

MOREHEAD STATE UNIVERSITY

**REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2005 and 2004**

MOREHEAD STATE UNIVERSITY
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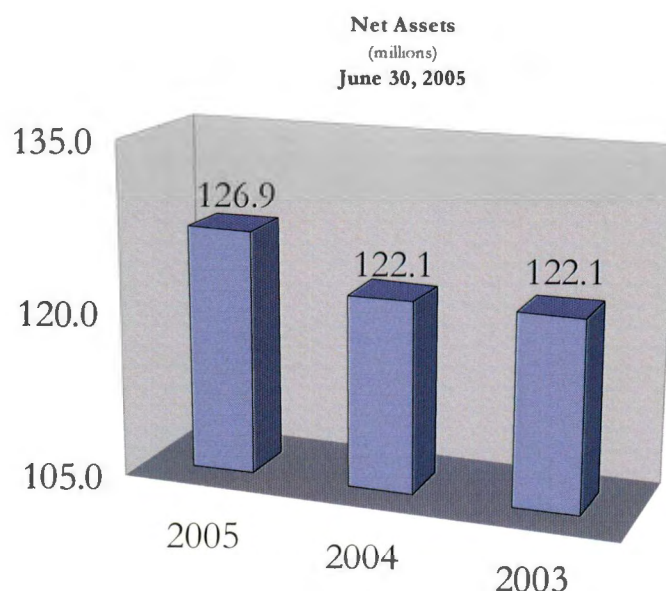
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2005. 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, 2005. Financial operations were conducted in accordance with the approved budget plan.
- Total assets were \$182 million versus \$173 million at June 30, 2004 and \$166 million at June 30, 2003. Significant components of the assets include \$23 million in cash, \$24 million in investments and \$123 million in capital assets net of depreciation.

- Total liabilities were \$56 million versus \$51 million at June 30, 2004 and \$44 million at June 30, 2003. The significant components of the liabilities were \$12 million in accounts payable and accrued liabilities, and \$36 million in bonds, notes, and capital lease obligations.



- Total net assets were \$127 million versus \$122 million at June 30, 2004 and \$122 million at June 30, 2003. Significant components of net assets include \$87 million invested in capital assets, net of depreciation and related debt, \$26 million in expendable restricted net assets, and \$13 million in unrestricted net assets
- Operating revenues this year were \$70 million versus \$66 million for year ending June 30, 2004 and \$62 million at June 30, 2003. Operating expenses were \$113 million versus \$110 million at June 30, 2004 and \$103 million at June 30, 2003. This created an operating loss of \$43 million versus an operating loss of \$44 million at June 30, 2004 and \$40 million at June 30, 2003.
- Net nonoperating revenues were \$43 million at both June 30, 2005 and June 30, 2004, and \$42 million at June 30, 2003. Nonoperating revenues were comprised primarily of state appropriations. The combination of the net loss from operations, the net nonoperating revenues, and capital appropriations of \$4 million, resulted in an increase in net assets of

\$5 million versus \$4 million at June 30, 2004 and an increase of \$6 million at June 30, 2003.

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 presents 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, found beginning on page 26 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.

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 nonoperating. GASB 35 requires State appropriations and gifts to be classified as nonoperating revenues. Accordingly, the University will generate a net operating loss prior to the addition of nonoperating 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

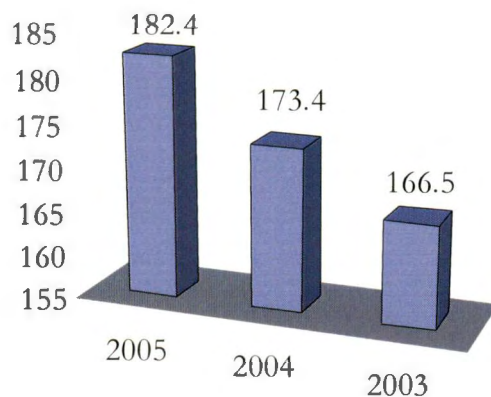
Morehead State University is a component unit of the Commonwealth of Kentucky.



Condensed Financial Information
Statement of Net Assets (in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<u>Assets</u>			
Current assets	\$ 31,895	\$ 31,258	\$ 19,344
Capital assets	123,082	116,087	109,841
Other noncurrent assets	27,433	26,086	37,398
Total assets	182,410	173,431	166,583
<u>Liabilities</u>			
Current liabilities	18,405	16,301	11,434
Noncurrent liabilities	37,071	34,960	32,988
Total liabilities	55,476	51,261	44,422
<u>Net Assets</u>			
Invested in net capital assets, net of related debt	87,308	78,213	78,714
Restricted, expendable	26,351	27,291	26,510
Unrestricted	13,275	16,666	16,937
Total net assets	\$126,934	\$ 122,170	\$ 122,161

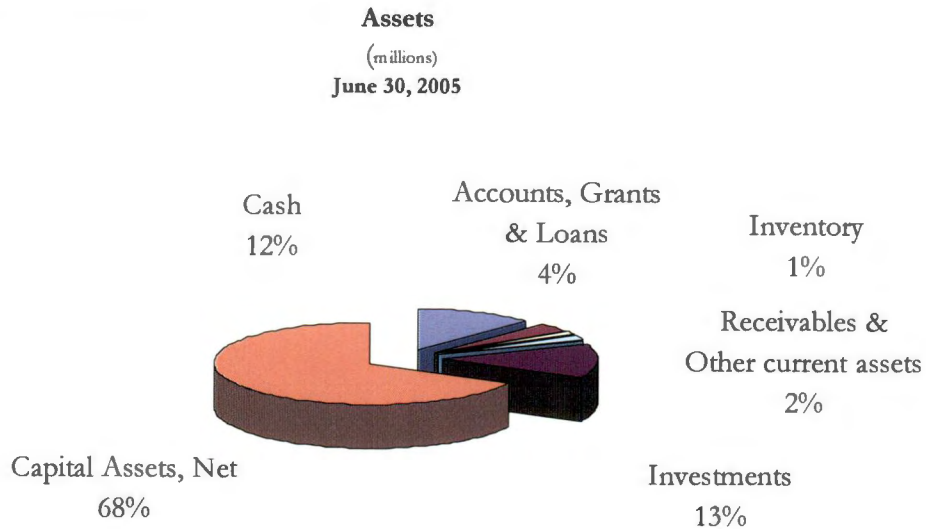
Total Assets
(millions)
June 30, 2005



Assets

As of June 30, 2005, the University's total assets amount to approximately \$182 million versus \$173 million at June 30, 2004 and \$167 million at June 30, 2003. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$123 million compared to

\$116 million at June 30, 2004 and \$109 million at June 30, 2003. Cash and investments, totaling \$46 million versus \$47 million at June 30, 2004 and \$43 million at June 30, 2003, were the University's next largest asset.



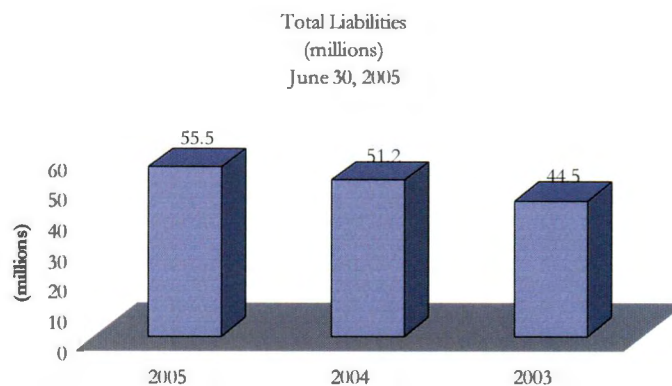
Total assets increased by \$8.9 million during the year ended June 30, 2005. The principal areas of change were:

- Cash and cash equivalents Increased approximately \$9.3 million,
- accounts, grants, and loans receivable increased approximately \$ 2.4 million,
- capital assets, net of accumulated depreciation, increased approximately \$6.9 million,
- investments and other receivables decreased approximately \$9.7 million.

