

MOREHEAD STATE UNIVERSITY

Single Audit Reports Under OMB Circular A-133

*As of and for the Years Ended June 30, 2009 and 2008
with Independent Auditors' Report Thereon*

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MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis



MANAGEMENT'S DISCUSSION AND ANALYSIS

Morehead State University's (the University) Management 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, 2009. 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

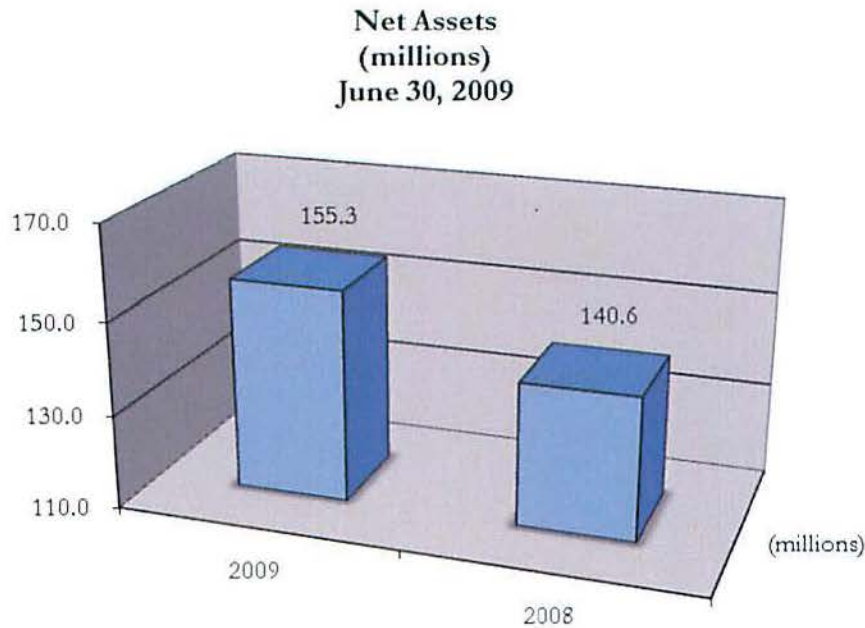
- The financial statements indicate that the University's financial condition remained stable at June 30, 2009. Financial operations were conducted in accordance with the approved budget plan.
- Total assets were \$199 million versus \$186 million at June 30, 2008. Significant components of the assets include \$10 million in cash, \$22 million in accounts, grants and loans receivable, net, \$13 million in investments and \$151 million in capital assets net of depreciation.
- Total liabilities were \$43 million versus \$46 million at June 30, 2008. The significant components of the liabilities were \$26 million in bonds, notes and capital lease obligations, \$8 million in accounts payable

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

and accrued liabilities, \$4 million in refundable grants and \$5 million in deferred revenue and other liabilities.

- Total net assets were \$155 million at June 30, 2009 and \$141 million at June 30, 2008. Significant components of net assets include \$125 million invested in capital assets, net of depreciation and related debt, \$3 million in expendable restricted net assets, \$12 million of non-expendable restricted net assets and \$15 million in unrestricted net assets.



- Operating revenues were \$65 million at June 30, 2009 and \$63 million at June 30, 2008. Operating expenses were \$137 million versus \$135 million at June 30, 2008. This created an operating loss of \$72 million at June 30, 2009 and June 30, 2008.
- Net non-operating revenues were \$64 million for the year ended June 30, 2009 and \$65 million for the year ended June 30, 2008. Non-operating revenues were comprised primarily of state appropriations. The combination of the net loss from operations, the net non-operating revenues and capital appropriations of \$22 million, resulted in an increase in net assets of \$14 million.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Using the Annual Report

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

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

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

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



finances. To get a full understanding of the University's financial condition these statements should be reviewed as a whole and not individually. Further important information can be found in the Notes to the Financial Statements, beginning on page 28 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 Statements in order to get a complete understanding.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

The Statement of Net Assets

This statement includes all assets 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 assets (the difference between assets and liabilities) are one indicator of the University's financial health. Over time, increases or decreases in net assets can indicate improvement or erosion of the University's financial health. Changes in net assets 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 Assets

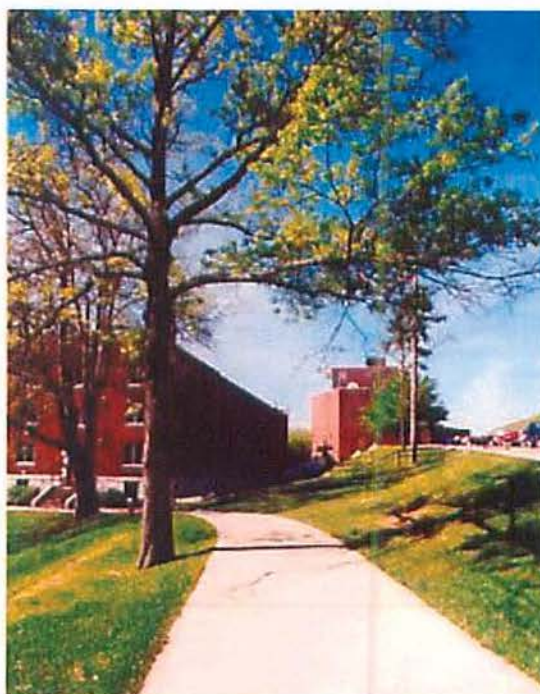
This statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. GASB 35 requires state appropriations and gifts to be classified as non-operating revenues. Accordingly, the University will generate a net operating loss prior 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

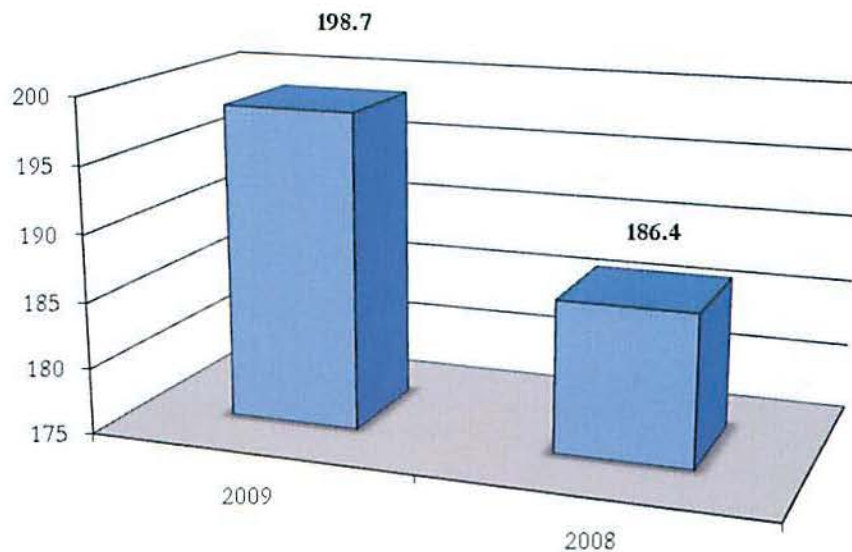
Condensed Financial Information
Statement of Net Assets (in thousands)

	<u>2009</u>	<u>2008</u>
<u>Assets</u>		
Current assets	\$ 30,303	\$ 37,424
Capital assets	151,169	131,544
Other noncurrent assets	<u>17,221</u>	<u>17,420</u>
Total assets	<u>198,693</u>	<u>186,388</u>
<u>Liabilities</u>		
Current liabilities	16,446	15,561
Noncurrent liabilities	<u>26,928</u>	<u>30,196</u>
Total liabilities	<u>43,374</u>	<u>45,757</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	125,430	102,745
Restricted, expendable	3,384	8,570
Restricted, nonexpendable	11,722	11,760
Unrestricted	<u>14,783</u>	<u>17,556</u>
Total net assets	<u>\$ 155,319</u>	<u>\$ 140,631</u>

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

**Total Assets
(millions)
June 30, 2009**



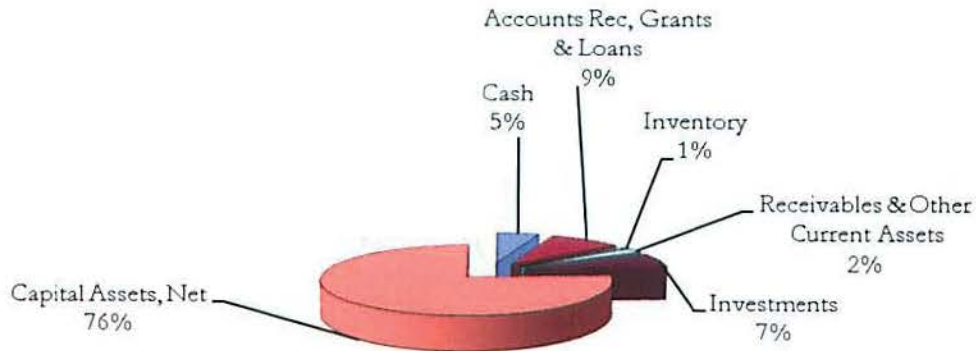
Assets

As of June 30, 2009, the University's total assets amount to approximately \$199 million versus \$186 million at June 30, 2008. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$151 million compared to \$131 million at June 30, 2008. Cash and investments, totaling \$24 million at June 30, 2009 and \$41 million at June 30, 2008, were the University's next largest asset.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Assets (millions) June 30, 2009



Total assets increased by \$12.3 million during the year ended June 30, 2009. The principal areas of change were:

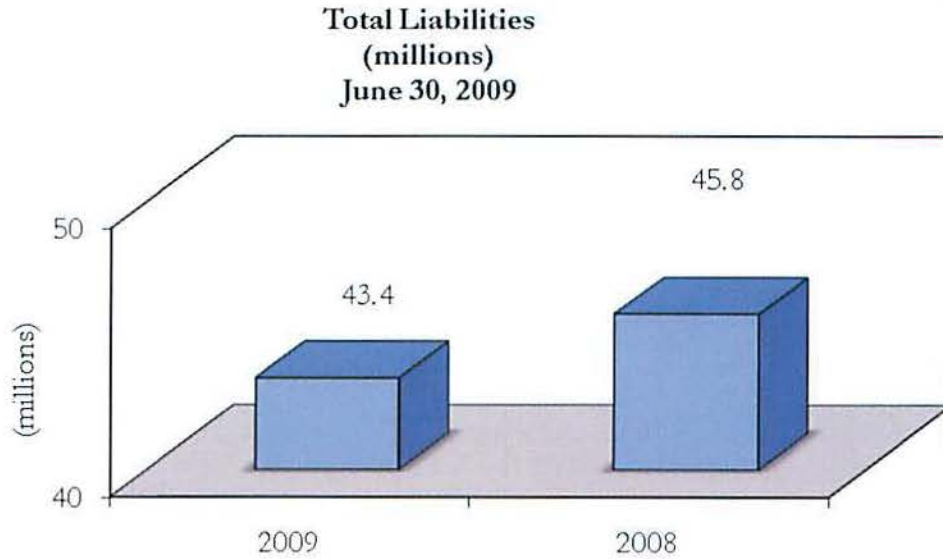
- cash and cash equivalents decreased approximately \$17.1 million,
- accounts, grants and loans receivable, net increased approximately \$10.4 million,
- capital assets, net of accumulated depreciation, increased approximately \$19.6 million,
- investments and other receivables decreased approximately \$0.2 million

Liabilities

At June 30, 2009, the University's liabilities totaled approximately \$43 million versus \$46 million the previous year. Bonds, notes payable and capital lease obligations for capital assets represented \$26 million versus \$30 million at June 30, 2008.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued



Total liabilities decreased by \$2.4 million during the year ended June 30, 2009. This decrease was primarily due to a \$3.2 million decrease in bonds, notes and capital lease obligations and an increase of \$0.8 million in deferred revenue and other liabilities.

Net Assets

Net assets at June 30, 2009 totaled approximately \$155 million compared to \$141 million at June 30, 2008. Net assets invested in capital assets, net of related debt, totaled \$125 million versus \$103 million at June 30, 2008. Restricted net assets totaled \$15 million compared to \$20 million at June 30, 2008. Unrestricted net assets accounted for \$15 million versus \$18 million at June 30, 2008. Total net assets increased by \$14 million during the year ended June 30, 2009.

