBBS-USED-KDE-PD 19/20	84.048A	PON2 540 1900004837	-	4,420
			-	8,434
Passed through Kentucky Education Cabinet				
MATTINGLY-CDP REHAB 18/20	84.346	PON2 531 1900000700 1	-	465,739
			-	465,739
Passed through National Writing Project Corp				
Masclé-NWP-Journalism 20	84.367D	U367D150004	-	948
			-	948
Passed through Workforce Development Cabinet				
STUBBS-TITLE 1C-NURSE 19/20	84.048A	PON2 540 1900004797	-	12,674
STUBBS-TITLE 1C-IMAGING 19/20	84.048A	PON2 540 1900004797	-	3,768
STUBBS-TITLE 1C-VET 19/20	84.048A	PON2 540 1900004797	-	13,984
			-	30,426
Total US Department of Education			-	56,415,898
Appalachian Regional Commission				
Direct Programs				
MILLER-ARC-SOAR-STEM 17/18	23.001		-	75,851
			-	75,851
Total Appalachian Regional Commission			-	75,851
Corporation for National and Community Service				
Direct Programs				
JUDD-CNCS-RSVP 18/21	94.002		-	91,189
JUDD-CNCS-RSVP-EXPAND 17/20	94.002		-	131,039
RSVP-CNCS-Augmentation 15/18	94.002		-	211
			-	222,439

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2020

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
Passed through Kentucky Cabinet for Health and Family Services				
Williams-CHFS-MSU Corps 18/19	94.006	PON2 730 1900002169	-	(31,675)
Williams-CHFS-MSU Corps 19/20	94.006	PON2 730 1900004858	-	412,196
			-	380,521
Total Corporation for National and Community Service			-	602,960
Corporation for Public Broadcasting				
Direct Programs				
Hitchcock-CPB-Radio-Rest 19/21	11.550		-	22,936
Hitchcock-CPB-Radio 18/20	11.550		-	98,326
Hitchcock-CPB-Radio-Rest 18/20	11.550		-	18,823
Hitchcock-CPB-Radio 19/21	11.550		-	8,873
Hitchcock-CPB-CARES 20	11.550		-	18,721
			-	167,679
Total Corporation for Public Broadcasting			-	167,679
US Environmental Protection Agency				
Passed through Kentucky Energy and Environment Cabinet				
GEARNER-PRINCIPAL LAB 18/20	66.468	PON2 129 1900000626	-	29,963
			-	29,963
Total US Environmental Protection Agency			-	29,963
National Aeronautics and Space Administration				
Direct Programs				
MALPHRUS-NASA-ICECUBE 15/20*	43.001		225,000	551,070
			225,000	551,070
Passed through Massachusetts Institute of Technology				
Malphrus-NASA-MIT-AERO 18/22*	43.001	S4745 / PO 253307	-	527,734
Malphrus-NASA-MIT-VISTA 19/22*	43.001	S4848/PO#340416	-	111,670
			-	639,404
Total National Aeronautics and Space Administration			225,000	1,190,474
National Endowment for the Humanities				
Passed through Kentucky Humanities Council				
Hill-KHC-Video Vault 19	45.129	2018-012	-	1,261
			-	1,261
Total National Endowment for the Humanities			-	1,261
National Institute of Health				
Direct Programs				
CARLSON-NIH 17/20*	93.173		-	92,163
Hare-NIH-MOA of UmuD 17/20*	93.113		-	89,532
			-	181,695
Passed through University of Louisville Research Foundation				
INBRE-KBRIN-CARLSON 19/20*	93.859	ULRF 18-0975A-03	-	41,382
INBRE-KBRIN-MATTINGLY 19/20*	93.389	ULRF 18-0975A-03	-	99,469
INBRE-KBRIN-HARE-LEAD 19/20*	93.389	ULRF 18-0975A-03	-	234,927
INBRE-KBRIN-HARE-BRIDGE 19/20*	93.389	ULRF 18-0975A-03	-	38,352
INBRE-KBRIN-MEFFORD 19/20*	93.859	ULRF 18-0975A-03	-	42,773
Henson-NIH-ULRF-XLerator 18/19*	93.389	ULRF 18-0680-04	-	115
INBRE-KBRIN-Carlson 20/21*	93.859	ULRF-18-0975B-03	-	15,865
INBRE-KBRIN-Mattingly 20/21*	93.859	ULRF-18-0975B-03	-	17,989
INBRE-KBRIN-Hare-Bridge 20/21*	93.389	ULRF-18-0975B-03	-	10,299
INBRE-KBRIN-Maitland 20/21*	93.859	ULRF-18-0975B-03	-	4,896
INBRE-KBRIN-Hare-Lead 20/21*	93.859	ULRF-18-0975B-03	-	209
INBRE-KBRIN-Neilson 20/21*	93.859	ULRF-18-0975B-03	-	683
			-	506,959
Total National Institute of Health			-	688,654
National Science Foundation				
Direct Programs				
SCHACK-NSF-TECHNO 14/17*	47.076		-	9,081
SCHACK-NSF-NOYCE 17/22*	47.076		-	166,811
			-	175,892
Passed through Kentucky Research Foundation				
Jenab-NSF-UKRF-PASERS 19/20*	47.083	3200002692-20-029	-	154,629
			-	154,629
Total National Science Foundation			-	330,521
US Department of Agriculture				
Passed through Kentucky Department of Education				
COOPER-SUMMER FOOD 19	10.558	12018	-	33,323
			-	33,323