Liabilities

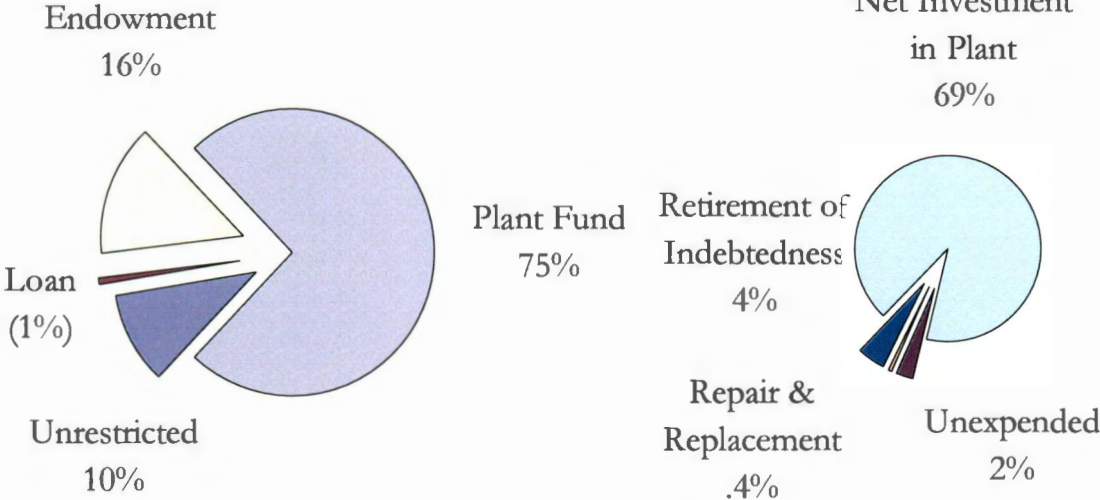
At June 30, 2005, the University's liabilities totaled approximately \$55 million versus \$51 million the previous year, and \$44 million at June 30, 2003. Bonds, notes payable, and capital lease obligations

for capital assets represented \$36 million versus \$38 million at June 30, 2004 and \$31 million at June 30, 2003.



Total liabilities increased by \$4 million during the year ended June 30, 2005. This increase was due to a \$6 million increase in accounts payable and accrued expenses, and a \$2 million decrease in bonds payable, notes payable, and capital lease related to a bond refunding.

**Net Assets
June 30, 2005**



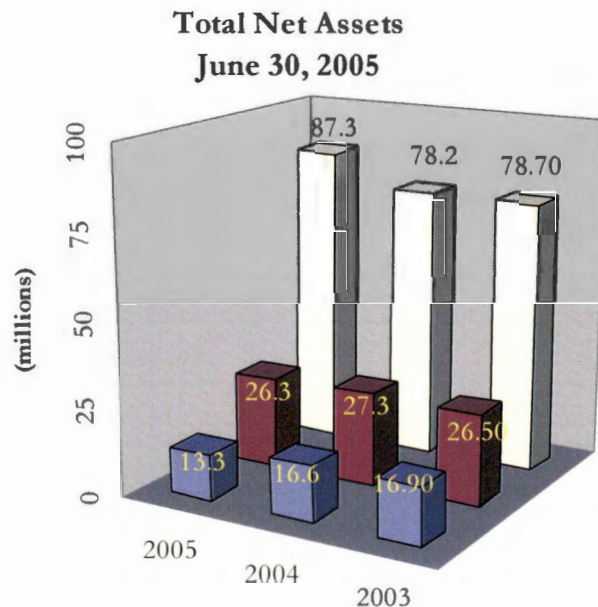
Net Assets

Net assets at June 30, 2005 totaled approximately \$127 million compared to \$122 million at June 30, 2004 and \$122 million at June 30, 2003. Net assets invested in capital assets, net of related debt, totaled \$87 million versus \$78 million at June 30, 2004 and \$79 million at June 30, 2003. Restricted net assets totaled \$26 million compared to \$27 million at June 30, 2004 and \$26 million at June 30, 2003. Unrestricted net assets accounted for \$13 million versus \$17 million at June 30, 2004 and \$17 million at June 30, 2003. Total net assets increased by \$4 million during the year ended June 30, 2005.

Net Assets Invested in Capital Assets, Net of Related Debt

Net assets invested in capital assets, net of related debt, increased by \$9 million. Increases in net assets invested in capital assets were primarily due to \$3.3 million in capital appropriations for capital construction versus \$12.1 million last year and \$7.5 million at June 30, 2003; increases in other capital assets of \$9.6 million at June 30, 2005 versus \$5.8 million at June 30, 2004, and \$14.2

million at June 30, 2003. Also \$7.8 million in payments of principal on debt compared to \$3.1 million during fiscal year 2004 and \$6.0 million at June 30, 2003. Decreases in net assets invested in capital assets (net) were from current year depreciation of \$5.2 million compared to \$5.8 million last year and \$5.6 million at June 30, 2003, new debt issued of \$5.7 million versus \$9.9 million last year and \$6.0 million at June 30, 2003, as well as disposals and sales of \$.72 million compared to \$.53 million during fiscal year 2004 and \$.5 million at June 30, 2003.

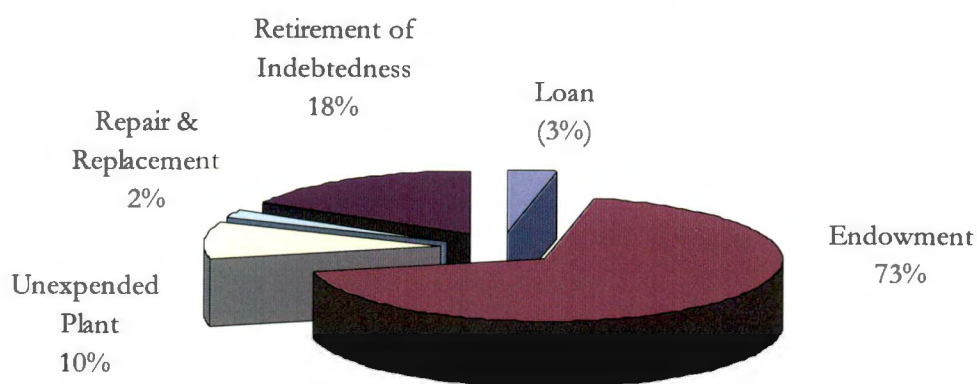


■ Unrestricted ■ Expendable □ Invested in capital assets, net of related debt

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 \$.9 million from the previous year to \$26 million. Major components of the decrease include a \$4.3 million decrease in bond escrow funds primarily from the refunding the University’s Consolidated Education Building Revenue Series “K” Bonds in May 2005, a \$2.3 million decrease in unexpended restricted net assets, and an increase of \$.10 million primarily in the plant fund. In addition, the University experienced a \$5.6 million increase in endowment funds to \$19.1 million at June 30, 2005.

**Restricted Net Assets
June 30, 2005**



Unrestricted Net Assets

Unrestricted net assets decreased by \$3.3 million from the previous year to \$13.3 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, 2005 is as follows:

Allocation of Unrestricted Net Assets (in thousands)