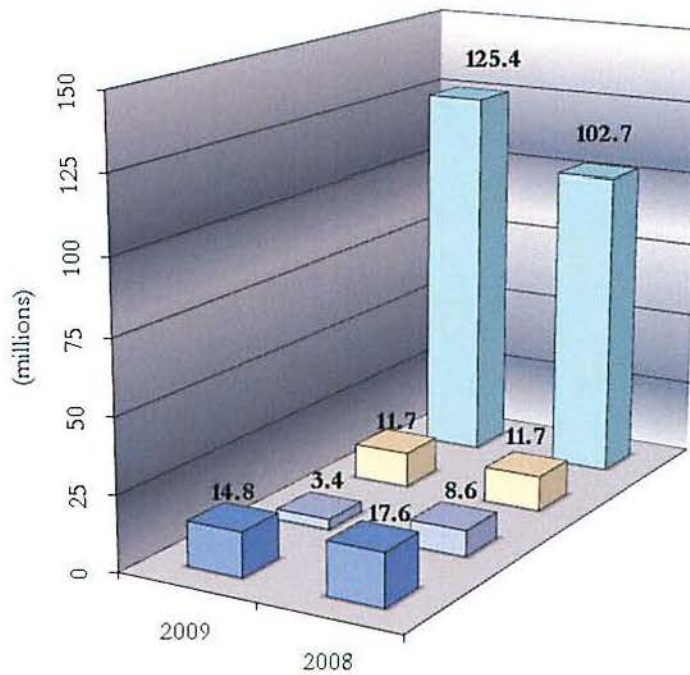
MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Net Assets Invested in Capital Assets, Net of Related Debt

Net assets invested in capital assets, net of related debt, increased by \$22.7 million. This increase was primarily due to an increase of \$22 million for building additions at June 30, 2009 versus a decrease of \$1.6 million at June 30, 2008. Other increases resulted from an increase of \$1.2 million for land improvements versus an increase of \$0.2 million in the previous year and net increases in other capital assets of \$2.0 million at June 30, 2009 versus net decreases of \$17.6 million at June 30, 2008. Also, there were \$3.2 million in payments of principal on debt compared to \$17.9 million during fiscal year 2008. Decreases in net assets invested in capital assets, net of related debt, were primarily due to current year depreciation of \$7.9 million compared to \$7.4 million for the year ended June 30, 2008 and from current year losses on disposals and sales of assets of \$1.1 million compared to \$3 million during fiscal year 2008.

**Total Net Assets
June 30, 2009**



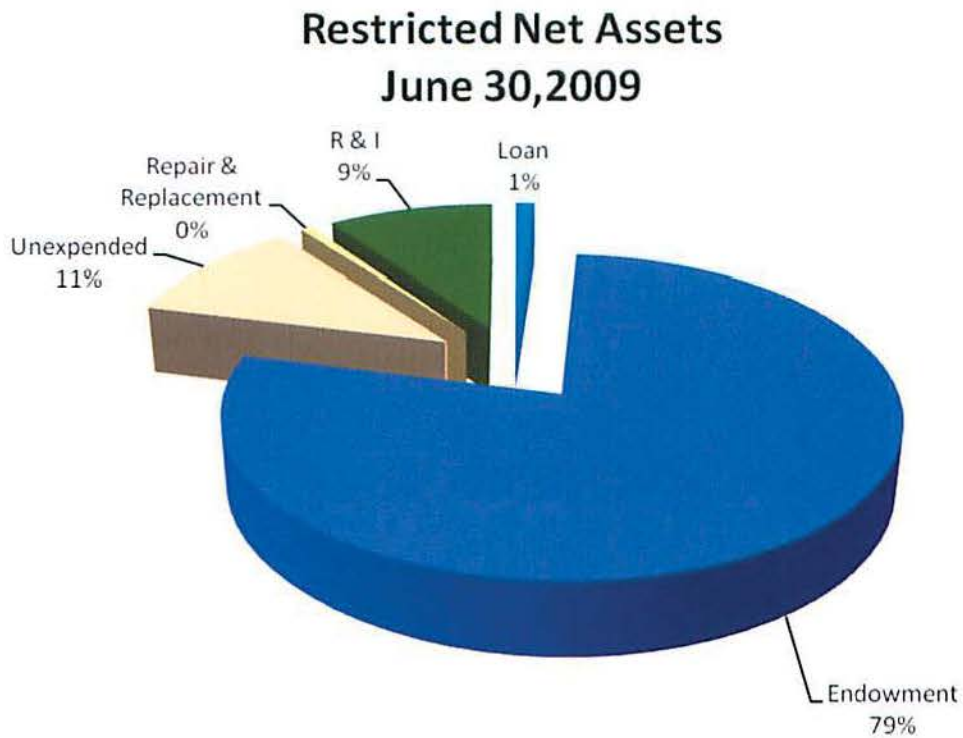
■ Unrestricted
 ■ Expendable
 ■ Non Expendable
 ■ Invested in capital assets, net of related debt

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Restricted Net Assets

Restricted net assets are subject to stipulations made by entities external to the University that govern the use of these funds. Restricted net assets decreased by \$5.2 million from the previous year to \$15 million. This was due to decreases in unexpended restricted net assets.



Unrestricted Net Assets

Unrestricted net assets decreased by \$2.8 million from the previous year to \$15 million. Unrestricted net assets are not subject to externally imposed restrictions. However, substantially all of the unrestricted net asset balance has been allocated for the support of academic programs and other initiatives, the completion of capital projects, or working capital requirements. The allocation of unrestricted net assets as of June 30, 2009 is as follows:

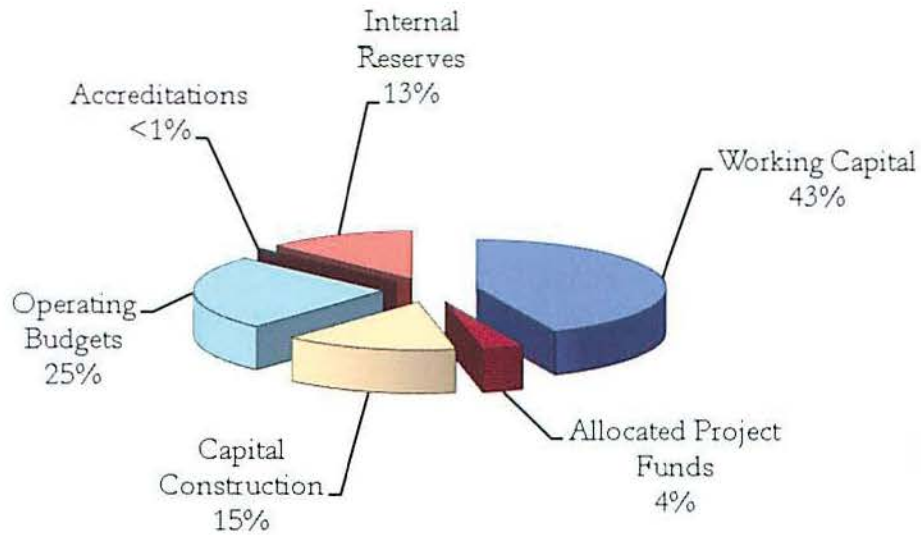
MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Allocation of Unrestricted Net Assets (in thousands)

	<u>2009</u>	<u>2008</u>
Working capital	\$ 6,347	\$ 5,668
Allocated project funds	520	820
Capital construction	2,174	6,329
Operating budgets	3,725	2,156
Accreditations	50	23
Internal reserves	<u>1,967</u>	<u>2,560</u>
Unrestricted net assets	<u>\$ 14,783</u>	<u>\$ 17,556</u>

**Allocation of Unrestricted Net Assets
June 30, 2009**



MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Statement of Revenue, Expenses and Changes in Net Assets (in thousands)

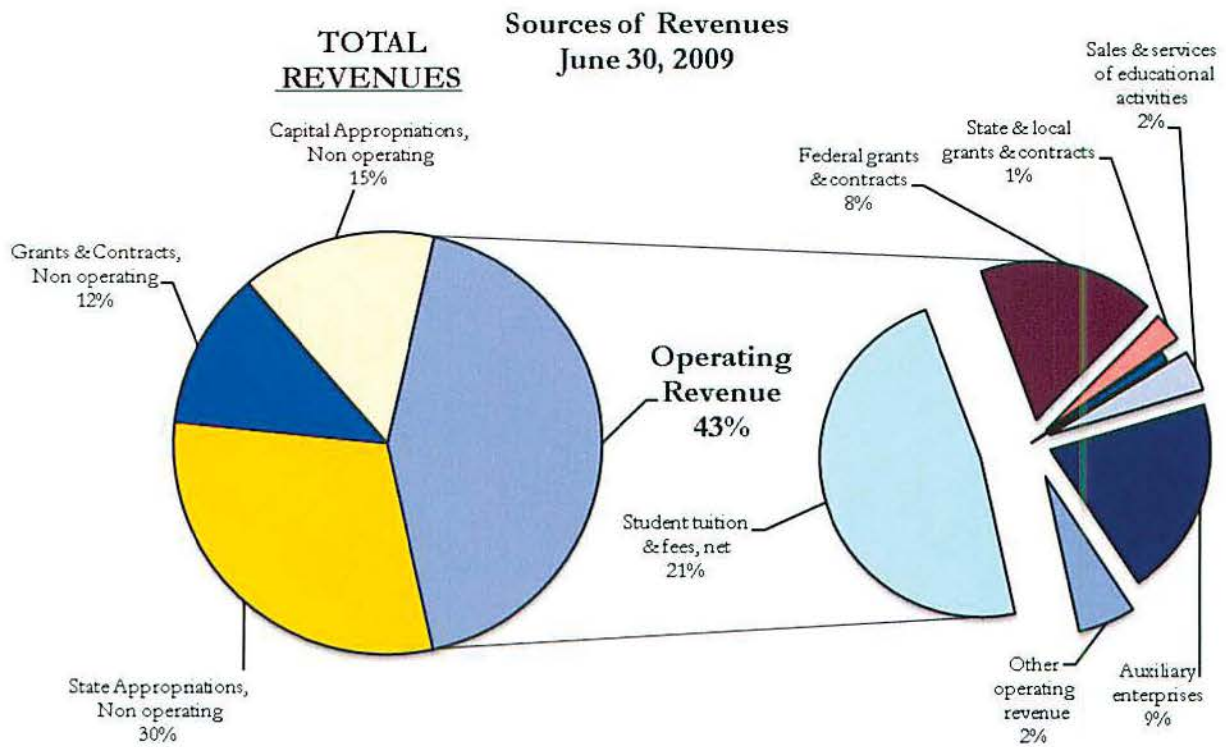
	<u>2009</u>	<u>2008</u>
<u>Operating Revenues</u>		
Student tuition and fees, net	\$ 31,325	\$ 28,796
Federal grants and contracts	11,726	10,549
State and local grants and contracts	1,939	3,172
Nongovernmental grants and contracts	692	866
Sales and services of educational activities	2,709	2,148
Auxiliary enterprises	13,327	12,854
Other operating revenue	<u>3,811</u>	<u>4,208</u>
Total operating revenue	<u>65,529</u>	<u>62,593</u>
<u>Operating Expenses</u>		
Educational and general	116,617	111,842
Auxiliary enterprises	11,523	12,251
Depreciation	7,867	7,414
Other operating expenses	<u>1,053</u>	<u>2,994</u>
Total operating expenses	<u>137,060</u>	<u>134,501</u>
Operating loss	<u>(71,531)</u>	<u>(71,908)</u>
<u>Non-operating Revenues (Expenses)</u>		
Grants and contracts	18,531	18,125
State appropriations	45,831	47,311
Investment income, net	662	1,289
Interest on capital assets – debt related	<u>(1,193)</u>	<u>(1,588)</u>
Net non-operating revenues	<u>63,831</u>	<u>65,137</u>
Loss before other revenues, expenses, gains or losses	<u>(7,700)</u>	<u>(6,771)</u>
Capital appropriations	<u>22,388</u>	<u>20,305</u>
Increase in net assets	14,688	13,534
Net assets, beginning of year	<u>140,631</u>	<u>127,097</u>
Net assets, end of year	<u>\$ 155,319</u>	<u>\$ 140,631</u>

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Revenues

Total operating revenues were approximately \$65 million for the year ended June 30, 2009 and approximately \$62 million for the year ended June 30, 2008. The most significant sources of operating revenue for the University are net student fees \$31 million, federal grants and contracts \$12 million, auxiliary enterprises \$13 million, state and local grants \$2 million and other revenues including, private grants and sales and services of educational activities, \$7 million.