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2020

<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 The University of Central Florida				
Getchell-USDA-UCF-Pest 17/20*	10.310	24048020/24048023	-	1,363
			-	1,363
Passed through Natural Resources Conservation Services				
Harrelson-USDA-NRCS-Compost 18	10.902	NRCS-ADS-093	-	79,715
			-	79,715
Total US Department of Agriculture			-	114,401
US Department of Defense				
Passed through Eastern Kentucky University				
HAIL-DOD-EKU-IC CAE 18/19	12.598	453703-19-195	-	11,966
			-	11,966
Total US Department of Defense			-	11,966
US Department of Health and Human Services				
Direct Programs				
Fowler-HHS-Communities Talk 19	93.048		-	689
			-	689
Passed through Kentucky Administrative Office of the Courts				
Shannon-HHS-AOC-Muhlenberg 18/	93.243	PON2 025 1900002775	-	3,624
Shannon-HHS-AOC-Clark/Mad 18/1	93.243	PON2 025 1800001090	-	16,689
Shannon-HHS-AOC-McCracken 18/1	93.243	PON2 025 1700001017	-	7,446
Shannon-HHS-AOC-Perry 18/19	93.243	PON2 025 1700001013	-	6,462
Shannon-HHS-AOC-Fayette 18/19	93.243	PON2 025 1700001018	-	15,085
Shannon-HHS-AOC-Hopkins 18/19	93.243	PON2 025 1700001012	-	4,962
Shannon-HHS-AOC-18th District	93.243	PON2 025 1700001019	-	8,717
Shannon-HHS-AOC-Christian 18/1	93.243	PON2 025 1700001014	-	6,416
Shannon-HHS-AOC-Allen/Simp 18/	93.243	PON2 025 1700001015	-	13,280
Shannon-HHS-AOC-Letcher 18/19	93.243	PON2 025 1600001048	-	4,787
Shannon-HHS-AOC-Floyd Crt 18/1	93.243	PON2 025 1600000958	-	4,477
Shannon-HHS-AOC-Knott/Mag 18/1	93.243	PON2 025 1900002776	-	4,044
Shannon-HHS-AOC-Allen/Simp 19/	93.243	PON2 025 1700001015	-	10,044
Shannon-HHS-AOC-18th Dist. 19/	93.243	PON2 025 1700001019	-	17,436
Shannon-HHS-AOC-Hope 19/20	93.243	PON2 2000000665	-	55,087
Shannon-HHS-AOC-Perry 19/20	93.243	PON2 025 1700001013	-	14,900
Shannon-HHS-AOC-McCracken 19/2	93.243	PON2 025 1700001017	-	8,646
Shannon-HHS-AOC-Hopkins 19/20	93.243	PON2 025 1700001012	-	7,564
Shannon-HHS-AOC-Clark/Mad 19/2	93.243	PON2 025 1800001090	-	48,172