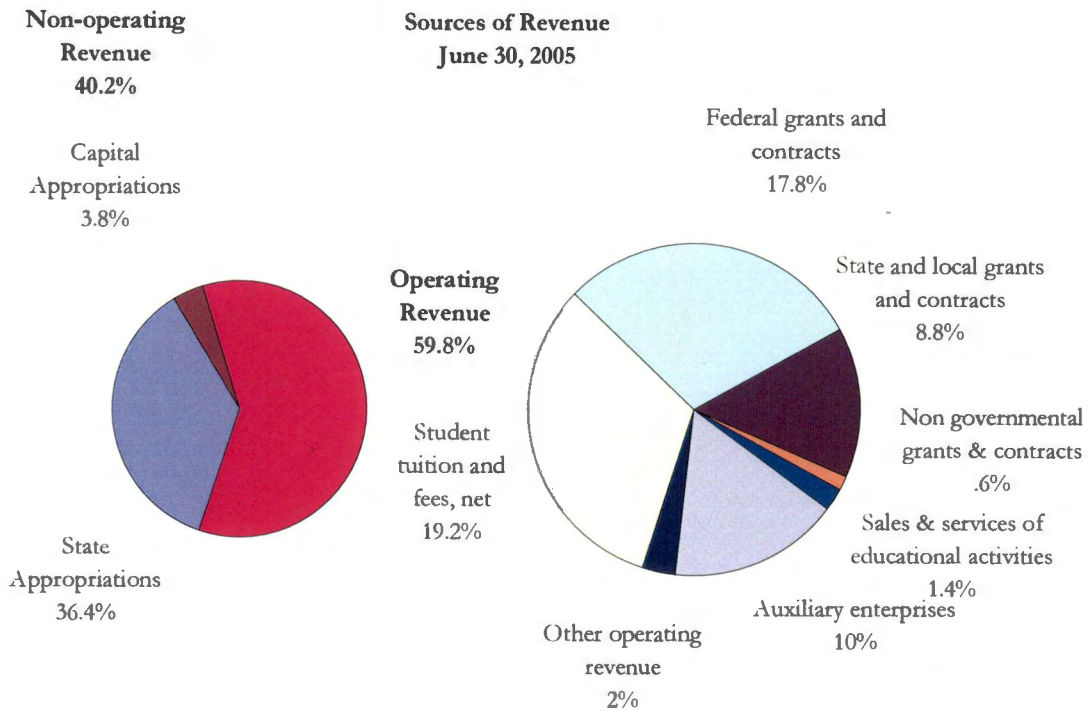
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Working capital	\$ 6,695	\$ 6,640	\$ 7,040
Allocated project funds	468	1,474	905
Capital construction	1,816	1,604	2,434
Operating budgets	2,223	4,242	3,808
Accreditations	15	31	42
Internal reserves	2,058	2,675	2,708
Unrestricted net assets	<u>\$ 13,275</u>	<u>\$ 16,666</u>	<u>\$ 16,937</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<u>Operating Revenues</u>			
Student tuition and fees, net	\$ 22,554	\$ 18,102	\$ 16,901
Federal grants and contracts	20,868	22,166	20,351
State and local grants and contracts	10,318	8,862	7,592
Nongovernmental grants and contracts	901	927	891
Sales and services of educational activities	1,630	1,398	1,238
Auxiliary enterprises	11,356	11,475	11,287
Other operating revenue	<u>2,413</u>	<u>2,937</u>	<u>3,925</u>
Total operating revenue	<u>70,040</u>	<u>65,867</u>	<u>62,185</u>
<u>Operating Expenses</u>			
Educational and general	97,422	93,556	87,603
Auxiliary enterprises	9,549	9,878	9,027
Depreciation	5,794	5,782	5,695
Other operating expenses	<u>78</u>	<u>350</u>	<u>239</u>
Total operating expenses	<u>112,843</u>	<u>109,566</u>	<u>102,564</u>
Operating loss	<u>(42,802)</u>	<u>(43,699)</u>	<u>(40,379)</u>
Nonoperating Revenues (Expenses)			
State appropriations	42,678	42,643	43,116
Investment income	1,497	2,028	651
Interest on capital assets - debt related	<u>(1,091)</u>	<u>(1,585)</u>	<u>(1,926)</u>
Net nonoperating revenues (expenses)	<u>43,084</u>	<u>43,086</u>	<u>41,841</u>
(Loss) income before other revenues, expenses, gains or losses	281	(613)	1,462
Capital appropriations	<u>4,483</u>	<u>622</u>	<u>4,980</u>
Increase in net assets	4,764	9	6,442
Net assets, beginning of year	<u>122,170</u>	<u>122,161</u>	<u>115,719</u>
Net assets, end of year	<u>\$ 126,934</u>	<u>\$ 122,170</u>	<u>\$ 122,161</u>

Revenues

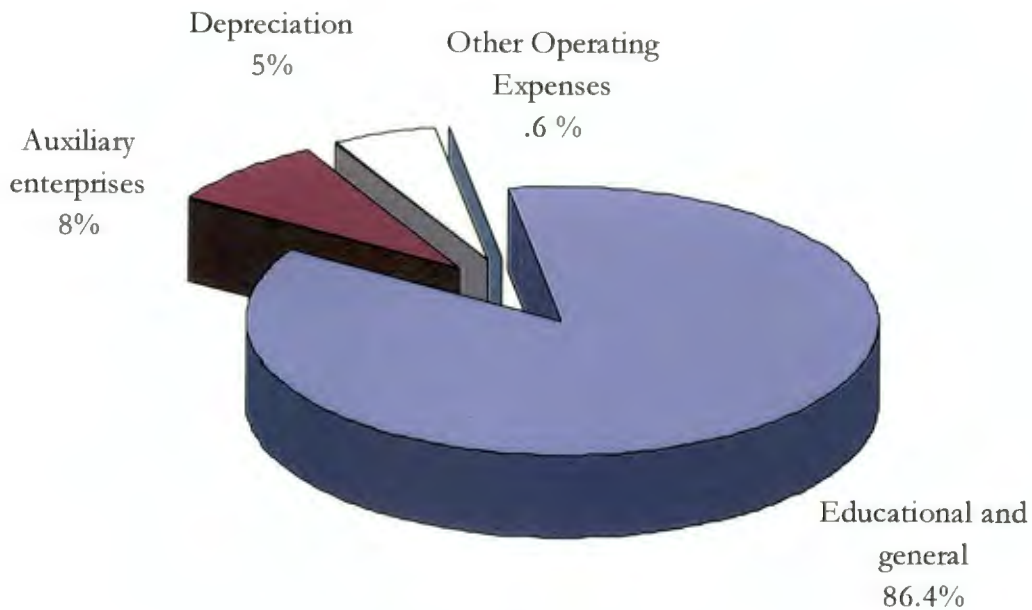
Total operating revenues were approximately \$70 million for the year ended June 30, 2005 compared to \$66 million the previous year and \$62 million at June 30, 2003. The most significant sources of operating revenue for the University are net student fees \$22.5 million, Federal Grants and Contracts \$20.9 million, Auxiliary Enterprises \$11.3 million, State and Local Grants \$10.3 million, and other Revenues including, Private Grants, and Sales and Services of Educational Activities, \$5.0 million.



Expenses

Operating expenses totaled approximately \$113 million compared to \$109 million at June 30, 2004 and \$103 million at June 30, 2003. Of this amount, approximately \$97.4 million was used for educational and general expenses related to functions such as instruction, research, and public service.

Operating Expenses June 30, 2005



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.



Statement Of Cash Flows (In Thousands)
Year ended June 30, 2005

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash Provided/Used By:			
Operating activities	\$ (33,075)	\$ (38,498)	\$ (38,135)
Noncapital financing activities	42,730	42,675	43,215
Capital and related financing activities	(11,610)	(2,691)	(13,263)
Investing activities	<u>242</u>	<u>(5,361)</u>	<u>(4,669)</u>
Net decrease in cash	(1,713)	(3,875)	(12,852)
Cash, beginning of the year	<u>24,373</u>	<u>28,248</u>	<u>41,100</u>
Cash, end of the year	<u>\$ 22,660</u>	<u>\$ 24,373</u>	<u>\$ 28,248</u>

Major sources of funds included in operating activities are student tuition and fees, \$22.6 million versus \$18 million the previous year and \$16.5 million at June 30, 2003, and grants and contracts, \$30.7 million compared to \$30.9 million at June 30, 2004 and \$27.1 million at June 30, 2003. The largest cash payments for operating activities were made to employees \$63.9 million versus \$64.6 million the previous year and \$61.6 million at June 30, 2003, and suppliers \$37.8 million compared to \$38.7 million June 30, 2004 and \$36.5 million at June 30, 2003.

The largest cash receipt in the noncapital financing activities group is the operating appropriation from the Commonwealth of Kentucky of \$42.7 million versus \$42.6 million the previous year and \$43.1 million at June 30, 2003. Cash used by capital and related financing activities is primarily expended on the construction and acquisition of capital assets.



**Capital Asset and Debt
Administration**

Capital Assets

Capital assets, net of accumulated depreciation (but not of related debt), totaled approximately \$123 million at June 30, 2005 versus \$116 million at June 30, 2004, and \$109 million at June 30, 2003. This represents a net

increase of \$6.9 million over June 30, 2004 and \$13.2 million increase over June 30, 2003.

Significant changes to capital assets during fiscal 2004 - 2005 included:

Buildings and structures	\$ 2.7 million
DataTel System	3.8 million
Land and Improvements	.8 million
Library additions, equipment and vehicles	1.5 million
Net change in construction in progress	3.3 million
Increase in accumulated depreciation, net	(5.2) million

Capital Projects Approved

At June 30, 2005, The University had the following Capital Projects approved but not started:

- Space Science Center building-Architects have been selected and the design process has been started. The project scope is \$12.2 million. Construction will not start until some time in 2006.
- Health Sciences Building-The University received \$1.5 million for planning this building. The scope of this project is not known at this time.
- Clay Community Center- the University received \$1.5 million to construct additional classrooms at the Clay Community Center, the site of the regional campus in Mt. Sterling.

Debt

At year-end, the University had some \$35.8 million in outstanding debt versus \$37.8 million the previous year and \$31.1 million at June 30, 2003. This includes \$28.3 million in bonds payable compared to \$35.5 million at June 30, 2004 and \$28.2 million at June 30, 2003. In addition, the University had capital lease obligations of \$7.1 million compared to \$1.9 million the previous year-end and \$2.4 million at June 30, 2003. The University had \$.35 million in notes payable at June 30, 2005.