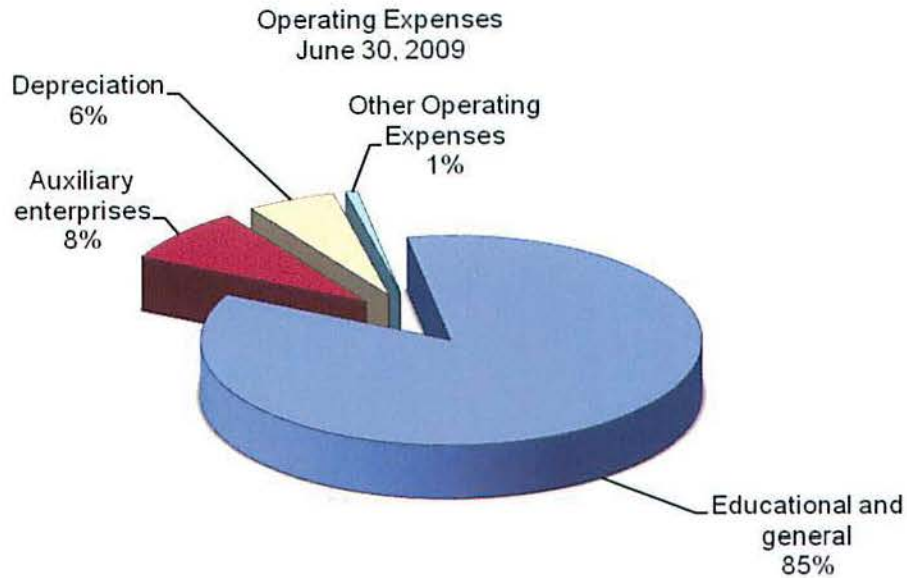


MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Expenses

Operating expenses totaled approximately \$137 million compared to \$135 million at June 30, 2008. Of this amount, approximately \$117 million was used for educational and general expenses related to functions such as instruction, research and public service.



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.



MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Statement of Cash Flows (In Thousands)
Year ended June 30,

	<u>2009</u>	<u>2008</u>
Cash Provided By (Used In):		
Operating activities	\$ (71,775)	\$ (59,492)
Noncapital financing activities	64,362	65,436
Capital and related financing activities	(10,418)	(2,053)
Investing activities	<u>754</u>	<u>4,447</u>
Net (decrease) increase in cash	(17,077)	8,338
Cash, beginning of the year	<u>27,581</u>	<u>19,243</u>
Cash, end of the year	<u>\$ 10,504</u>	<u>\$ 27,581</u>

Major sources of funds included in operating activities are student tuition and fees, \$20.4 million versus \$23.9 million the previous year and grants and contracts, \$13.5 million compared to \$19.5 million the previous year. The largest cash payments for operating activities were made to employees \$60.3 million versus \$58.6 million the previous year and suppliers \$57.8 million compared to \$64.3 million the previous year.



The largest cash receipt in the noncapital financing activities group is the operating appropriation from the Commonwealth of Kentucky of \$45.8 million versus \$47.3 million the previous year and cash used by capital and related financing activities is primarily

expended on the construction and acquisition of capital assets.

MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, continued

Capital Asset and Debt Administration

Capital Assets

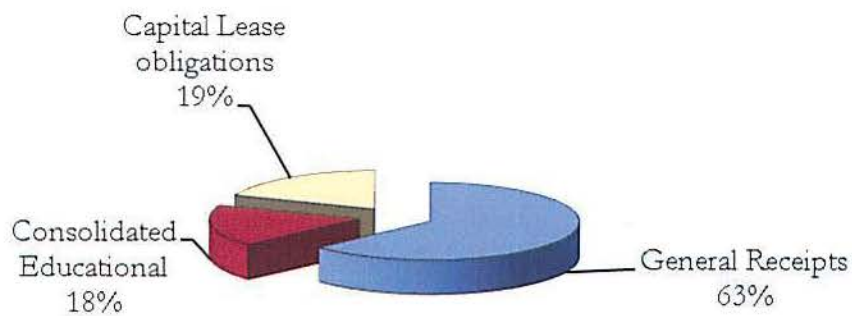
Capital assets, net of accumulated depreciation (but not of related debt), totaled approximately \$151.2 million at June 30, 2009 versus \$131.5 million at June 30, 2008. This represents a net increase of \$19.7 million over June 30, 2008. Significant changes to capital assets during fiscal 2008 - 2009 included:

Buildings and structures	\$ 23.2	million
Library additions, equipment and vehicles	2.1	million
Net change in construction in progress	(0.6)	million
Decrease in accumulated depreciation, net	(5.0)	million

Debt

At year-end, the University had \$26.3 million in outstanding debt versus \$29.5 million the previous year. This includes \$21.2 million in bond payable compared to \$23.9 million at June 30, 2008. In addition, the University had capital lease obligations of \$5.1 million compared to \$5.6 million the previous year-end.

**Outstanding Debt
June 30, 2009**



MOREHEAD STATE UNIVERSITY

Management's Discussion and Analysis, concluded

Debt, continued

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

	June 30,	
	<u>2009</u>	<u>2008</u>
General Receipts bonds	\$ 16,665	\$ 18,320
Consolidated Educational buildings revenue bonds	4,610	5,530
Capital lease obligations	<u>5,064</u>	<u>5,674</u>
	<u>\$ 26,339</u>	<u>\$ 29,524</u>

Debt outstanding decreased approximately \$3.2 million from the end of the prior year.

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, 2010 totaling \$124 million.
- Under the 2009-10 tuition model, all students will be assessed tuition on a per credit hour basis. The 2009-10 tuition rate includes a 4% increase in the undergraduate resident per credit hour rate with a 70% discount on undergraduate hours enrolled above 12.

DEAN || DORTON || FORD
PSC

Independent Auditors' Report

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

Secretary of Finance and
 Administration Cabinet of the
 Commonwealth of Kentucky

We have audited the accompanying financial statements of Morehead State University (the "University") and its discretely presented component unit as of June 30, 2009 and 2008, and for the years then ended, which collectively comprise the University's basic financial statements as listed on the table of contents. These financial statements are the responsibility of the University's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2009 and 2008, and the respective changes in its net assets and, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2009, on our consideration of the 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 over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 1 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The supplemental information contained on pages 57 through 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the University. The supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 29, 2009
Lexington, Kentucky

A handwritten signature in black ink that reads "Dean Winston Ford, PSC". The signature is written in a cursive, flowing style.

MOREHEAD STATE UNIVERSITY

Statement of Net Assets

June 30, 2009 and 2008

Assets	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 10,503,628	\$ 27,581,056
Accounts, grants and loans receivable, net	18,314,200	7,925,010
Prepaid interest	124,649	124,649
Inventories	1,352,497	1,674,861
Other current assets	<u>8,446</u>	<u>118,295</u>
Total current assets	<u>30,303,420</u>	<u>37,423,871</u>
Noncurrent assets:		
Accounts, grants and loans receivable, net	3,687,184	3,670,066
Prepaid interest	476,137	600,786
Investments	13,057,687	13,149,065
Capital assets, net	<u>151,169,028</u>	<u>131,544,122</u>
Total noncurrent assets	<u>168,390,036</u>	<u>148,964,039</u>
Total assets	<u>198,693,456</u>	<u>186,387,910</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	8,398,720	8,424,392
Deferred revenue	3,874,099	3,142,456
Other current liabilities	914,028	809,228
Bonds, notes and capital lease obligations, current portion	<u>3,259,128</u>	<u>3,184,960</u>
Total current liabilities	<u>16,445,975</u>	<u>15,561,036</u>
Long-term liabilities:		
Bonds, notes and capital lease obligations, noncurrent portion	23,080,105	26,339,235
Advances from federal government for student loans	<u>3,848,297</u>	<u>3,856,503</u>
Total long-term liabilities	<u>26,928,402</u>	<u>30,195,738</u>
Total liabilities	<u>43,374,377</u>	<u>45,756,774</u>
Net assets:		
Invested in capital assets, net of related debt	125,430,581	102,745,364
Restricted:		
Expendable	3,383,660	8,569,611
Nonexpendable	11,722,020	11,759,719
Unrestricted	<u>14,782,818</u>	<u>17,556,442</u>
Total net assets	<u>\$ 155,319,079</u>	<u>\$ 140,631,136</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statement of Financial Position

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current assets:		
Cash	\$ 104,344	\$ 432,070
Accrued interest receivable	14,068	11,013
Pledges receivable, net	313,832	376,639
Net investment in capital leases, current	<u>88,706</u>	<u>140,988</u>
Total current assets	<u>520,950</u>	<u>960,710</u>
Noncurrent assets:		
Investments	23,150,575	27,829,257
Cash surrender value – life insurance	93,723	94,047
Property and equipment, net	357,695	243,976
Pledges receivable, net	325,512	490,085
Net investment in capital leases	<u>1,097,959</u>	<u>1,186,665</u>
Total noncurrent assets	<u>25,025,464</u>	<u>29,844,030</u>
 Total assets	 <u>\$ 25,546,414</u>	 <u>\$ 30,804,740</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ -	\$ 11,170
Other current liabilities	21,500	-
Annuities payable	112,582	87,582
Due to Morehead State University	<u>8,446</u>	<u>26,900</u>
Total current liabilities	<u>142,528</u>	<u>125,652</u>
Long-term liabilities:		
Funds held in trust for Morehead State University	11,329,592	11,329,592
Annuities payable	445,015	388,591
Due to Morehead State University	<u>-</u>	<u>80,700</u>
Total long-term liabilities	<u>11,774,607</u>	<u>11,798,883</u>
 Total liabilities	 <u>11,917,135</u>	 <u>11,924,535</u>
Net assets:		
Unrestricted	(139,683)	241,928
Temporarily restricted	621,210	5,373,253
Permanently restricted	<u>13,147,752</u>	<u>13,265,024</u>
Total net assets	<u>13,629,279</u>	<u>18,880,205</u>
 Total liabilities and net assets	 <u>\$ 25,546,414</u>	 <u>\$ 30,804,740</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY

Statement of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$22,441,060 and \$18,521,080)	\$ 31,324,714	\$ 28,795,640
Federal grants and contracts	11,725,610	10,548,697
State and local grants and contracts	1,939,422	3,172,607
Nongovernmental grants and contracts	691,853	866,247
Sales and services of educational activities	2,708,906	2,148,093
Auxiliary enterprises:		
Residence halls (net of scholarship allowances of \$89,673 and \$81,462)	7,807,862	7,595,819
Bookstore	4,364,059	4,149,390
Other auxiliaries	1,155,433	1,108,324
Other operating revenues	<u>3,810,981</u>	<u>4,207,762</u>
Total operating revenues	<u>65,528,840</u>	<u>62,592,579</u>
Operating expenses:		
Education and general:		
Instruction	45,398,891	46,438,012
Research	1,607,834	2,592,195
Public service	7,349,513	7,087,842
Library	3,116,931	3,102,434
Academic support	10,563,258	8,470,695
Student services	12,698,870	11,758,889
Institutional support	14,643,930	13,172,964
Operation and maintenance of plant	8,558,027	8,415,798
Depreciation	7,866,764	7,413,487
Student aid	12,680,934	10,804,243
Auxiliary enterprises:		
Residence Halls	6,541,670	7,222,309
Bookstore	3,826,276	3,906,210
Other auxiliaries	1,154,696	1,122,146
Other operating expenses	<u>1,052,784</u>	<u>2,994,114</u>
Total operating expenses	<u>137,060,378</u>	<u>134,501,338</u>
Operating loss	<u>(71,531,538)</u>	<u>(71,908,759)</u>

MOREHEAD STATE UNIVERSITY

Statement of Revenues, Expenses and Changes in Net Assets, concluded

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Nonoperating revenues (expenses):		
Grants and contracts	18,531,568	18,125,582
State appropriations	45,830,676	47,310,971
Investment income (net of investment expense of \$1,654 and \$84,225)	662,212	1,288,879
Interest on capital asset-related debt	<u>(1,192,779)</u>	<u>(1,588,126)</u>
Net nonoperating revenues	<u>63,831,677</u>	<u>65,137,306</u>
Loss before capital appropriations	(7,699,861)	(6,771,453)
Capital appropriations	<u>22,387,804</u>	<u>20,305,535</u>
Increase in net assets	14,687,943	13,534,082
Net assets, beginning of year	<u>140,631,136</u>	<u>127,097,054</u>
Net assets, end of year	<u>\$ 155,319,079</u>	<u>\$ 140,631,136</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statement of Activities