Shannon-HHS-AOC-Muhlenberg 19/	93.243	PON2 1900002775	-	26,653
Shannon-HHS-AOC-Knott/Mag 19/2	93.243	PON2 1900002776	-	30,215
Shannon-HHS-AOC-B/S/W 19/20	93.243	PON2 2000000217	-	28,871
Shannon-HHS-AOC-Christian 19/2	93.243	PON2-025-1700001014	-	9,349
Shannon-HHS-AOC-B/S/W 20/21	93.243	PON2 2000000217	-	1,580
			-	354,506
Passed through Kentucky Cabinet for Health and Family Services				
Logan-Training Resource 19/20	93.658	453770-20-104	-	81,507
			-	81,507
Passed through Community Action Council for Lexington-Fayette				
Shannon-HHS-CAC-CSTS 18/19	93.243	1H79TI080386-01	-	3,175
Shannon-HHS-CAC-CSTS 19/20	93.243	1H79TI080386-02	-	24,234
			-	27,409
Passed through Mountain Comprehensive Care Center				
Perkins-HHS-MCCC-CBHC 18/19	93.829	1H79SM081813	-	37,995
Perkins-HHS-MCCC-CBHC 19/20	93.829	1H79SM083095-01	-	84,871
Shannon-HHS-MCCC-ORP 18/19	93.243	1H79TI080967-01	-	6,723
Shannon-HHS-MCCC-FVPS 18/19	93.592	90EV0448-03-00	-	18,971
Shannon-HHS-MCCC-CABHI 18/19	93.243	1H79SM063368-01	-	3,938
Shannon-HHS-MCCC-CTS 18/19	93.243	1U79SM063045-01	-	17,280
Shannon-HHS-MCCC-AOTP 18/19	93.243	1H79SM063530-01	-	5,827
Shannon-HHS-MCCC-CTS 19/20	93.243	1U79SM063045-01	-	31,387
Shannon-HHS-MCCC-ORP 19/20	93.243	1H79TI080967-01	-	15,151
Shannon-HHS-MCCC-FVPS 19/20	93.243	90EV0448-03-00	-	26,230
Shannon-HHS-MCCC-AOTP 19/20	93.997	5H79SM063530-04	-	29,891
Nash-SAMHSA-MCCC-MHATP 19/20	93.243	1H79SM081174-01	-	12,963
			-	291,227
Passed through Volunteers of America Los Angeles				
Shannon-HHS-VOALA-GBHI 18/19	93.243	TI080416	-	6,076
Shannon-HHS-VOALA-SHAWL 18/19	93.243	TI080011	-	3,723
Shannon-HHS-VOALA-HVCE 18/19	93.243	TI026488	-	5,477
Shannon-HHS-VOALA-YFTP 18/19	93.243	TI081321	-	3,723
Shannon-HHS-VOALA-Orange 18/19	93.243	TI080417	-	6,151
Shannon-HHS-VOALA-GBHI 19/20	93.243	TI080416	-	22,533
Shannon-HHS-VOALA-SHAWL 19/20	93.243	TI080011	-	9,943
Shannon-HHS-VOALA-YFTP 19/20	93.243	TI081321	-	19,430
Shannon-HHS-VOALA-Orange 19/20	93.243	TI080417	-	10,726
			-	87,782