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

	<u>2005</u>	<u>June 30, 2004</u>	<u>2003</u>
Housing and Dining System revenue bonds	\$ 19,430	\$ 21,065	\$ 18,355
Consolidated Educational buildings revenue bonds	8,875	14,460	9,840
Capital lease obligations	7,118	1,890	2,362
Notes payable	<u>350</u>	<u>460</u>	<u>570</u>
	<u>\$ 35,773</u>	<u>\$ 37,875</u>	<u>\$ 31,127</u>

Debt outstanding decreased approximately \$2.1 million from the end of the prior year.

In May 2005, the University refunded its Consolidated Educational Bonds Series K with a value of approximately \$4.7 million from an escrow account. In March 2005, the University entered into an agreement known as the Energy Savings Capital Lease in the amount of approximately \$1.8 million for the purpose of upgrading the lighting across campus. In June 2005 the University entered into an agreement known as the DataTel Capital Lease in the amount of approximately \$3.8 million for the purchase of a new campus-wide computer system.

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, 2006 totaling \$103 million.
- Tuition rates for FY 2005-06 will increase approximately 12.5% for resident and nonresident undergraduate and graduate students.
- At June 30, 2005, grants and contracts of approximately \$31.2 million had been awarded to the University, but not expended. These contracts will provide grant revenue to future periods.
- The University's budgeted enrollment for the year ending June 30, 2006 is 9,100 students; Fall 2005 enrollment is currently tracking approximately 8,800-9,000 students.



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

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

Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Morehead State University (the "University") as of June 30, 2005 and 2004, 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. Those standards require that we plan and perform the audits 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 business-type activities and discretely presented component unit of Morehead State University as of June 30, 2005 and 2004, and the changes in its net assets and cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Morehead State University taken as a whole. The data contained on pages 50 through 53 is presented for purposes of additional analysis and is not a required part of the basic financial statements. • Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 1 through 15 is not a required part of the 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 audit was performed for the purpose of forming an opinion on the financial statements of Morehead State University, taken as a whole. 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, *Audit of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2005, on our consideration of Morehead State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Crowe Chizek and Company LLC

Louisville, Kentucky
September 26, 2005

MOREHEAD STATE UNIVERSITY
 STATEMENTS OF NET ASSETS
 June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 22,659,951	\$ 24,372,499
Accounts, grants and loans receivable, net	6,122,547	4,871,729
Other receivables	1,155,241	182,158
Inventory	1,836,607	1,630,488
Other current assets	<u>121,278</u>	<u>201,176</u>
Total current assets	<u>31,895,624</u>	<u>31,258,050</u>
Noncurrent assets		
Accounts, grants and loans receivable, net	3,583,072	3,617,731
Investments	23,850,504	22,468,236
Capital assets, net	<u>123,081,511</u>	<u>116,087,308</u>
Total noncurrent assets	<u>150,515,087</u>	<u>142,173,275</u>
Total assets	<u>182,410,711</u>	<u>173,431,325</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	12,126,738	6,123,549
Deferred revenue	1,997,712	1,707,294
Other current liabilities	713,279	712,559
Bonds, notes and capital lease obligations, current portion	<u>3,567,149</u>	<u>7,757,364</u>
Total current liabilities	<u>18,404,878</u>	<u>16,300,766</u>
Noncurrent liabilities		
Bond, notes and capital lease obligations, noncurrent portion	32,205,910	30,117,419
Federal refundable grants	<u>4,865,694</u>	<u>4,843,063</u>
Total noncurrent liabilities	<u>37,071,604</u>	<u>34,960,482</u>
Total liabilities	<u>55,476,482</u>	<u>51,261,248</u>
NET ASSETS		
Invested in capital assets, net of related debt	87,308,452	78,212,524
Restricted		
Expendable	26,350,712	27,291,192
Unrestricted	<u>13,275,066</u>	<u>16,666,361</u>
Total net assets	<u>\$ 126,934,230</u>	<u>\$ 122,170,077</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Cash	\$ 148,341	\$ 144,281
Certificates of deposit	1,033,805	1,013,287
Accrued interest receivable	11,687	8,012
Accounts receivable	-	7,038
Pledges receivable, net	720,654	471,747
Lease financing receivable, current	<u>115,547</u>	<u>109,502</u>
Total current assets	2,030,034	1,753,867
Noncurrent assets		
Investments	23,182,243	19,298,888
Cash surrender value - life insurance	86,538	86,538
Property and equipment, net	587,824	562,334
Pledges receivable, net	787,021	446,619
Lease financing receivable	<u>1,252,748</u>	<u>1,361,428</u>
Total noncurrent assets	<u>25,896,374</u>	<u>21,755,807</u>
Total assets	<u>\$ 27,926,408</u>	<u>\$ 23,509,674</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 16,231	\$ 5,501
Annuities payable	<u>56,400</u>	<u>56,400</u>
Total current liabilities	72,631	61,901
Long-term liabilities		
Funds held in trust for Morehead State University	11,329,598	9,478,598
Annuities payable	113,309	175,976
Due to Morehead State University	<u>108,675</u>	<u>161,902</u>
Total long-term liabilities	<u>11,551,582</u>	<u>9,816,476</u>
Total liabilities	<u>11,624,213</u>	<u>9,878,377</u>
NET ASSETS		
Unrestricted	1,331,553	1,235,430
Temporarily restricted	2,608,181	1,532,197
Permanently restricted	<u>12,362,461</u>	<u>10,863,670</u>
Total net assets	<u>16,302,195</u>	<u>13,631,297</u>
Total liabilities and net assets	<u>\$ 27,926,408</u>	<u>\$ 23,509,674</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$14,933,364 and \$16,429,171)	\$ 22,553,579	\$ 18,101,733
Federal grants and contracts	20,868,400	22,165,702
State and local grants and contracts	10,318,105	8,862,054
Nongovernmental grants and contracts	900,476	927,106
Sales and services of educational activities	1,630,422	1,398,250
Auxiliary enterprises		
Residence halls (net of scholarship allowances of \$116,137 and \$158,116)	6,639,380	6,913,552
Bookstore	3,837,288	3,612,043
Other auxiliaries	879,644	949,570
Other operating revenues	<u>2,412,911</u>	<u>2,936,475</u>
Total operating revenues	<u>70,040,205</u>	<u>65,866,485</u>
EXPENSES		
Operating expenses		
Education and general		
Instruction	40,397,806	38,551,135
Research	1,577,469	1,369,804
Public service	9,699,827	8,834,442
Library	2,823,898	2,812,651
Academic support	6,945,656	6,978,107
Student services	8,199,004	7,574,120
Institutional support	11,213,543	10,500,149
Operation and maintenance of plant	6,246,177	7,647,425
Depreciation	4,635,467	4,625,175
Student aid	10,434,550	9,288,183
Auxiliary enterprises		
Residence Halls	4,496,905	4,460,189
Bookstore	3,469,643	3,557,052
Other auxiliaries	1,466,207	1,860,698
Depreciation	1,158,866	1,156,294
Other operating expenses	<u>78,089</u>	<u>350,305</u>
Total operating expenses	<u>112,843,107</u>	<u>109,565,729</u>
Operating loss	<u>(42,802,902)</u>	<u>(43,699,244)</u>

(Continued)

MOREHEAD STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 42,678,310	\$ 42,642,598
Investment income (net of investment expense of \$40,198 and \$305,693)	1,497,157	2,028,431
Interest on capital asset - related debt	<u>(1,091,191)</u>	<u>(1,585,107)</u>
Net nonoperating revenues	<u>43,084,276</u>	<u>43,085,922</u>
Gain (loss) before other revenues, expenses, gains or losses	281,374	(613,322)
Capital appropriations	<u>4,482,779</u>	<u>622,490</u>
Increase in net assets	4,764,153	9,168
Net assets, beginning of year	<u>122,170,077</u>	<u>122,160,909</u>
Net assets, end of year	<u>\$ 126,934,230</u>	<u>\$ 122,170,077</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Year ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Contributions	\$ 524,498	\$ 588,178	\$ 1,498,791	\$ 2,611,467
Other	<u>79,800</u>	<u>263,619</u>	<u>-</u>	<u>343,419</u>
	604,298	851,797	1,498,791	2,954,886
Investment income				
Interest and dividend income, net	610	496,532	-	497,142
Realized and unrealized gains	<u>-</u>	<u>1,122,548</u>	<u>-</u>	<u>1,122,548</u>
	610	1,619,080	-	1,619,690
Released from restrictions	<u>1,394,893</u>	<u>(1,394,893)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>1,999,801</u>	<u>1,075,984</u>	<u>1,498,791</u>	<u>4,574,576</u>
Expenses				
Program expenses				
Contributions to Morehead State University for -				
Academic programs	833,657	-	-	833,657
Athletics	249,841	-	-	249,841
University support -				
Operations and materials	146,138	-	-	146,138
Student financial aid	286,821	-	-	286,821
Athletics	<u>24,574</u>	<u>-</u>	<u>-</u>	<u>24,574</u>
Total program expenses	1,541,031	-	-	1,541,031
General and administrative	75,864	-	-	75,864
Bad debt expense	<u>286,783</u>	<u>-</u>	<u>-</u>	<u>286,783</u>
Total expenses	<u>1,903,678</u>	<u>-</u>	<u>-</u>	<u>1,903,678</u>
Change in net assets	96,123	1,075,984	1,498,791	2,670,898
Net assets, beginning of year	<u>1,235,430</u>	<u>1,532,197</u>	<u>10,863,670</u>	<u>13,631,297</u>
Net assets, end of year	<u>\$ 1,331,553</u>	<u>\$ 2,608,181</u>	<u>\$ 12,362,461</u>	<u>\$ 16,302,195</u>