Year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 247,549	\$ 1,175,322	\$ 441,299	\$ 1,864,170
Other revenue and gains (losses):				
Investment income (loss):				
Interest and dividend income, net	37,241	1,193,300	-	1,230,541
Realized and unrealized losses	(20,038)	(6,184,779)	-	(6,204,817)
In-kind contributed services	94,667	-	-	94,667
Other income	7,462	455,223	-	462,685
Annuities payable adjustment	(61,964)	-	-	(61,964)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>2,463,537</u>	<u>(2,463,537)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	2,768,454	(5,824,471)	441,299	(2,614,718)
Expenses:				
Program expenses:				
Contributions to Morehead State University for:				
Academic programs	1,114,031	-	-	1,114,031
Athletics	151,614	-	-	151,614
University support:				
Operations and materials	500,978	-	-	500,978
Student financial aid	582,036	-	-	582,036
Athletics	<u>36,468</u>	<u>-</u>	<u>-</u>	<u>36,468</u>
Total program expenses	2,385,127	-	-	2,385,127
General and administrative	181,136	-	-	181,136
Fundraising	<u>69,945</u>	<u>-</u>	<u>-</u>	<u>69,945</u>
Total expenses	<u>2,636,208</u>	<u>-</u>	<u>-</u>	<u>2,636,208</u>
Change in net assets	132,246	(5,824,471)	441,299	(5,250,926)
Net assets, beginning of year	<u>241,928</u>	<u>5,373,253</u>	<u>13,265,024</u>	<u>18,880,205</u>
Net assets, adjustment	<u>(513,857)</u>	<u>1,072,428</u>	<u>(558,571)</u>	<u>-</u>
Net assets, end of year	<u>\$ (139,683)</u>	<u>\$ 621,210</u>	<u>\$13,147,752</u>	<u>\$ 13,629,279</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statement of Activities

Year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 131,952	\$ 1,241,998	\$ 313,378	\$ 1,687,328
Other revenue and gains (losses):				
Investment income:				
Interest and dividend income, net	43,788	1,891,786	-	1,935,574
Realized and unrealized gains	2,348	(3,477,580)	-	(3,475,232)
In-kind contributed services	64,836	-	-	64,836
Other income	1,972	608,121	-	610,093
Annuities payable adjustment	(79,565)	-	-	(79,565)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>2,509,272</u>	<u>(2,509,272)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	2,674,603	(2,244,947)	313,378	743,034
Expenses:				
Program expenses:				
Contributions to Morehead State University for:				
Academic programs	1,230,696	-	-	1,230,696
Athletics	277,042	-	-	277,042
University support:				
Operations and materials	357,591	-	-	357,591
Student financial aid	561,939	-	-	561,939
Athletics	<u>63,438</u>	<u>-</u>	<u>-</u>	<u>63,438</u>
Total program expenses	2,490,706	-	-	2,490,706
General and administrative	162,860	-	-	162,860
Fundraising	<u>73,738</u>	<u>-</u>	<u>-</u>	<u>73,738</u>
Total expenses	<u>2,727,304</u>	<u>-</u>	<u>-</u>	<u>2,727,304</u>
Change in net assets	(52,701)	(2,244,947)	313,378	(1,984,270)
Net assets, beginning of year	<u>294,629</u>	<u>7,618,200</u>	<u>12,951,646</u>	<u>20,864,475</u>
Net assets, end of year	<u>\$ 241,928</u>	<u>\$ 5,373,253</u>	<u>\$13,265,024</u>	<u>\$18,880,205</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY

Statement of Cash Flows

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Tuition and fees	\$ 20,352,366	\$ 23,932,828
Grants and contracts	13,498,911	19,497,077
Payments to suppliers	(57,761,428)	(64,331,986)
Payments to employees	(60,327,810)	(58,638,285)
Capital appropriations, not yet funded	(7,234,916)	-
Loans issued to students	(724,457)	(216,835)
Collection of loans issued to students	658,227	737,132
Auxiliary enterprises:		
Residence halls	7,896,709	7,678,931
Bookstore	4,180,661	4,356,394
Other auxiliaries	1,166,536	1,136,757
Sales and services of educational activities	2,708,906	2,148,093
Other receipts	<u>3,810,981</u>	<u>4,207,762</u>
Net cash used in operating activities	<u>(71,775,314)</u>	<u>(59,492,132)</u>
Cash flows from noncapital financing activities:		
Nonoperating grants and contracts	18,531,568	18,125,582
State appropriations	<u>45,830,676</u>	<u>47,310,971</u>
Net cash provided by noncapital financing activities	<u>64,362,244</u>	<u>65,436,553</u>
Cash flows from capital and related financing activities:		
Capital appropriations	22,387,804	20,305,535
Purchase of capital assets	(28,544,454)	(20,247,844)
Decrease in advances from federal government for student loan	(8,206)	(189,757)
Issuance of new bonds	-	18,320,000
Principal paid on capital debt and leases	(3,184,962)	(17,927,367)
Interest paid on capital debt and leases	<u>(1,068,130)</u>	<u>(2,313,561)</u>
Net cash used in capital and related financing activities	<u>(10,417,948)</u>	<u>(2,052,994)</u>
Cash flows from investing activities:		
Interest received on investments, net	662,212	1,288,879
Changes in investments, net	<u>91,378</u>	<u>3,157,798</u>
Net cash provided by investing activities	<u>753,590</u>	<u>4,446,677</u>
Net (decrease) increase in cash and cash equivalents	(17,077,428)	8,338,104
Cash and cash equivalents, beginning of year	<u>27,581,056</u>	<u>19,242,952</u>
Cash and cash equivalents, end of year	<u>\$ 10,503,628</u>	<u>\$ 27,581,056</u>

MOREHEAD STATE UNIVERSITY

Statement of Cash Flows, concluded

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (71,531,538)	\$ (71,908,759)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	7,866,764	7,413,487
Loss on disposal of capital assets	1,052,784	2,994,114
Bad debt expense	2,106,969	392,897
Changes in assets and liabilities:		
Receivables, net	(12,513,277)	411,465
Inventories	322,364	251,693
Other current assets	109,849	2,983
Accounts payable and accrued liabilities	(25,672)	700,790
Deferred revenue	731,643	157,670
Other current liabilities	<u>104,800</u>	<u>91,528</u>
Net cash used in operating activities	<u>\$ (71,775,314)</u>	<u>\$ (59,492,132)</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

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

Reporting Entity

The University is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statements of the Commonwealth. The Morehead State University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Directors 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 asset categories:

- **Invested in capital assets, net of related debt:** 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 assets 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 assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

- **Unrestricted:** Net assets 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, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989 and 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 47% and 60% of total inventories at June 30, 2009 and 2008, respectively, are stated at the lower of cost (retail inventory method) or market. The remainder of the inventories is stated at the lower of moving-average-cost or market.

Investments

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Investments, continued

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

Capital Assets

Capital assets are stated at cost for purchased assets and at fair value at date of donation in the case of gifts. Expenditures of greater than \$1,000 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
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 assets and represents earned vacation available to employees at current compensation rates.

Deferred Revenue

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

Advances from Federal Government for Student Loans

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Restricted Asset Spending Policy

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

Operating Activities

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

Reclassifications

Certain reclassifications have been made to the 2008 Statement of Revenues, Expenses and Changes in Net Assets presentation to correspond to the current year classification. Total net assets and total changes in net assets are unchanged due to these reclassifications.

2. Cash, Cash Equivalents and Investments

The statement of net assets 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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

2. Cash, Cash Equivalents and Investments, continued

Government obligations. The University's deposits with the state treasurer are pooled with funds of other state agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the state treasurer may determine, in the state's name.

The University requires that balances on deposit with financial institutions be insured by FDIC or collateralized by securities held by the cognizant Federal Reserve Bank, in the University's name.

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

At June 30, 2009 and 2008, the University had petty cash funds totaling \$91,839 and \$110,539, respectively and deposits as reflected by bank balances as follows:

	<u>2009</u>	<u>2008</u>
Insured, commercial banks	\$ 274,656	\$ 117,266
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	8,572,505	18,058,467
Maintained by Commonwealth of Kentucky	<u>1,564,628</u>	<u>9,294,784</u>
	<u>\$ 10,411,789</u>	<u>\$ 27,470,517</u>

As of June 30, 2009 and 2008, investments consisted of:

	<u>2009</u>	<u>2008</u>
Insured and registered, with securities held by the counterparty or by its trust department or agent, in the University's name:		
Money market funds – restricted for capital purposes	\$ 1,335,439	\$ 1,348,243
Equity mutual funds	293,085	303,072
Money market funds	<u>931</u>	<u>74,209</u>
	1,629,455	1,725,524
Certificate of deposit	98,640	93,949
Restricted assets held by the Morehead State University Foundation, Inc.	<u>11,329,592</u>	<u>11,329,592</u>
Total investments	<u>\$ 13,057,687</u>	<u>\$ 13,149,065</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

2. Cash, Cash Equivalents and Investments, continued

Restricted investments for capital purposes are comprised of amounts invested for sinking fund and debt service reserves. The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in equity securities.

University investments held by the Foundation are comprised of the Regional University Excellence Trust Fund endowment and other similar endowments (see Note 13). Assets held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

The assets in the Foundation investment pool at June 30, 2009 and 2008, are invested as follows:

	<u>2009</u>	<u>2008</u>
Percentage of pool invested in:		
Registered investment companies equity funds	61%	61%
Registered investment companies fixed income funds	<u>39%</u>	<u>39%</u>
Total	<u>100%</u>	<u>100%</u>

Interest Rate Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

3. Accounts, Grants and Loans Receivable

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

	<u>2009</u>	<u>2008</u>
Student tuition and fees	\$ 5,136,532	\$ 4,374,188
Financing and interest	2,481,088	12,648
Capital appropriations	7,234,916	-
Student loans	3,778,359	3,763,082
Grants and contracts	3,795,116	4,042,302
Auxiliary enterprises	835,083	661,961
Other	<u>215,548</u>	<u>103,751</u>
	23,476,642	12,957,932
Allowance for doubtful accounts	<u>(1,475,258)</u>	<u>(1,362,856)</u>
	22,001,384	11,595,076
Current portion	<u>(18,314,200)</u>	<u>(7,925,010)</u>
Noncurrent portion	<u>\$ 3,687,184</u>	<u>\$ 3,670,066</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net

Capital assets as of June 30, 2009, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 17,148,975	\$ 1,408,909	\$ 210,000	\$ 18,347,884
Buildings	169,274,638	25,172,361	3,126,381	191,320,618
Library books	20,419,259	1,111,003	-	21,530,262
Vehicles	2,199,257	256,355	-	2,455,612
Equipment and livestock	16,653,040	1,702,835	1,036,406	17,319,469
Datatel	4,191,145	6,545	-	4,197,690
Art collection	781,825	15,000	-	796,825
Construction in progress	<u>14,288,240</u>	<u>23,620,874</u>	<u>24,288,563</u>	<u>13,620,551</u>
	<u>244,956,379</u>	<u>53,293,882</u>	<u>28,661,350</u>	<u>269,588,911</u>
<u>Accumulated</u>				
Land improvements	5,500,736	502,844	-	6,003,580
Buildings	78,462,097	3,674,080	2,197,366	79,938,811
Library books	15,850,995	925,831	-	16,776,826
Vehicles	1,925,149	147,661	-	2,072,810
Equipment and livestock	9,200,070	1,777,580	661,772	10,315,878
Datatel	<u>2,473,210</u>	<u>838,768</u>	<u>-</u>	<u>3,311,978</u>
	<u>113,412,257</u>	<u>7,866,764</u>	<u>2,859,138</u>	<u>118,419,883</u>
Capital assets, net	<u>\$ 131,544,122</u>	<u>\$ 45,427,118</u>	<u>\$ 25,802,212</u>	<u>\$ 151,169,028</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net, continued