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2020

<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-Morehead 19/20	93.658	453773-20-106	-	6,345
Geurin-PCWCP-Ashland 19/20	93.658	453773-20-105	-	6,099
Geurin-PCWCP-Mt Sterling 19/20	93.658	453773-20-107	-	6,099
Geurin-PCWCP-Preston 19/20	93.658	453773-20-108	-	6,069
LOGAN-TRAINING RESOURCE 18/19	93.658	453442-18-108	-	1
			-	<u>24,613</u>
Passed through Louisville Metro Government				
JUDD-HHS-CAPACITY BLDG 19/20*	93.048	PO 371893	-	31,412
Judd-HHS-Capacity Bldg 20/21*	93.048	90MPPG0020-03	-	4,397
			-	<u>35,809</u>
Total US Department of Health and Human Services			-	<u>903,542</u>
US Department of Justice				
Passed through Kentucky Administrative Office of the Courts				
Shannon-DOJ-AOC-Implement 19	16.585	PON2 1900003292	-	2,694
Himes-DOJ-AOC-JML Eval 19/20	16.585	PON2 2000001059	-	2,456
Himes-DOJ-AOC-Pike 19/20	16.585	PON2 2000001060	-	2,495
Himes-DOJ-AOC-Hardin 19/20	16.585	PON2 2000001061	-	3,025
Himes-DOJ-AOC-LPR Crt 19/20	16.585	PON2 2000001063	-	2,456
Himes-DOJ-AOC-NKVTC 20	16.585	PON2 2000001444	-	2,456
Shannon-DOJ-AOC-Enhance 18/19	16.585	PON2 025 1800001091	-	2,371
Shannon-DOJ-AOC-Statewide 18/1	16.585	PON2 025 1600000959	-	7,429
Shannon-DOJ-AOC-Campbell 18/19	16.585	PON2 025 1600000957	-	5,017
Shannon-DOJ-AOC-Christian 18/1	16.585	PON2 025 1600000961	-	4,799
Shannon-DOJ-AOC-Enhance 19/20	16.585	PON2 025 1800001091	-	6,851
Shannon-DOJ-AOC-Implement 20	16.585	PON2 1900003292	-	2,410
Shannon-DOJ-AOC-Standards 19/2	16.585	PON2 025 1800001092	-	444
			-	<u>44,903</u>
Passed through Mountain Comprehensive Care Center				
Shannon-DOJ-MCCC-RCDC 18/19	16.812	2018-CY-BX-0013	-	714
Shannon-DOJ-MCCC-RCDC 19/20	16.812	2018-CY-BX-0013	-	13,288
Shannon-DOJ-MCCC-MAT 20/21	93.243	1H79T1081403	-	2,023
			-	<u>16,025</u>
Total US Department of Justice			-	<u>60,928</u>
US Department of Labor				
Passed through Buffalo Trace Area Development District				
Reynolds-Today's Youth 19/20	17.259	FY20-5245	-	231,823
REYNOLDS-TODAY'S YOUTH 18/19	17.259	FY19-5245	-	26
			-	<u>231,849</u>
Total US Department of Labor			-	<u>231,849</u>
US Small Business Administration				
Passed through University of Kentucky Research Foundation				
Murphy-SBA-UKRF-SBDC 18/19	59.037	3200002292-19-150	-	68,869
Murphy-SBA-UKRF-SBDC 19/20	59.037	3200003017-20-220	-	85,680
			-	<u>154,549</u>
Total US Small Business Administration			-	<u>154,549</u>
Total			\$ 225,000	\$ 60,980,496

*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, 2020 are summarized as follows:

Federal Direct Loan Program:	
Federal Unsubsidized Loans	\$ 18,126,977
Federal Subsidized Loans	10,372,543
Federal Plus Loans	3,135,837

As of June 30, 2020, the University had loans outstanding, in the amount of \$2,303,145 with an allowance for doubtful accounts of \$43,990 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 7/1/2019 to 6/30/2023
Based on Financial Information for fiscal year	
Predetermined rate – on campus	42%
Predetermined rate – off campus	15%

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, 2020

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: **None reported**
- 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): **No**
- 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 84.379

COVID-19 – CARES – Higher Education Emergency Relief Fund, CFDA 84.425

Research and Development Cluster:

- Biomedical Research and Research Training, CFDA 93.859
- Science – National Aeronautics and Space Administration, CFDA 43.001

Adult Education – Basic Grants to States, CFDA 84.002

- 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, continued

Year ended June 30, 2020

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:

Findings Relating to the Financial Statements Reported in Accordance with Uniform Guidance: **None Noted**

MOREHEAD STATE UNIVERSITY

Schedule of Prior Year Findings

Year ended June 30, 2020

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

Current Year Status:

The finding was resolved in the current year.

MOREHEAD STATE UNIVERSITY

Schedule of Prior Year Findings, continued

Year ended June 30, 2020

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 84.379

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.
- 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).

Current Year Status:

This finding was resolved in the current year.