(Continued)

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Contributions	\$ 1,090,127	\$ 566,190	\$ 1,459,160	\$ 3,115,477
Other	<u>79,721</u>	<u>309,583</u>	<u>-</u>	<u>389,304</u>
	1,169,848	875,773	1,459,160	3,504,781
Investment income				
Interest and dividend income, net	1,706	476,991	-	478,697
Realized and unrealized gains	<u>-</u>	<u>1,431,021</u>	<u>-</u>	<u>1,431,021</u>
	1,706	1,908,012	-	1,909,718
Released from restrictions	<u>1,695,330</u>	<u>(1,695,330)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>2,866,884</u>	<u>1,088,455</u>	<u>1,459,160</u>	<u>5,414,499</u>
Expenses				
Program expenses				
Contributions to Morehead State University for -				
Academic programs	1,303,337	-	-	1,303,337
Athletics	212,346	-	-	212,346
University support -				
Operations and materials	76,473	-	-	76,473
Student financial aid	138,707	-	-	138,707
Athletics	<u>40,940</u>	<u>-</u>	<u>-</u>	<u>40,940</u>
Total program expenses	1,771,803	-	-	1,771,803
General and administrative	69,268	-	-	69,268
Bad debt expense	<u>140,472</u>	<u>-</u>	<u>-</u>	<u>140,472</u>
Total expenses	<u>1,981,543</u>	<u>-</u>	<u>-</u>	<u>1,981,543</u>
Change in net assets	885,341	1,088,455	1,459,160	3,432,956
Net assets, beginning of year	<u>350,089</u>	<u>443,742</u>	<u>9,404,510</u>	<u>10,198,341</u>
Net assets, end of year	<u>\$ 1,235,430</u>	<u>\$ 1,532,197</u>	<u>\$ 10,863,670</u>	<u>\$ 13,631,297</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Tuition and fees	\$ 22,627,651	\$ 18,086,500
Grants and contracts	30,756,890	30,943,449
Payments to suppliers	(37,803,545)	(38,665,162)
Payments to employees	(63,818,477)	(64,637,294)
Loans issued to students	(600,411)	(680,610)
Collection of loans issued to students	626,193	605,558
Auxiliary enterprises		
Residence halls	6,644,339	6,906,654
Bookstore	3,584,093	3,654,242
Other auxiliaries	864,163	952,981
Sales and services of educational activities	1,630,422	1,398,250
Other receipts	<u>2,412,909</u>	<u>2,936,475</u>
Net cash from operating activities	(33,075,773)	(38,498,957)
Cash flows from noncapital financing activities		
State appropriations	42,678,310	42,642,598
Student organization agency receipts	2,265,610	2,105,749
Student organization agency disbursements	<u>(2,213,683)</u>	<u>(2,072,587)</u>
Net cash from noncapital financing activities	42,730,237	42,675,760
Cash flows from capital and related financing activities		
Proceeds from capital debt and leases	5,698,519	9,890,000
Capital appropriations	4,482,779	622,490
Purchase of capital assets	(12,899,384)	(12,062,711)
Reimbursements received from the Commonwealth	-	3,586,246
Principal paid on capital debt and leases	(7,800,243)	(3,141,977)
Interest paid on capital debt and leases	<u>(1,091,191)</u>	<u>(1,585,107)</u>
Net cash flows from capital and related financing activities	(11,609,520)	(2,691,059)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	3,600,052	3,825,912
Interest received on investments	1,122,299	663,459
Purchase of investments	<u>(4,479,843)</u>	<u>(9,850,547)</u>
Net cash flows from investing activities	<u>242,508</u>	<u>(5,361,176)</u>
Net increase in cash and cash equivalents	(1,712,548)	(3,875,432)
Cash and cash equivalents at beginning of year	<u>24,372,499</u>	<u>28,247,931</u>
Cash and cash equivalents at end of year	<u>\$ 22,659,951</u>	<u>\$ 24,372,499</u>

(Continued)

MOREHEAD STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Reconciliation of net operating loss to net cash from operating activities		
Operating loss	\$ (42,802,902)	\$ (43,699,244)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	5,794,333	5,781,469
Loss on disposal of capital assets	34,551	34,209
Changes in assets and liabilities:		
Receivables, net	(2,189,241)	(759,403)
Inventory	(206,120)	44,593
Accounts payable and accrued liabilities	6,003,189	232,701
Deferred revenue	<u>290,417</u>	<u>(133,282)</u>
Net cash from operating activities	<u>\$ (33,075,773)</u>	<u>\$ (38,498,957)</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 1 - ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity: Morehead State University (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 resources, or income thereon, 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*, 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 Statement 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.
- **Restricted:**
 - Nonexpendable-* Net assets subject to externally imposed stipulations that they be maintained permanently by the University.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 1 - ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

- **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 Trustees or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation required by GASB Statement 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.

Effective July 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Due to the adoption of this Statement, the Morehead State University Foundation, Inc. has been included as a component unit of the University as described in the Reporting Entity policy note.

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: Inventories representing approximately 59% and 58% of total inventories at June 30, 2005 and 2004, respectively, are stated at the lower of cost (first-in, first-out basis) 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.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 1 - ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets: Capital assets are stated at cost for purchased assets and at fair value at date of donation in the case of gifts. Expenditures of 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 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 revenues include amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent reporting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

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 nonoperating revenues, in accordance with GASB Statement No. 35.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 1 - ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Actual results could differ from the estimated amounts.

Recent Accounting Pronouncements: For the year ended June 30, 2005, the University implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. This new standard revises the existing requirements regarding disclosure of custodial credit risk and establishes requirements regarding disclosure of credit risk, concentration of credit risk, interest rate risk and foreign currency risk. It has no impact on the amounts of investments, net assets or changes in net assets. See also Note 2.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires certain disclosures when the value of a capital asset has declined significantly and unexpectedly. The Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2004. The University does not anticipate that this statement will have a material effect on its financial statements.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of employers subject to governmental accounting standards. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. The University has evaluated the provisions of this statement and determined that it does not apply to its operation. Should the University change its postemployment structure in such a way that it would incur postemployment liabilities, it will adopt the provisions of GASB No. 45, record the appropriate liability, and display that information in the financial statements as required.

Reclassification: Certain reclassifications have been made to the 2005 financial statements to conform to the classifications used in 2004.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 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.

At June 30, 2005 and 2004, the University had petty cash funds totaling \$109,419 and \$134,419, respectively, and deposits as reflected by bank balances as follows:

	<u>2005</u>	<u>2004</u>
Insured, commercial banks	\$ 241,111	\$ 219,587
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	19,578,675	13,877,921
Maintained by Commonwealth of Kentucky	<u>7,499,316</u>	<u>11,703,644</u>
	<u>\$ 27,319,102</u>	<u>\$ 25,801,152</u>

The difference in the cash carrying amount per the statement of net assets and the above bank balances represented items in transit.

As of June 30, 2005, the University had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>< 1</u>	<u>1-5</u>	<u>6-10</u>	<u>11-20</u>
Bond Mutual Funds	\$ 6,176,371	\$ -	\$ -	\$ 5,620,498	\$ 555,873
Money Market Funds	<u>5,319,684</u>	<u>5,319,684</u>	<u>-</u>	<u>-</u>	<u>-</u>
	11,496,055	5,319,684	-	5,620,498	555,873
Equity Mutual Funds	<u>12,354,449</u>				
	<u>\$ 23,850,504</u>				

The University has an investment management agreement with the Morehead State University Foundation, Inc. (Foundation). The Foundation invests the funds with Fidelity Investments (Fidelity). Fidelity serves more than 19 million individual and institutional clients, manages approximately 360 funds and has more than \$1 trillion in assets under management.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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.