Capital assets as of June 30, 2008, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 16,904,811	\$ 244,164	\$ -	\$ 17,148,975
Buildings	170,849,668	1,739,797	3,314,827	169,274,638
Library books	19,295,152	1,124,107	-	20,419,259
Vehicles	2,175,829	45,067	21,639	2,199,257
Equipment and livestock	36,219,467	3,706,963	23,273,390	16,653,040
Datatel	4,109,184	81,961	-	4,191,145
Art collection	73,891	707,934	-	781,825
Construction in progress	<u>1,529,882</u>	<u>14,717,010</u>	<u>1,958,652</u>	<u>14,288,240</u>
	<u>251,157,884</u>	<u>22,367,003</u>	<u>28,568,508</u>	<u>244,956,379</u>
<u>Accumulated Depreciation</u>				
Land improvements	5,012,820	487,916	-	5,500,736
Buildings	77,680,553	3,546,794	2,765,250	78,462,097
Library books	14,904,732	946,263	-	15,850,995
Vehicles	1,778,707	168,081	21,639	1,925,149
Datatel	1,639,842	833,368	-	2,473,210
Equipment and livestock	<u>28,437,351</u>	<u>1,447,982</u>	<u>20,685,263</u>	<u>9,200,070</u>
	<u>129,454,005</u>	<u>7,430,404</u>	<u>23,472,152</u>	<u>113,412,257</u>
Capital assets, net	<u>\$ 121,703,879</u>	<u>\$ 14,936,599</u>	<u>\$ 5,096,356</u>	<u>\$ 131,544,122</u>

5. Accounts Payable and Accrued Liabilities

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

	<u>2009</u>	<u>2008</u>
Payable to vendors and contractors	\$ 2,142,178	\$ 1,781,441
Accrued vacation	2,207,159	2,135,499
Accrued salaries and other liabilities	<u>4,049,383</u>	<u>4,507,452</u>
	<u>\$ 8,398,720</u>	<u>\$ 8,424,392</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

6. Long-Term Liabilities

Long-term liabilities at June 30, 2009, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Consolidated Educational Building Revenue Bonds	\$ 5,530,000	\$ -	\$ 920,000	\$ 4,610,000	\$ 950,000	\$ 3,660,000
General Receipts Bonds	18,320,000	-	1,655,000	16,665,000	1,670,000	14,995,000
Capital lease obligations	<u>5,674,195</u>	<u>-</u>	<u>609,962</u>	<u>5,064,233</u>	<u>639,128</u>	<u>4,425,105</u>
Total bonds, notes and capital lease obligations	29,524,195	-	3,184,962	26,339,233	3,259,128	23,080,105
Federal refundable grants	<u>3,856,503</u>	<u>-</u>	<u>8,206</u>	<u>3,848,297</u>	<u>-</u>	<u>3,848,297</u>
Total long-term Liabilities	<u>\$ 33,380,698</u>	<u>\$ -</u>	<u>\$ 3,193,168</u>	<u>\$ 30,187,530</u>	<u>\$ 3,259,128</u>	<u>\$ 26,928,402</u>

Long-term liabilities at June 30, 2008, 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>
Housing and Dining System Revenue Bonds	\$ 16,330,000	\$ -	\$ 16,330,000	\$ -	\$ -	\$ -
Consolidated Educational Building Revenue Bonds	6,415,000	-	885,000	5,530,000	920,000	4,610,000
General Receipts Bonds	-	18,320,000	-	18,320,000	1,655,000	16,665,000
Capital lease obligations	6,256,562	-	582,367	5,674,195	609,960	5,064,235
Notes payable	<u>130,000</u>	<u>-</u>	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total bonds, notes and capital lease obligations	29,131,562	18,320,000	17,927,367	29,524,195	3,184,960	26,339,235
Federal refundable grants	<u>4,046,260</u>	<u>-</u>	<u>189,757</u>	<u>3,856,503</u>	<u>-</u>	<u>3,856,503</u>
Total long-term Liabilities	<u>\$ 33,177,822</u>	<u>\$ 18,320,000</u>	<u>\$ 18,117,124</u>	<u>\$ 33,380,698</u>	<u>\$ 3,184,960</u>	<u>\$ 30,195,738</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

6. Long-Term Liabilities, continued

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

	<u>2009</u>	<u>2008</u>
2.00 – 4.50% Consolidated Educational Building Revenue Bonds, Series L and M repayable in semi-annual installments with the final installment due May, 2024	\$ 4,610,000	\$ 5,530,000
4.00% General Receipts Bonds, 2007 Series A, repayable in semi-annual installments with the final installment due November, 2027	6,100,000	6,445,000
3.00 – 3.80% General Receipts Bonds, 2008 Series A, payable in semi-annual installments with the final installment due November, 2022	9,350,000	10,000,000
4.00 – 4.50% General Receipts Bonds, 2008 Taxable Series B, repayable in semi-annual installments with the final installment due May, 2013	1,215,000	1,875,000
5.00% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due February, 2019	144,857	156,232
5.75% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due May, 2013	427,550	513,422
9.40% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due March, 2023	396,031	409,706
4.19% Capital lease obligation with a finance corporation in semi-annual payments with final installment due October, 2019	1,390,239	1,493,743
3.58% Capital lease obligation with a finance corporation in semi-annual payments with final installment due June, 2015	2,487,330	2,852,799
4.47% Capital lease obligation with the Foundation, repayable in monthly installments with the final installment due August, 2015	<u>218,226</u>	<u>248,293</u>
	<u>\$ 26,339,233</u>	<u>\$ 29,524,195</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

6. Long-Term Liabilities, continued

In order to retire the revenue bonds, the University is required to make deposits to sinking funds in annual amounts sufficient to meet the principal and interest payments due within the next twelve months. As of June 30, 2009 and 2008, all reserve requirements have been fully funded. The revenue bonds are subject to several non-financial covenants, all of which management has asserted were met as of June 30, 2009 and 2008.

The Consolidated Educational Building Revenue Bonds are collateralized by various buildings. The revenues derived from student registration fees are pledged as collateral on the Consolidated Educational Building Revenue Bond issues.

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

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

	<u>2009</u>	<u>2008</u>
Equipment	\$ 7,722,742	\$ 7,722,742
Less: accumulated depreciation	<u>(3,624,191)</u>	<u>(2,741,997)</u>
	<u>\$ 4,098,551</u>	<u>\$ 4,980,745</u>

The following is a schedule by years of future minimum payments required for the capital lease obligations as of June 30, 2009:

Year ending June 30,	
2010	\$ 870,653
2011	870,653
2012	845,065
2013	863,403
2014	740,869
Thereafter	<u>1,957,376</u>
Total minimum lease payments	6,148,019
Less: amounts representing interest	<u>(1,083,786)</u>
Present value of minimum lease payments	<u>\$ 5,064,233</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, 2009, are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,620,000	\$ 760,992	\$ 3,380,992
2011	2,385,000	666,283	3,051,283
2012	2,170,000	581,044	2,751,044
2013	1,755,000	501,572	2,256,572
2014	1,530,000	442,041	1,972,041
2015-2028	<u>10,815,000</u>	<u>2,284,489</u>	<u>13,099,489</u>
	<u>\$ 21,275,000</u>	<u>\$ 5,236,421</u>	<u>\$ 26,511,421</u>

Advance Refunding

On June 10, 2008, the University issued its General Receipts Bonds, 2008 Tax-Exempt Series A, in the amount of \$10,000,000 and General Receipts Bonds, 2008 Taxable Series B, in the amount of \$1,875,000. The bonds have average interest rates of 3.576% and 4.12% respectively. The bonds consist of serial bonds bearing various fixed rates ranging from 3.0% to 4.0% with annual maturities from November 2008 through November 2022.

The net proceeds of \$11,738,655 (after issuance costs of \$63,035, less net discount of \$73,310), plus the balance in the debt service reserve account and repair and maintenance reserve account totaling \$3,724,910 were used to advance refund the University's Housing and Dining System Revenue Bonds Series N, O, P, Q and R which had total outstanding principal in the amount of \$14,770,000 and interest rates ranging from 2.75% to 5.75%.

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

The advance refunding was done in order to eliminate the requirement for maintaining debt service and repair and maintenance reserve accounts and to reduce cash flow needed for future debt service payments. The refunding decreased the University's total debt service cash flow payments by approximately \$4.4 million over the approximate 15 year life of the General Receipts Bonds 2008 Series A and B. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of approximately \$67,000.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plan

Kentucky Teachers Retirement System

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

The Kentucky Teachers Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868 or by calling (502) 573-5120.

Funding for the plan is provided from eligible employees who contribute 6.16% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 13.84% of currently eligible employees' salaries to the KTRS through appropriations to the University. Contribution requirements of the plan members and the University are established by Kentucky Revised Statute and the KTRS Board of Trustees. The University's contributions to KTRS for the years ending June 30, 2009 and 2008 were \$4,392,051 and \$4,298,335, respectively, equal to the required contributions for each year.

Kentucky Employee Retirement System

Substantially all other full-time University employees are required by law to participate in the Kentucky Employees Retirement System (KERS), a cost sharing multiple-employer, public employee retirement system. KERS provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age sixty-five, or has less than twenty-seven years of service. The plan also provides for disability retirement, death and survivor benefits and medical insurance.

The Kentucky Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Employees Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601 or by calling (502) 564-4646.

Funding for the plan is provided from eligible hazardous and non-hazardous employees who contribute 8.00% and 5.00%, respectively of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 24.35% and 10.01%, respectively of current eligible hazardous and non-hazardous employees' salaries to the KERS through appropriations to the University. University contribution rates are determined by the Kentucky Revised Statute and the Board of Trustees of the Kentucky Retirement Systems each biennium.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Pension Plan, continued

Kentucky Employee Retirement System, continued

The University's contributions to KERS for the years ending June 30, 2009 and 2008 were \$1,251,239 and \$968,634 respectively, equal to the required contributions for each year.

Optional Retirement Plans

Optional retirement plans (ORP's) are available to employees hired on or after January 1, 1997, who would otherwise be participants in the Kentucky Teachers' Retirement System. The ORP is established as a 403(b) defined contribution plan under the Internal Revenue Code guidelines. The providers of the University's ORP's are the Teachers Insurance and Annuity Association-College Retirement Equities Fund, Variable Annuity Life Insurance Company and International Netherlands Group. Under these plans the employee's contribution is 6.16% of their gross salary and the University's contribution is 4.41% to the retirement company and 9.43% to Kentucky Teachers Retirement System. Senate Bill 65 was passed to set the ORP-KTRS rate to 5.10% for all payments effective April 1, 2008. The University's contribution to the retirement annuity company was adjusted to 8.74%. The University's contributions under these plans to Kentucky Teachers Retirement System for the years ending June 30, 2009 and 2008 were \$839,837 and \$808,615 respectively, equal to the required contributions for each year.

8. Operating Leases

The University has operating lease agreements for use of equipment and various parcels of real estate cancelable annually with the option to renew. The University recognizes the expenditures related to those obligations as lease payments are made. Total rent expenses under operating type leases were approximately \$699,000 and \$523,000 in 2009 and 2008, respectively.

9. Contingencies and Commitments

The University is a defendant in 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 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, 2009.

The University has made certain commitments related to the completion of various construction projects in progress totaling approximately \$43,700,000. 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

10. Self-Insurance Program

The University maintains a self-insurance program for employees' dental insurance. The University funds the plan at the single rate for all permanent full-time employees with the employees paying the difference between the single plan and the family plan, if applicable. Expenses incurred to cover claims paid by the University under the plan for fiscal year ending June 30, 2009 and 2008 totaled \$360,583 and \$306,164, respectively.

The University maintains a fully insured health plan. The University pays a sliding percentage of premiums for all permanent full-time employees. Depending on the level of coverage, this amount ranges from a low of \$323 per month to a high of \$718. Payments for employee health insurance for fiscal years ending June 30, 2009 and 2008 were \$6,188,146 and \$5,398,030 respectively.

11. Risk Management

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

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

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

12. Friends of Kentucky Folk Art Center, Inc.

The Friends of Kentucky Folk Art Center, Inc. (KFAC) provides educational opportunities, benefits and programs to the public to enhance the awareness of and foster an appreciation and understanding of contemporary folk art. Under an operating agreement, the University provides office space and certain administrative services to the KFAC at no charge. As a result of the 1998 General Assembly's legislative decision to appropriate \$200,000 annually to KFAC as an affiliate of the University, the KFAC became an affiliated corporation in accordance with the provisions of KRS 164A.610. The financial statements of this affiliated corporation are reported upon separately. However, the assets, liabilities and net assets of KFAC have been included in the University's financial statements.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

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 fair market value of Morehead State University endowment funds held by the Foundation as of June 30, 2009 and 2008 was \$17,314,957 and \$21,842,642, respectively. The portion of the endowments representing the value of the funding received from the Kentucky General Assembly was \$11,329,592 for the years ended June 30, 2009 and 2008, and is included in investments held by the Foundation.