NOTE 3 - ACCOUNTS, GRANTS AND LOANS RECEIVABLE

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

	<u>2005</u>	<u>2004</u>
Student tuition and fees	\$ 672,576	\$ 661,112
Student loans	3,609,064	3,756,371
Grants and contracts	5,010,079	4,012,627
Auxiliary enterprises	915,573	651,855
Other	<u>128,413</u>	<u>28,904</u>
	10,335,705	9,110,869
Allowance for doubtful accounts	<u>(630,086)</u>	<u>(621,409)</u>
	9,705,619	8,489,460
Current portion	<u>6,122,547</u>	<u>4,871,729</u>
Noncurrent portion	<u>\$ 3,583,072</u>	<u>\$ 3,617,731</u>

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 4 - CAPITAL ASSETS, NET

Capital assets as of June 30, 2005, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 11,718,989	\$ 822,413	\$ -	\$ 12,541,402
Buildings	155,730,257	2,664,966	-	158,395,223
Library books	16,272,598	972,916	-	17,245,514
Vehicles	1,885,797	241,818	58,933	2,068,682
Equipment and livestock	32,004,551	1,054,218	661,715	32,397,054
Datatel		3,874,520	57,226	3,817,294
Art collection	66,075		-	66,075
Construction in progress	<u>9,552,322</u>	<u>3,268,533</u>	<u>-</u>	<u>12,820,855</u>
	227,230,589	12,899,384	777,874	239,352,099
 <u>Accumulated Depreciation</u>				
Land improvements	3,986,169	305,569	-	4,291,738
Buildings	67,560,245	3,013,008	-	70,573,253
Library books	12,376,335	796,433	-	13,172,768
Vehicles	1,410,228	150,507	43,104	1,517,631
Datatel		91,903	-	91,903
Equipment and livestock	<u>25,810,304</u>	<u>1,455,985</u>	<u>642,994</u>	<u>26,623,295</u>
	<u>111,143,281</u>	<u>5,813,405</u>	<u>686,098</u>	<u>116,270,588</u>
 Capital assets, net	 <u>\$ 116,087,308</u>	 <u>\$ 7,085,979</u>	 <u>\$ 91,776</u>	 <u>\$ 123,081,511</u>

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 4 - CAPITAL ASSETS, NET (Continued)

Capital assets as of June 30, 2004, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 11,258,714	\$ 460,275	\$ -	\$ 11,718,989
Buildings	152,581,607	3,148,650	-	155,730,257
Library books	15,264,059	1,008,539	-	16,272,598
Vehicles	1,906,165	136,509	156,877	1,885,797
Equipment and livestock	31,285,802	1,088,426	369,677	32,004,551
Art collection	66,075	-	-	66,075
Construction in progress	<u>3,332,010</u>	<u>6,220,312</u>	<u>-</u>	<u>9,552,322</u>
	215,694,432	12,062,711	526,554	227,230,589
 <u>Accumulated Depreciation</u>				
Land improvements	3,692,997	293,172	-	3,986,169
Buildings	64,679,945	2,880,300	-	67,560,245
Library books	11,622,649	753,686	-	12,376,335
Vehicles	1,398,434	168,671	156,877	1,410,228
Equipment and livestock	<u>24,459,479</u>	<u>1,685,640</u>	<u>334,815</u>	<u>25,810,304</u>
	<u>105,853,504</u>	<u>5,781,469</u>	<u>491,692</u>	<u>111,143,281</u>
 Capital assets, net	 <u>\$ 109,840,928</u>	 <u>\$ 6,281,242</u>	 <u>\$ 34,862</u>	 <u>\$ 116,087,308</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>2005</u>	<u>2004</u>
Payable to vendors and contractors	\$ 5,029,173	\$ 1,682,370
Accrued vacation	1,701,333	1,622,457
Accrued salaries and other liabilities	<u>5,396,232</u>	<u>2,818,722</u>
	<u>\$ 12,126,738</u>	<u>\$ 6,123,549</u>

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 6 - DEFERRED REVENUE

Deferred revenue, consisting of unearned grants and contracts, was \$1,997,712 and \$1,707,294 as of June 30, 2005 and 2004, respectively.

NOTE 7 - LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2005, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Housing and Dining System Revenue Bonds	\$ 21,065,000	\$ -	\$ 1,635,000	\$ 19,430,000	\$ 1,610,000	\$ 17,820,000
Consolidated Educational Building Revenue Bonds	14,460,000	-	5,585,000	8,875,000	1,210,000	7,665,000
Capital lease obligations	1,889,783	5,698,519	470,243	7,118,059	637,149	6,480,910
Notes payable	<u>460,000</u>	<u>-</u>	<u>110,000</u>	<u>350,000</u>	<u>110,000</u>	<u>240,000</u>
Total bonds, notes and capital lease obligations	37,874,783	5,698,519	7,800,243	35,773,059	3,567,149	32,205,910
Federal refundable grants	<u>4,843,063</u>	<u>22,631</u>	<u>-</u>	<u>4,865,694</u>	<u>-</u>	<u>4,865,694</u>
Total long-term liabilities	<u>\$ 42,717,846</u>	<u>\$ 5,721,150</u>	<u>\$ 7,800,243</u>	<u>\$ 40,638,753</u>	<u>\$ 3,567,149</u>	<u>\$ 37,071,604</u>

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 7 - LONG-TERM LIABILITIES (Continued)

Long-term liabilities at June 30, 2004, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Housing and Dining System Revenue Bonds	\$ 18,355,000	\$ 4,270,000	\$ 1,560,000	\$ 21,065,000	\$ 1,635,000	\$ 19,430,000
Consolidated Educational Building Revenue Bonds	9,840,000	5,620,000	1,000,000	14,460,000	5,585,000	8,875,000
Capital lease obligations	2,361,760	-	471,977	1,889,783	427,364	1,462,419
Notes payable	<u>570,000</u>	<u>-</u>	<u>110,000</u>	<u>460,000</u>	<u>110,000</u>	<u>350,000</u>
Total bonds, notes and capital lease obligations	31,126,760	9,890,000	3,141,977	37,874,783	7,757,364	30,117,419
Federal refundable grants	<u>4,843,063</u>	<u>-</u>	<u>-</u>	<u>4,843,063</u>	<u>-</u>	<u>4,843,063</u>
Total long-term liabilities	<u>\$ 35,969,823</u>	<u>\$ 9,890,000</u>	<u>\$ 3,141,977</u>	<u>\$ 42,717,846</u>	<u>\$ 7,757,364</u>	<u>\$ 34,960,482</u>

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

	<u>2005</u>	<u>2004</u>
2.75 - 5.75% Housing and Dining System Revenue Bonds, Series H, I, N, O, P, Q, and R repayable in annual installments with the final installment due May, 2021	\$ 19,430,000	\$ 21,065,000
2.00 - 5.75% Consolidated Educational Building Revenue Bonds, Series H, I, K, L, and M repayable in annual installments with the final installment due May, 2023	8,875,000	14,460,000
5.00% Capital lease obligation with MSU Foundation, repayable in monthly installments with the final installment due February, 2019	187,780	196,457

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 7 - LONG-TERM LIABILITIES (Continued)

	<u>2005</u>	<u>2004</u>
5.04% Capital lease obligation with a finance corporation, repayable in semi-annual installments with the final installment due January, 2006	\$ 101,757	\$ 196,249
5.00% Note payable to an individual, repayable in annual installments with the final installment due June, 2008	300,000	400,000
5.00% Note payable to an individual, repayable in annual installments with the final installment due June, 2008	50,000	60,000
5.75% Capital lease obligation with MSU Foundation, repayable in monthly installments with the final installment due February, 2012	730,477	821,260
5.00% Capital lease obligation with MSU Foundation, repayable in monthly installments with the final installment due March, 2023	443,822	453,225
4.19% Capital lease obligation with a finance corporation in semi-annual payments with final installment due October, 2019	1,779,704	-
3.58% Capital lease obligation with a finance corporation in semi-annual payments with final installment due June, 2015	3,874,519	-
5.07% Capital lease obligation with a finance corporation, repayable in semi-annual installments, paid off in 2005.	<u> -</u>	<u>222,592</u>
	<u>\$ 35,773,059</u>	<u>\$ 37,874,783</u>

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, 2005 and 2004, the reserve requirements have been fully funded.

The revenue bonds are collateralized by various buildings. The revenues derived from student registration fees and residence hall rental fees are pledged as collateral on the revenue bond issues.