14. Related Parties

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

Related party transactions and funds held by the Foundation on behalf of the University are as follows during 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 94,667	\$ 64,386
Funds held by the Foundation on behalf or for the benefit of the University	11,329,592	11,329,592
Funds due to the University by the Foundation	8,446	107,600

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. This amount increased to \$79,908 per year on March 1, 2008. Amounts disclosed above as funds disbursed by the University on behalf of the Foundation for employee salaries and benefits are net of the \$79,908 per year for the fiscal year ended June 30, 2009 and net of a prorated amount based on the increase of \$46,636 for the fiscal year ended June 30, 2008.

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

15. Subsequent Events

On July 15, 2009, the University sold General Receipts Bonds for \$28,930,000. These bonds will be amortized over twenty years, and will be used to construct a student recreation center and fund the renovation of a residence hall.

16. Morehead State University Foundation, Inc

A. Description of Organization

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

B. Summary of Significant Accounting Policies

The preparation of financial statements prepared in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

The following is a summary of the significant accounting policies consistently followed by the Foundation in the preparation of its financial statements.

Basis of Presentation

The Foundation's financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under these standards net assets and revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

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

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

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

Pledges Receivable

Pledges receivable of amounts greater than \$500, less an appropriate allowance amount, are recorded at the net present value of estimated future cash flows using a discount rate commensurate with the risks involved. Net present value was computed using a discount rate of 2.54% and 3.34% for the years ended June 30, 2009 and 2008, 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 equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investment returns include dividend, interest and other investment income and realized and unrealized gains and losses on investments carried at fair value. Investment returns that are initially restricted by donor stipulation and for which the restriction will be satisfied in the same year are included as unrestricted net assets. Other investment returns are reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Property and Equipment

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc, continued

B. Summary of Significant Accounting Policies, continued

Funds Held in Trust for Morehead State University

The Foundation is the custodian of funds owned by the University for the purpose of establishing certain endowment funds as authorized by the Kentucky Council on Postsecondary Education and the Kentucky General Assembly. The Foundation invests the principal with a portion of the income derived from the principal to be remitted annually to the University. For the years ended June 30, 2009 and 2008, the Foundation held \$11,329,592, respectively, for the University's investment purposes.

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, 2009 and 2008 were \$102,623 and \$81,750, respectively.

The June 30, 2009 and 2008 annuity liabilities balances of \$557,597 and \$476,173 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 6% to 10%. The estimated remaining life expectancies of the annuitants range from 5.4 to 8.7 years and 5.7 to 7.1 years for the years ended June 30, 2009 and 2008, respectively.

Due to Morehead State University

A gift was pledged to the Foundation that the donor stipulated was specifically for the University. In accordance with Statement of Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, the gift has been included as a liability on the Foundation's Statement of Financial Position.

Contributions

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc, continued

B. Summary of Significant Accounting Policies, continued

Contributions, continued

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

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

Donated Materials and Property

Donated materials and property are recorded at their estimated fair value when received. The Statement of Activities for the years ended June 30, 2009 and 2008 includes in-kind contributions of \$493,193 and \$352,736, 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.

Tax Exempt Status

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

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc, continued

B. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FAS 168) effective for financial statements issued for interim and fiscal years ending after September 15, 2009. FAS 168 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). FAS 168 will not impact the financial position, operating results or cash flows of the Foundation, but will impact the way accounting standards are issued in the future and referenced in the financial statements.

Reclassification

During 2009 it was discovered that within the unrestricted, temporarily restricted and permanently restricted classifications, certain net assets had been misclassified as of June 30, 2008 and previous years. Net assets were reclassified primarily for investments, net investment in capital leases and property. This change is reflected in the 2009 statements of financial position and activities. There was no effect on total assets, total liabilities and net assets, or changes in net assets.

C. Investments

Investments held as of June 30, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Certificates of deposit	\$ 1,464,243	\$ 1,113,385
Mutual funds	21,519,375	26,549,007
Corporate bonds and stocks	41,804	45,886
Annuity investment	<u>125,153</u>	<u>120,979</u>
Total investments at fair value	<u>\$ 23,150,575</u>	<u>\$ 27,829,257</u>

Investment management fees were approximately \$52,000 and \$69,000 during the years ended June 30, 2009 and 2008, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements

The Foundation has determined the fair value of certain assets and liabilities through application of SFAS No. 157, *Fair Value Measurements*.

	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)
<u>June 30, 2009</u>				
Certificates of deposit	\$ 1,464,243	\$ 1,464,243	\$ -	\$ -
Mutual Funds	21,519,375	21,519,375	-	-
Corporate bonds and stocks	41,804	41,804	-	-
Annuity investment	125,153	125,153	-	-
Total Assets	<u>\$ 23,150,575</u>	<u>\$ 23,150,575</u>	<u>\$ -</u>	<u>\$ -</u>

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 were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. All assets have been valued using a market approach.

Donor-Designated Endowments

The Foundation follows the Uniform Management of Institutional Funds Act of 1972 (UMIFA) and its own governing documents. UMIFA requires the historical dollar amount of a donor-restricted endowment fund to be preserved. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under UMIFA. The Foundation's donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment funds

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

Donor-Designated Endowments, continued

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

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

The current financial management and investment policy establishes an annual maximum approved spending goal for distributions of up to 3.5% of endowment assets, a management fee used to support the annual operating budget which will not exceed 1%, the costs of managing the portfolio shall not be greater than 1% of the portfolio value, and therefore the long-term target minimum annual return shall be 5.5%. In order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed more than 5% of total, and no more than 25% of total should be invested in any one sector. Investments in real property shall be limited to 10% of total assets owned by the Foundation unless otherwise determined by the Foundation's Finance and Investment Committee.

Endowment net asset composition by type of fund as of June 30, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted				
endowment funds	\$ -	\$ (672,707)	\$ 13,147,752	\$12,475,045
Total Assets	\$ -	\$ (672,707)	\$ 13,147,752	\$12,475,045

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

D. Fair Value Measurements, continued

Donor-Designated Endowments, continued

Changes in endowment net assets as of June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets				
beginning of year	\$ -	\$ 4,840,365	\$13,265,024	\$18,105,389
Contributions	-	154,802	441,299	596,101
Interest and dividend income	-	1,127,250	-	1,127,250
Net depreciation	-	(6,199,595)	-	(6,199,595)
Amounts appropriated for expenditure	-	(202,438)	-	(202,438)
Net assets adjustment	-	(393,091)	(558,571)	(951,662)
Endowment net assets end of year	\$ -	\$ (672,707)	\$13,147,752	\$12,475,045

E. Pledges Receivable

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

Year ended June 30	
2010	\$ 383,627
2011	151,443
2012	128,163
2013	29,848
2014	22,500
Thereafter	72,351
	787,932
Less: present value discount	(69,795)
Less: allowance for uncollectible pledges	(78,793)
Pledges receivable, net	639,344
Less: current pledges receivable	(313,832)
Noncurrent pledges receivable	\$ 325,512

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

F. Property and Equipment

Property and equipment as of June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 170,000	\$ 53,000
Furniture and equipment	154,579	134,819
Buildings	<u>175,000</u>	<u>175,000</u>
	499,579	362,819
Less: accumulated depreciation	<u>(141,884)</u>	<u>(118,843)</u>
	<u>\$ 357,695</u>	<u>\$ 243,976</u>

G. Deferred Giving Program

The Foundation established a life insurance deferred giving program during 1983. The program consists of donors designating the Foundation as the owner and beneficiary of life insurance policies. There are twenty deferred giving programs with life insurance in effect totaling \$685,000 and \$660,000 for the years ended June 30, 2009 and 2008, respectively. The cash surrender value of these policies as of June 30, 2009 and 2008 is \$93,723 and \$94,047, respectively.

H. Support for Morehead State University

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

I. Net Investment in Capital Leases

The Foundation's net investment in direct financing capital leases of real estate with the University as of June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Total minimum lease payments to be received	\$ 1,654,783	\$ 1,896,062
Less: unearned income	<u>(468,118)</u>	<u>(568,409)</u>
Net investment in capital leases	<u>\$ 1,186,665</u>	<u>\$ 1,327,653</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

I. Net Investment in Capital Leases, continued

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

2010	\$	241,279
2011		241,279
2012		241,279
2013		234,030
2014		111,496
Thereafter		<u>585,420</u>
	\$	<u>1,654,783</u>

J. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available at June 30, 2009 and 2008 for the following purposes:

	<u>2009</u>	<u>2008</u>
Funds restricted for specific purposes	\$ 621,210	\$ 2,172,692
Scholarships	-	1,712,454
Athletics	<u>-</u>	<u>1,488,107</u>
	<u>\$ 621,210</u>	<u>\$ 5,373,253</u>

Permanently restricted net assets at June 30, 2009 and 2008 consist of endowment funds.

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

	<u>2009</u>	<u>2008</u>
Pledges receivable	\$ 381,549	\$ 532,888
Investments	(672,707)	4,840,365
Property	153,252	-
Net investment in capital leases	<u>759,116</u>	<u>-</u>
	<u>\$ 621,210</u>	<u>\$ 5,373,253</u>

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

J. Temporarily and Permanently Restricted Net Assets, continued

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

	<u>2009</u>	<u>2008</u>
Pledges receivable	\$ 173,513	\$ 254,626
Investments	12,493,690	11,659,300
Property	53,000	206,252
Net investment in capital leases	<u>427,549</u>	<u>1,144,846</u>
	<u>\$ 13,147,752</u>	<u>\$ 13,265,024</u>

K. Related-Party Transactions

The University entered into an agreement with the Foundation where the University will provide personnel, office space, support equipment and other services that may be necessary to the operation of the Foundation. The Foundation reimburses the University for these services at a rate determined mutually by the two entities of \$79,908 per year. SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, 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 \$79,908 per year are considered in-kind contributed services and are treated as both revenue and expense to the Foundation. The reimbursement amount was increased to \$79,908 effective March 1, 2008, from the previous amount of \$78,000.

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

L. Concentration of Credit Risk

The Foundation has a concentration of credit risk in that it maintains cash deposits in financial institutions which, at times, exceed federally insured limits. Effective May 20, 2009, FDIC insurance temporarily increased from \$100,000 to \$250,000 for each individual account through December 31, 2013. Cash deposits in excess of the federally insured limits total \$623,880 and \$1,093,354 as of June 30, 2009 and 2008, respectively.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, concluded

16. Morehead State University Foundation, Inc., continued

M. Funds Held for Agencies

The Foundation is acting as an agent for another organization related to the University. Included in cash and other current liabilities is \$21,500 of agency funds.

N. Subsequent Events

The Foundation evaluates events and transactions that occur after the balance sheet as potential subsequent events. The Foundation performed this evaluation as of September 29, 2009.

SUPPLEMENTAL INFORMATION

MOREHEAD STATE UNIVERSITY

Schedule of Bonds, Notes and Capital Lease Obligations

June 30, 2009

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2008</u>	<u>Payments 2008-09</u>	<u>New Issues</u>	<u>Outstanding June 30, 2009</u>	<u>Interest Paid 2008-09</u>	<u>Debt Service Requirements 2009-10</u>	
									<u>Principal</u>	<u>Interest</u>
Consolidated Educational										
Building Revenue Bonds:										
Series L	12/01/01	\$ 4,875,000	2.25-4.30	\$ 1,770,000	\$ 410,000	\$ -	\$ 1,360,000	\$ 74,838	\$ 430,000	\$ 57,823
Series M	01/01/04	<u>5,620,000</u>	2.00-4.50	<u>3,760,000</u>	<u>510,000</u>	-	<u>3,250,000</u>	<u>126,248</u>	<u>520,000</u>	<u>112,222</u>
Total educational buildings		10,495,000		5,530,000	920,000	-	4,610,000	201,086	950,000	170,045
General Receipts:										
2007 Series A Bonds	08/14/07	6,445,000	4.00	6,445,000	345,000	-	6,100,000	250,900	360,000	236,800
2008 Series A Bonds	06/10/08	10,000,000	3.00-3.80	10,000,000	650,000	-	9,350,000	287,797	635,000	304,672
2008 Series B Bonds	06/10/08	<u>1,875,000</u>	4.00-4.50	<u>1,875,000</u>	<u>660,000</u>	-	<u>1,215,000</u>	<u>67,655</u>	<u>675,000</u>	<u>49,475</u>
Total General Receipts		18,320,000		18,320,000	1,655,000	-	16,665,000	606,352	1,670,000	590,947