(Continued)

MOREHEAD STATE UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005 and 2004

NOTE 7 - LONG-TERM LIABILITIES (Continued)

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 held under capital lease obligations at June 30:

	<u>2005</u>	<u>2004</u>
Property and equipment	\$ 11,531,463	\$ 3,675,769
Less: accumulated depreciation	<u>3,667,138</u>	<u>2,655,972</u>
	<u>\$ 7,864,325</u>	<u>\$ 1,019,797</u>

The following is a schedule by years of future minimum payments required for the capital lease obligations as of June 30, 2005:

	<u>Capital Leases</u>
Year Ending June 30,	
2006	\$ 935,973
2007	830,099
2008	830,099
2009	830,099
2010	830,099
Thereafter	<u>4,907,592</u>
Total minimum lease payments	9,163,961
Less: amounts representing interest	<u>2,045,902</u>
 Present value of minimum lease payments	 <u>\$ 7,118,059</u>

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 7 - LONG-TERM LIABILITIES (Continued)

The principal and interest repayment requirements relating to the outstanding bonds and notes payable at June 30, 2005, are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,930,000	\$ 1,144,384	\$ 4,074,384
2007	2,850,000	1,037,252	3,887,252
2008	2,575,000	925,067	3,500,067
2009	2,555,000	819,046	3,374,046
2010	2,655,000	718,570	3,373,570
2011-2022	<u>15,090,000</u>	<u>3,431,524</u>	<u>18,521,524</u>
	<u>\$ 28,655,000</u>	<u>\$ 8,075,843</u>	<u>\$ 36,730,843</u>

NOTE 8 - 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 current 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, 2005, 2004 and 2003 were \$3,897,045, \$3,083,878 and \$3,471,705, respectively, equal to the required contributions for each year.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 8 - PENSION PLAN (Continued)

Kentucky Employee Retirement System: Substantially all other full-time University employees are required by law to participate in the Kentucky Employees Retirement System (KERS), a cost sharing multiple-employer, 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 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 employees who contribute 5.0% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 5.89% of current eligible employees' salaries to the KERS through appropriations to the University. University contribution rates are determined by the Kentucky Revised Statute and the Board of Trustees of the Kentucky Retirement Systems each biennium. The University's contributions to KERS for the years ending June 30, 2005, 2004 and 2003 were \$345,384, \$324,810 and \$328,230, 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 Aetna Life Insurance and Annuity Company. Under these plans the employee's contribution is 6.16% of their gross salary and the University's contribution is 7.23% to the retirement company and 6.61% to Kentucky Teachers Retirement System. The University's contributions under these plans for the years ending June 30, 2005, 2004 and 2003 were \$720,501, \$674,800, and \$573,276, respectively, equal to the required contributions for each year.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 9 - 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 \$344,000 and \$535,000 in 2005 and 2004, respectively.

NOTE 10 - CONTINGENCIES AND COMMITMENTS

The University is defendant in various lawsuits. However, University management is of the opinion, based on advice of legal counsel, that the ultimate resolution of these litigation matters will not have a material effect on the financial statements 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, 2005.

The University has made certain commitments related to the completion of various constructions in progress totaling approximately \$2,500,000. Such construction is principally financed by appropriations from the Commonwealth of Kentucky and proceeds from bonds.

NOTE 11 - SELF-INSURANCE PROGRAM

The University maintains a self-insurance program for employees' health and 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, 2005 and 2004 totaled \$4,403,102 and \$5,633,172, respectively.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 12 - RISK MANAGEMENT

The University is exposed to various risks of loss from torts; theft of, damage to, destruction of assets; business interruption; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from theft of, damage to, destruction of assets; business interruption; employee injuries and illnesses; 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 University pays an annual premium to the pool for its workers' compensation insurance coverage. 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.

NOTE 13 - FRIENDS OF KENTUCKY FOLK ART CENTER, INC.

The Friends of Kentucky Folk Art Center, Inc. ("KFAC") provides educational opportunities, benefits and programs to the public to enhance the awareness of and foster an appreciation and understanding of contemporary folk art. Under an operating agreement, the University provides office space and certain administrative services to the KFAC at no charge. 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.

NOTE 14 - SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specifically identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets, and liabilities, that are required by an external party to be accounted for separately. The University has one segment that meets the reporting requirements of GASB Statement No. 35, which is the University Housing and Dining System.

The Housing and Dining System is an organizational unit of the University that manages the University's student dormitory housing units. The gross revenues from the dormitory housing units are pledged for retirement of the Housing and Dining System Revenue Bonds.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 14 - SEGMENT INFORMATION (Continued)

Condensed Statement of Net Assets at June 30:

	2005	2004
	<u>Housing</u>	<u>Housing</u>
	<u>and Dining</u>	<u>and Dining</u>
Assets		
Current assets	\$ 1,178,091	\$ 590,994
Noncurrent assets	3,927,482	4,389,295
Capital assets, net	<u>24,764,955</u>	<u>26,090,015</u>
Total assets	<u>29,870,528</u>	<u>31,070,304</u>
Liabilities		
Current liabilities	1,610,000	1,635,000
Noncurrent liabilities	<u>17,820,000</u>	<u>19,430,000</u>
Total liabilities	<u>19,430,000</u>	<u>21,065,000</u>
Net assets		
Invested in capital, net of related debt	5,334,955	5,025,015
Restricted, expendable	<u>5,105,573</u>	<u>4,980,289</u>
Total net assets	<u>\$ 10,440,528</u>	<u>\$ 10,005,304</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30:

	2005	2004
	<u>Housing</u>	<u>Housing</u>
	<u>and Dining</u>	<u>and Dining</u>
Operating revenues	\$ 6,710,673	\$ 7,036,625
Operating expenses	(4,613,042)	(4,618,305)
Depreciation expense	<u>(841,022)</u>	<u>(779,793)</u>
Operating income	1,256,609	1,638,527
Nonoperating revenue	44,844	35,043
Nonoperating expenses	<u>(866,229)</u>	<u>(925,105)</u>
Excess of revenues over expenses	435,224	748,465
Net assets, beginning of year	<u>10,005,304</u>	<u>9,256,839</u>
Net assets, end of year	<u>\$ 10,440,528</u>	<u>\$ 10,005,304</u>

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 14 - SEGMENT INFORMATION (Continued)

Condensed Statement of Cash Flows for the years ended June 30:

	2005	2004
	<u>Housing</u>	<u>Housing</u>
	<u>and Dining</u>	<u>and Dining</u>
Net cash flows from operating activities	\$ 2,097,631	\$ 2,418,320
Net cash flows from investing activities	506,657	362,453
Net cash flows from capital and related financing activities	<u>(2,017,191)</u>	<u>(2,891,736)</u>
Net increase (decrease) in cash and cash equivalents	587,097	(110,963)
Cash and cash equivalents, beginning of year	<u>590,994</u>	<u>701,957</u>
Cash and cash equivalents, end of year	<u>\$ 1,178,091</u>	<u>\$ 590,994</u>

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Morehead State University Foundation, Inc. (the "Foundation") was incorporated October 22, 1979 as a Corporation under the laws of the Commonwealth of Kentucky. The purpose of the Foundation is to perform all things necessary for the development, growth, expansion and progress of Morehead State University (the "University"), its student body and alumni. Because the Foundation holds significant resources which can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University.

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," which establishes external financial reporting for not-for-profit organizations, including three basic financial statements and the classification of resources into three separate classes of net assets, as follows:

- *Unrestricted* - Net assets which are free of donor-imposed restrictions.
- *Temporarily Restricted* - Net assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the Foundation pursuant to those stipulations.
- *Permanently Restricted* - Net assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time or that can be fulfilled or removed by actions of the Foundation pursuant to those stipulations.

Contributions: Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as additions to temporarily restricted net assets. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted. Amounts received that are designated by the donor for endowment are reported as permanently restricted net assets.

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue.

(Continued)

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Conditional promises to give are not included as contributions until such time as the conditions are substantially met.

Allowance for Doubtful Pledges: The allowance for doubtful pledges is established through a provision for doubtful pledges 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: The Foundation values investments at fair value based on quoted market prices.

Property and Equipment: Property and equipment are stated at cost for purchased assets and at fair value at date of donation in the case of gifts. Expenditures, which increase values or extend useful lives of the respective assets, are capitalized, whereas 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.

Estimated lives used for depreciation purposes are as follows:

<u>Classification</u>	<u>Estimated Life</u>
Buildings	50 years
Vehicles	5 years
Furniture and equipment	5 years

Annuities Payable: The carrying amount of annuities payable is the present value of the income distributions or other payments to the donor or other designated beneficiaries during the term of the agreement.