MOREHEAD STATE UNIVERSITY

Schedule of Bonds, Notes and Capital Lease Obligations, concluded

June 30, 2009

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2008</u>	<u>Payments 2008-09</u>	<u>New Issues</u>	<u>Outstanding June 30, 2009</u>	<u>Interest Paid 2008-09</u>	<u>Debt Service Requirements 2009-10</u>	
									<u>Principal</u>	<u>Interest</u>
Lease Purchase Agreements:										
MSU Foundation, Inc.	03/01/99	240,000	5.0	156,232	11,375	-	144,857	7,553	11,956	6,971
MSU Foundation, Inc.	07/15/02	990,000	5.75	513,422	85,872	-	427,550	43,911	94,161	35,623
MSU Foundation, Inc.	10/21/02	466,457	9.4	409,706	13,675	-	396,031	38,338	15,017	36,996
Citi Mortgage, Inc.	03/31/05	1,824,000	4.19	1,493,743	103,504	-	1,390,239	61,515	107,886	57,133
Suntrust Bank, Inc	06/15/05	3,874,522	3.58	2,852,799	365,469	-	2,487,330	98,887	378,669	85,686
MSU Foundation, Inc.	09/01/05	<u>327,764</u>	4.47	<u>248,293</u>	<u>30,067</u>	-	<u>218,226</u>	<u>10,488</u>	<u>31,439</u>	<u>9,116</u>
Total lease purchase		<u>7,722,743</u>		<u>5,674,195</u>	<u>609,962</u>	-	<u>5,064,233</u>	<u>260,692</u>	<u>639,128</u>	<u>231,525</u>
Total		<u>\$ 36,537,743</u>		<u>\$ 29,524,195</u>	<u>\$ 3,184,962</u>	<u>\$ -</u>	<u>\$ 26,339,233</u>	<u>\$ 1,068,130</u>	<u>\$ 3,259,128</u>	<u>\$ 992,517</u>

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal Grantor/Pass Through <u>Grantor/Program or Cluster Title</u>	Pass Through <u>Number</u>	CFDA <u>Number</u>	<u>Federal Expenditures</u>
U.S Department of Education:			
Direct Programs:			
Student Financial Aid Cluster:			
National Science and Mathematics Access to Retain Talent Grant Program		84.375	\$108,351
Academic Competitiveness Grant Program		84.376	127,900
Federal Work Study		84.033	768,367
Federal Pell Grant Program		84.063	11,001,352
Federal Supplemental Educational Opportunity Grant Program		84.007	354,722
Federal Perkins Loan Program		84.038	694,584
Federal Direct Loan Program		84.268	34,124,441
Teacher Education Assistance for College and Higher Education Grants Program		84.379	<u>52,906</u>
			47,232,623
TRIO Cluster:			
CEOC - NE 07-10		84.066	453,395
CEOC - SE 07-10		84.066	226,963
Student Support Services 06-07		84.042	292,852
Talent Search 07-11		84.044	418,295
Talent Search II 07-11		84.044	233,617
Upward Bound Central 05-10		84.047	488,509
Upward Bound Math/Science 08-12		84.047	171,792
Upward Bound Math/Science 04-09		84.047	99,665
Upward Bound Central 09/10		84.047	142,700
Upward Bound East 07-11		84.047	<u>261,499</u>
			2,789,287
Gear-up IRAPP 08-14		84.334	1,215,482
Hail-IFIR 05-07		84.116	8,945
Patrick-SI 05-06		84.031	<u>196,300</u>
			1,420,727

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Passed through Kentucky Education and Workforce Development Cabinet - Department for Workforce Investment:			
Harr-Fiscal Agent 08/09	PO2 415 0800015087 1	84.048	42,356
Tech Prep-Fwd 07-08	PO2 531 07000105431	84.048	14,724
Title 1c - NAHS 07-08	PO2 531 07000078641	84.048	3,946
Demoss-Kde-Profess DEV 08/09	PO2 531 0800018076 1	84.048	1,032
Demoss-Kde Summer Conf 08	PO2 531 0800016467	84.048	2,847
Mattingly-Cdp Rehab 08/10	PO2 531 0800016952 1	84.346	745,400
Willis-First Coach-KDE 08/09	PO2 540 0800016666 1	84.357	217,940
Wogoman-Title IC-AAS 08/09	PO2 531 0800016565 1	84.048	45,987
Wogoman-Title IC-NAHS 08/09	PO2 531 0800016565 1	84.048	43,898
Wogoman-Title IC-IET 08/09	PO2 531 0800016565 1	84.048	40,420
Wogoman-Title IC-RS 08/09	PO2 531 0800016565 1	84.048	26,440
Wogoman-Title IC-IS 08/09	PO2 531 0800016565 1	84.048	15,554
Wogoman-AHS-CF 09	PO2 531 0800016565 1	84.048	4,202
Wogoman-RS-CF 09	PO2 531 0800016565 1	84.048	4,202
Wogoman-IET-CF 09	PO2 531 0800016565 1	84.048	4,089
Wogman-NAHS-CF 09	PO2 531 0800016565 1	84.048	2,877
Wogoman-IS-CF 09	PO2 531 0800016565 1	84.048	1,225
Wogoman-Title IC-DEAN 08/09	PO2 531 0800016565 2	84.048	288
Wogoman-Math CTE-KDE 08/09	PO2 531 0800017567 1	84.048	171,904
Wogoman-Fiscal Agent-Tech Prep	PO2 531 0800016514 1	84.048	109,938
Zargari-Teach Prep 08/09	PO2 531 0800018076 1	84.048	<u>13,508</u>
			1,512,777
Passed through Kentucky Education and Workforce Development Cabinet - Department of Education:			
DeMoss MSP CAP 08/09	PO2 540 0800016686 1	84.366	119,699
DeMoss-MSP CAP 07-08	PO2 540 0800004428	84.366	71,457
Price-KDE-CTL Math/SCI 08/09		84.366	26,024
First Coach 07-08	PO2 540 07000076362	84.357	<u>83,483</u>
			300,663

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Passed through Kentucky Council on Postsecondary Education:			
Gunn-CPE 07-08	PO2 415 06000047151	84.367	24,094
Gunn-CPE Phase 2 08-09	PO2 415 07000128561	84.367	136,425
Gunn-CPE-Math & Science 09/10	PO2 415 0900022310 1	84.367	22,133
KY Gear Up 07/08	M-055083935	84.334	158,992
KY Gear Up 07-08	M-055083935	84.334	69,221
Canipe-MSU Adult LC-CPE 08/09	PO2 415 0800020206	84.002	162,670
Tobin-WL Adult LC-CPE 08/09	PO2 415 0800020215 2	84.002	<u>185,258</u>
			758,793
Passed through National Writing Project Corporation:			
NWP #13 05-06	94-KY07	84.928	46,291
			<u>54,061,161</u>
Total U.S. Department of Education			
U.S Department of Health and Human Services:			
Direct Programs:			
Blunt-HHS-Rural Health 08/11		93.912	142,978
Magner-Martin County-HRSA 08/10		93.888	<u>85,264</u>
			228,242
Passed through University of Louisville Research Foundation:			
Dennis-KBRIN-INBRE 08/09	04-0388D MSU	93.389	101,392
White-KBRIN-INBRE 08/09	04-0388D MSU	93.389	65,565
DeMoss-KBRIN-INBRE 08/09	04-0388D MSU	93.389	50,465
Hare-KBRIN-INBRE 08/09	04-0388D MSU	93.389	33,991
Fultz-KBRIN-INBRE 08/09	04-0388D MSU	93.389	<u>13,176</u>
			264,589

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Passed through Eastern Kentucky University:			
Sloan-MSU Training 08/09	451702-09-165	93.658	66,744
PCWCP Morehead 08/09	451705-09-168	93.658	9,948
PCWCP Ashland 08/09	451705-09-167	93.648	8,966
PCWCP Pburg 08/09	451705-09-169	93.658	7,647
PCWCP Mt. Sterling 08/09	451705-09-174	93.648	<u>6,355</u>
			99,660
Passed through University of Kentucky Research Foundation:			
Nurse Practitioner 07-08	UKRF 4-63922-01-284	93.247	30,993
Passed through Kentucky Cabinet for Health and Family Services:			
Scott-CHFS-Steps 08/09	PO2 736 0800017046 1	93.558	26,289
Total U.S. Department of Health and Human Services			<u>649,773</u>
U.S Department of Commerce:			
Direct Programs:			
Hare Height Mod NOAA 07/08		11.400	309,983
Hare - NOAA 06/07		11.400	37,211
Sloan-Height Mod NOAA 08/09		11.400	17,211
Total U.S Department of Commerce			<u>364,405</u>
National Science Foundation:			
Direct Programs:			
Dennis-NSF-MSP 08/09		47.076	67,351
CSMS 03/07		47.076	<u>55,365</u>
			122,716

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal Grantor/Pass Through <u>Grantor/Program or Cluster Title</u>	Pass Through <u>Number</u>	CFDA <u>Number</u>	Federal <u>Expenditures</u>
Passed through Institute for Global Environmental Strategies:			
O'Keefe-NSF ESSEA 07-09	9055-001-45	47.050	7,328
Passed through University of Albany:			
Hare-NSF-Albany 08-09	08-23	47.075	<u>687</u>
Total National Science Foundation			<u>130,731</u>
Corporation for National and Community Service:			
Direct Programs:			
RSVP 06-09		94.002	100,867
Passed through Kentucky Cabinet for Health and Family Services:			
Promise Corps 07-09	PO2 730 0800014292 2	94.006	366,857
Chen-NKURF-Sport 09	PO2 730 0800014292 2	94.006	<u>112</u>
			<u>366,969</u>
Total Corporation for National and Community Service			<u>467,836</u>
Corporation for Public Broadcasting			
Direct Programs:			
Hitchcock-CPB-CSG-Radio 08/09		11.550	69,779
Total Corporation for Public Broadcasting			<u>69,779</u>
Small Business Administration:			
Passed through University of Kentucky Research Foundation:			
SBDC Federal UKRF 08/09	6-603001-Z0018-25	59.037	102,386
SBDC Federal 07/08	3048104236-08-308	59.037	24,761
Total Small Business Administration			<u>127,147</u>

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Justice:			
Passed through University of Kentucky Research Foundation:			
Hail-Hometown Security 05/8	3046981600-06-428	16.560	26,546
Passed through Kentucky State Police:			
Webb-KY Network-KSP 08/10	2008-AH-FX-0044	16.727	1,976
Total U.S. Department of Justice			28,522
U.S. Department of Transportation:			
Passed through Kentucky Governors Highway Safety Program:			
Krug - High Risk 07/09	2007-AH-FX-0027	16.727	54,348
Total U.S. Department of Transportation			54,348
Appalachian Regional Commission:			
Direct Programs:			
KY AHED-Duvall 04-07		23.001	189,582
DeMoss-ARC 09		23.001	3,441
			193,023
Passed through East Tennessee State University:			
Lange-ATP 08-09	220007-05-2	23.011	3,967
Total Appalachian Regional Commission			196,990
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Hail-ACRP 04-06		14.243	45,259
Total U.S. Department of Housing and Urban Development			45,259

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Labor:			
Passed Through U.S. Department of Housing and Urban Development			
Sloan - HUD Youthbuild 07-08		17.274	338,963
Passed through Buffalo Trace Area Development District:			
Reynolds-Todays Youth 08/09	FY09-5245	17.259	104,875
Passed through Kentucky Department of Education:			
LAMBERT-KDE-TRAINING 08	PO2 540 0800017154 1	84.350	5,371
Total U.S. Department of Labor			449,209
U.S. Department of the Interior:			
Passed through Kentucky Department of Fish and Wildlife:			
Eisen-USFWS 07-08	MOA 0700009065	15.634	9,749
Total U.S. Department of the Interior			9,749
National Aeronautics and Space Administration:			
Passed through Western Kentucky University:			
Pannuti-NASA-WKU-Chandra 08/09	WKU 516171-08-110	43.001	14,025
Mason-NASA-WKU-Mars II 08/09	WKU 516171-08-108	43.001	13,605
Panja WKU NASA 07/09	WKU 516171-08-91	43.001	13,336
Pannuti WKU NASA 07/09	WKU 516171-08-92	43.001	11,894
Pannuti-NASA-WKU-Radio 08/09	WKU 516202-09-05	43.001	9,426
Malphrus-Delgado 08/09	WKU 516171-09-117	43.001	9,375
Malphrus-Carter 08/09	WKU 516171-09-1119	43.001	9,256
Malphrus-Brown 08/09	WKU 516171-09-118	43.001	4,000
Pannuti-NASA-WKU-Cont 08/09	WKU 516171-08-106	43.001	2,250
Malphrus-Travel 09	WKU 616171-09-007	43.001	106
			87,273

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal Grantor/Pass Through <u>Grantor/Program or Cluster Title</u>	Pass Through <u>Number</u>	CFDA <u>Number</u>	Federal <u>Expenditures</u>
Passed through Chandra X-Ray Center:			
Pannuti X-RAY Ctr 07/08	NNX07AU32G	43.001	32,872
Total National Aeronautics and Space Administration			<u>120,145</u>
U.S. Department of Agriculture:			
Direct Programs:			
Jones-Distance Learning 08/09		10.855	29,015
Morley-USDA 08/10		10.769	<u>25,647</u>
			54,662
Passed through Kentucky Education and Workforce Development Cabinet - Department of Education:			
Cady-Upward Bound Food 08/09	103-X30-999-SU	10.558	13,417
Upward Bound Food-KDE 08	103X30999SU	10.558	<u>5,006</u>
			18,423
Total U.S. Department of Agriculture			<u>73,085</u>
National Endowment for the Arts:			
Direct Programs:			
Collinsworth-NEA 06-08		45.024	3,813
Passed through Southern Arts Foundation:			
Towell-NEA-Southern Arts 08/09	3336-2009	45.024	<u>3,060</u>
Total National Endowment for the Arts			<u>6,873</u>
U.S. Environmental Protection Agency:			
Passed through Kentucky Environmental and Public Protection Cabinet :			
Wright-Laboratory CRT 08/10	08 00019604	66.468	55,253
Wright-Principal Lab 08/10	08 00019593	66.468	<u>28,024</u>
			83,277

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Passed through Kentucky Division of Water:			
Haight-Triplett Creek 08/09	C9994861-08	66.460	42,312
Passed through University of Louisville Research Foundation:			
Reeder-ULRF 05-06	G03-1016-07	66.460	<u>628</u>
Total U.S. Environmental Protection Agency			<u>126,217</u>
National Institute of Health:			
Direct Programs:			
Dennis-NIH-Biogenesis 08/10		93.859	85,646
White - NIH AMP 07/10		93.279	<u>29,799</u>
			115,445
Passed through University of Louisville Research Foundation:			
KBRIN-INBRE-Hare 09/10		93.389	25,656
KBRIN-INBRE Mattingly 09/10		93.389	7,831
KBRIN-INBRE Fultz 09/10		93.389	<u>4,247</u>
			37,734
Total National Institute of Health			<u>153,179</u>
U.S. Geological Survey:			
Direct Programs:			
Parkansky-USGS 05/09		15.808	61,443
Parkansky-USGS 07/11		15.808	<u>22,439</u>
			83,882
Passed through America View, Inc.			
McMichael-America View 08/09	AV08-KY01	15.808	11,359
Passed through U.S. Department of the Interior:			
Mason-USGS-DOI 08/09	08HQAG0048	15.810	<u>4,995</u>

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Pass Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Passed through University of Kentucky Research Foundation:			
McMichael - USGS 07/08	3046989200-07-464	15.805	<u>4,169</u>
Total U.S. Geological Survey			104,405
Total Expenditures of Federal Awards			<u>\$57,238,813</u>

MOREHEAD STATE UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Morehead State University (the "University") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Federal Student Loan Programs

Loans made by the University to eligible students under the Federal Perkins Loan Program and federal student loans issued by the Federal Direct Loan Program during the year ended June 30, 2009 are summarized as follows:

Federal Perkins Loan Program:	
Loans disbursed	\$ 694,584
Federal Direct Loan Program:	
Federal Subsidized Stafford Loans	\$ 26,687,313
Federal Unsubsidized Stafford Loans	6,792,377
Federal Plus Loans	644,751

As of June 30, 2009, the University had loans outstanding, in the amount of \$3,650,033 with an allowance for doubtful accounts of \$91,175 under the Federal Perkins Loan Program.

DEAN || DORTON || FORD
PSC**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***

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

We have audited the financial statements of Morehead State University (the University) as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated October 29, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting, item 09-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

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Members of the Board of Regents and
Dr. Wayne D. Andrews, President
Page 2

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Regents, audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 29, 2009
Lexington, Kentucky

A handwritten signature in black ink that reads "Dean Barbara J. Ford, PSC". The signature is written in a cursive style.

DEAN || DORTON || FORD
PSC**Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of Morehead State University (the "University") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009, except those requirements discussed in the fourth paragraph below. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, Morehead State University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009, other than those requirements discussed in the following paragraph. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 09-02.

We did not audit the University's compliance with requirements governing the maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments for the Perkins Loan

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

Internal Control Over Compliance

The management of Morehead State University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Requirements governing the maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments for the Federal Perkins Loan Program are performed by UAS. Internal control over compliance relating to such functions was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. A copy of the service organization accountant's report has been furnished to us. However, the scope of our work did not extend to internal control maintained at UAS.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in a University's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiency in internal

Members of the Board of Regents and
Dr. Wayne D. Andrews, President
Page 3

control over compliance described in the accompanying schedule of findings and questioned costs as item 09-02 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the University's internal control. We do not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

We noted certain other matters that we reported to management of the University in a separate letter dated October 29, 2009.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Regents, audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 29, 2009
Lexington, Kentucky

A handwritten signature in black ink that reads "Wayne Winton Ford, PSC". The signature is written in a cursive, flowing style.

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

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

Financial Statements:

- a. The type of report issued on the financial statements: **Unqualified Opinion**
- b. Internal control over financial reporting:
Material weaknesses: **No**
Significant deficiencies identified that are not considered to be material weaknesses: **Yes**
- c. Non-compliance which is material to the financial statements: **No**

Federal Award:

- d. Internal control over major programs:
Material weaknesses: **No**
Significant deficiencies identified that are not considered to be material weaknesses: **Yes**
- e. The type of report issued on compliance for major programs: **Unqualified Opinion**
- f. Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes**
- g. Major programs:
 - Student Financial Aid Cluster:**
 - Federal Pell Grant, CFDA 84.063
 - Federal Work Study, CFDA 84.033
 - Federal Supplemental Educational Opportunity Grant, CFDA 84.007
 - Federal Perkins Loan, CFDA 84.038
 - Federal Direct Loan Program, CFDA 84.268
 - Academic Competitiveness Grant, CFDA 84.376
 - National Science and Mathematics Access to Retain Talent Grant, CFDA 84.375
 - Teacher Education Assistance for College and Higher Education Grant, CFDA 84.379
 - Trio Cluster:**
 - Student Support Services, CFDA 84.042
 - Talent Search, CFDA 84.044
 - Upward Bound, CFDA 84.047
 - Commonwealth Educational Opportunity Center, CFDA 84.066

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2009

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

g. Major programs, continued:

 Gear Up:

 Gear Up, CFDA 84.334

h. Dollar threshold used to distinguish between Type A and Type B programs: \$693,431

i. Auditee qualified as a low-risk auditee: No

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2009

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

Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: 09-01

Finding 09-1:

Condition:

During our audit, we noted that Morehead State University has a laptop lease program where students can lease laptop computers from the University with the ability to purchase this laptop over the life of the lease. Currently the purchase of these laptops is being accounted for in auxiliary expenses and the lease revenue each semester is being recognized in auxiliary revenues. There are specific accounting pronouncements that set forth the appropriate way to account for these leases which recognize a receivable for future expected lease receipts and not recognizing any expenses. The only revenue that would be recognized would be the amount received by the University over the cost of the laptop.

Effect:

Over time, the differences in accounting will net to zero impact in the net assets but in any given year there will be differences in the fund balance if this was accounted for correctly.

Recommendation:

We recommend that the University review the accounting for these leases and determine the future expectations of this program and consider adjusting the financial statements accordingly.

Management's Response:

We agree that the accounting for these leases needs to be reviewed, if we plan to continue this program. The laptop lease program started as a pilot program and the University is planning to make a decision about the future of the program this fall. These discussions will be directed by the Provost, the Vice President for Administration & Fiscal Services and the Vice President for Planning and Budgets. If the University decides to continue the laptop lease program, we will review the accounting for these leases and make necessary adjustments to the financial statements for the fiscal year ended June 30, 2010.

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2009

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

Findings and Questioned Costs relating to Federal Awards: 09-02

Finding 09-02:

Federal Program: U.S. Department of Education
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

Condition:

During the audit, we noted that students not meeting one of the University's satisfactory academic progress (SAP) quantitative requirements were not being identified and properly placed on federal financial aid probation due to a system programming error. Once the programming error was corrected, management identified 97 students who were originally not picked up by the system as being on federal financial aid probation who should have been. Of these students, 10 received \$36,859 of federal funds during their summer term. After being notified they were being put on federal financial aid probation, all 10 students appealed their SAP probation and all were approved for mitigating circumstances.

Criteria:

The provisions of § 668.34, § 668.32(f) and §668.16(e) state that the student must maintain satisfactory progress in his or her course of study according to the institution's published standards of satisfactory progress. It is also stated that the institution is required to establish reasonable standards for measuring whether an otherwise eligible student is maintaining satisfactory progress in his or her educational program. The purpose of determining whether the student is making academic progress is necessary for the student to be eligible for financial aid.

Effect:

Several students were not originally put on SAP probation causing ineligible students to initially receive federal funds.

MOREHEAD STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2009

Finding 09-02, continued:

Cause:

There is not an internal control in place to verify that the financial aid software is properly calculating students who meet or fail to meet MSU's SAP requirements. Some students who did not meet SAP were not originally identified and were initially improperly disbursed financial aid.

Recommendation:

We noted that the University relies on its software to properly identify students who meet and those that fail the University's SAP requirement. We recommend that the University establish an internal control to verify that students who are not meeting the requirements are identified prior to the next disbursement of federal funds.

Management's Response:

The Office of Enrollment Services will continue to monitor the financial aid software (Datatel Colleague) to ensure that the system is accurately assessing student records for eligibility for Federal student aid. Although the Office had tested various scenarios for calculating Satisfactory Academic Progress (SAP) prior to running the calculation program, the aforementioned scenario had not been identified during testing due to the relatively small number of students with that particular situation. The purchased software had to be modified to fit our policy and procedure of annual review. During this modification, an error occurred that allowed students in the aforementioned group to be evaluated incorrectly. The error was corrected when identified and the students were processed in the usual manner.

The Office of Enrollment Services will determine all possible scenarios with regard to SAP and create queries to pull samples of students who may be affected by the criteria. The Office will then run the SAP Calculation program in a test environment and compare the results to the samples. Once it has been determined that the program is working properly with all scenarios, the program will be run in the live environment. This procedure should ensure that all circumstances are accounted for in the SAP Calculation program and all students are evaluated properly

MOREHEAD STATE UNIVERSITY

Summary Schedule of Prior Audit Findings

Year ended June 30, 2009

Finding 08-01:

Condition:

During our audit procedure the University stated that the schedule of fixed assets did not reconcile to the general ledger and that an adjustment had been made to reconcile the differences through a fixed asset deletion account. Our audit procedures revealed that the fixed asset schedule used to reconcile the fixed asset register to the general ledger at year-end was not complete. The existing fixed asset schedule excluded numerous additions made during the 2008 fiscal year.

Recommendation:

This situation should be remedied as soon as possible by implementing a validation control to test the reports used in reconciling fixed assets for each reporting period. We further recommend that the University extend these validation controls to all material accounts affecting the financial statements.

Current Status:

We noted that this issue has been resolved and was not repeated during the current year audit.

Finding 08-02:

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

Condition:

During the audit, we noted that students who graduated during the school year were not reported to lenders or guaranty agencies as graduated. As a result, students who graduated and did not return for the next term were listed as withdrawn as of the end of the graduated term. These students who graduated in the Spring term were not reported as having ceased to enroll until 4 months after their date of graduation. Students who graduated but returned for the next term were not shown as graduated or withdrawn; they were shown with the enrollment status for the next term.

Recommendation:

We noted that the University sends status change reports to the National Clearinghouse who then sends them on to lenders, guaranty agencies, etc.; however, the University has the ultimate responsibility to report to these third parties. Therefore, we recommend that the University establish

MOREHEAD STATE UNIVERSITY

Summary Schedule of Prior Audit Findings, continued

Year ended June 30, 2009

Finding 08-2, continued:

Recommendation, continued:

an internal control to verify that students who receive a loan who either did not enroll or ceased to be enrolled on at least a half-time basis are reported to the Secretary or the guaranty agency within a timely matter after these files are sent to the National Clearinghouse.

Current Status:

We noted that the University corrected the way they sent graduate files to the National Clearinghouse in order to report student status changes. During our audit, we did not note any instances of noncompliance within this area.