Funds Held in Trust for Morehead State University: The Foundation is the custodian of funds owned by Morehead State University (MSU) 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 there from to be remitted annually to MSU. As of June 30, 2005 and 2004, the Foundation held \$11,329,598 and \$9,478,598, respectively, for MSU's investment purposes.

Income Taxes: Pursuant to determination by the Internal Revenue Service, the Foundation is exempt from federal income tax under Section 501(c) 3 of the Internal Revenue Code.

(Continued)

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk: At various times throughout the fiscal year, the Foundation had in excess of \$100,000 on deposit with a financial institution whose deposits are federally insured up to \$100,000.

Use of Estimates: Financial statements prepared in conformity with accounting principles generally accepted in the United States of America require 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.

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, 2005 and 2004 include in-kind contributions of \$320,513 and \$918,467, respectively.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

NOTE 2 - INVESTMENTS

Investments at June 30, 2005 and 2004 are summarized as follows:

	<u>2005</u>	<u>2004</u>
Money market investments	\$ 389,231	\$ 250,296
Certificates of deposit	1,033,805	1,013,287
Mutual funds	22,647,057	18,907,946
Corporate bonds and stocks	36,394	34,586
Annuity investment	<u>109,561</u>	<u>106,060</u>
Total investments at fair value	<u>\$ 24,216,048</u>	<u>\$ 20,312,175</u>

(Continued)

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005 and 2004

NOTE 3 - PLEDGES RECEIVABLE

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

Year ended June 30		
2006	\$	720,654
2007		523,850
2008		239,384
2009		148,850
2010		62,751
Thereafter		<u>63,132</u>
		1,758,621
Less: present value discount		(75,084)
Less: allowance for uncollectible pledges		<u>(175,862)</u>
Net pledges receivable		1,507,675
Less: current pledges		<u>720,654</u>
Noncurrent pledges	\$	<u><u>787,021</u></u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment as June 30, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Land	\$ 327,560	\$ 327,560
Furniture and equipment	81,275	58,501
Buildings	<u>228,204</u>	<u>212,440</u>
	637,039	598,501
Less: accumulated depreciation	<u>(49,215)</u>	<u>(36,167)</u>
	<u><u>\$ 587,824</u></u>	<u><u>\$ 562,334</u></u>

(Continued)

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005 and 2004

NOTE 5 - 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 with donor donating premiums on policies to the Foundation. There were a total of twenty-one and twenty-two deferred giving programs with life insurance in effect totaling \$665,000 and \$690,000 for the years ended June 30, 2005 and 2004, respectively. The cash surrender value of the policies as of June 30, 2005 and 2004 is \$86,538.

NOTE 6 - SUPPORT OF 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 on the statements of activities.

NOTE 7 - LEASE FINANCING RECEIVABLE

The Foundation's net investment in the direct financing leases of real estate as of June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Total minimum lease payments to be received	\$ 2,063,265	\$ 2,236,875
Less: unearned income	<u>(694,970)</u>	<u>(765,945)</u>
Net investment in direct financing leases	<u>\$ 1,368,295</u>	<u>\$ 1,470,930</u>

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

2006	\$ 200,725
2007	200,725
2008	200,725
2009	200,725
2010	163,728
Thereafter	<u>1,096,637</u>
	<u>\$ 2,063,265</u>

(Continued)

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 8 - NET ASSETS

Temporarily restricted net assets are available at June 30, 2005 and 2004 for the following purposes:

	<u>2005</u>	<u>2004</u>
Funds restricted for specific purposes	\$ 2,077,794	\$ 985,573
Scholarships	329,369	372,534
Athletics	<u>201,018</u>	<u>174,090</u>
	<u>\$ 2,608,181</u>	<u>\$ 1,532,197</u>

Permanently restricted net assets at June 30, 2005 and 2004 consist of endowment funds.

NOTE 9 - RELATED PARTY TRANSACTIONS

Transactions with Morehead State University (MSU) include direct financing leases and support to MSU as set forth in Notes 6 and 7.

SUPPLEMENTAL INFORMATION

MOREHEAD STATE UNIVERSITY
SCHEDULE OF BONDS, NOTES AND OTHER LONG-TERM PAYABLES
June 30, 2005

	Issue Date	Net Amount of Issue	Interest Rate	Outstanding June 30, 2004	Bonds Retired 2004-05	New Issues	Outstanding June 30, 2005	Interest Paid 2004-05	Debt Service Requirements 2005-06	
									Principal	Interest
Housing and Dining System										
Revenue Bonds:										
Series H	11/01/66	\$ 1,840,000	3.75	\$ 85,000	\$ 85,000	\$ -	\$ -	\$ 1,594	\$ -	\$ -
Series I	11/01/66	3,920,000	3.00	355,000	175,000	-	180,000	5,325	180,000	2,700
Series N	06/01/00	4,790,000	5.0-5.75	4,345,000	165,000	-	4,180,000	118,764	170,000	224,861
Series O	06/01/00	4,625,000	5.0-5.25	3,490,000	460,000	-	3,030,000	89,578	490,000	143,660
Series P	07/01/01	5,125,000	2.75-4.9	4,560,000	190,000	-	4,370,000	99,345	195,000	188,720
Series Q	04/16/03	4,485,000	3.25	4,120,000	395,000	-	3,725,000	64,388	405,000	110,850
Series R	06/01/03	<u>4,270,000</u>	3.682	<u>4,110,000</u>	<u>165,000</u>	-	<u>3,945,000</u>	<u>69,465</u>	<u>170,000</u>	<u>133,933</u>
Total housing and dining system		<u>29,055,000</u>		<u>21,065,000</u>	<u>1,635,000</u>	-	<u>19,430,000</u>	<u>448,459</u>	<u>1,610,000</u>	<u>804,724</u>
Consolidated Educational										
Building Revenue Bonds:										
Series K	12/01/01	7,055,000	5.5-5.75	4,465,000	4,465,000	-	-	281,051	-	-
Series L	12/01/01	4,875,000	5.5-5.75	4,375,000	705,000	-	3,670,000	85,955	740,000	147,588
Series M	01/01/04	<u>5,620,000</u>	2.0-3.3625	<u>5,620,000</u>	<u>415,000</u>	-	<u>5,205,000</u>	<u>83,561</u>	<u>470,000</u>	<u>158,822</u>
Total educational buildings		<u>17,550,000</u>		<u>14,460,000</u>	<u>5,585,000</u>	-	<u>8,875,000</u>	<u>450,567</u>	<u>1,210,000</u>	<u>306,410</u>
Lease Purchase Agreements:										
G. E. Capital	01/26/01	828,494	5.07	222,592	222,592	-	-	8,499	-	-
G. E. Capital	01/26/01	457,000	5.04	196,249	94,492	-	101,757	9,891	101,757	3,818
MSU Foundation, Inc	03/01/99	240,000	5.0	196,457	8,677	-	187,780	10,251	9,379	9,549
MSU Foundation, Inc	07/15/02	990,000	5.25	821,260	90,783	-	730,477	39,001	95,428	34,356
MSU Foundation, Inc	10/21/02	466,457	9.4	453,225	9,403	-	443,822	42,610	10,325	41,687
Citi Mortgage, Inc	03/31/05	1,824,000	4.19	-	44,296	1,824,000	1,779,704	38,213	91,696	73,622
Suntrust Bank, Inc	06/15/05	<u>3,874,522</u>	3.58	-	-	<u>3,874,519</u>	<u>3,874,519</u>	-	<u>328,564</u>	<u>135,792</u>
Total lease purchase agreements		<u>8,680,473</u>		<u>1,889,783</u>	<u>470,243</u>	<u>5,698,519</u>	<u>7,118,059</u>	<u>148,465</u>	<u>637,149</u>	<u>298,824</u>

(Continued)

MOREHEAD STATE UNIVERSITY
 SCHEDULE OF BONDS, NOTES AND OTHER LONG-TERM PAYABLES
 June 30, 2005

	Issue Date	Net Amount of Issue	Interest Rate	Outstanding June 30, 2004	Bonds Retired 2004-05	New Issues	Outstanding June 30, 2005	Interest Paid 2004-05	Debt Service Requirements 2005-06	
									Principal	Interest
Notes payable:										
Fred White	06/01/01	\$ 700,000	9.5	\$ 400,000	\$ 100,000	\$ -	\$ 300,000	\$ 38,000	\$ 100,000	\$ 28,500
Freddie White	06/01/01	90,000	9.5	60,000	10,000	-	50,000	5,700	10,000	4,750
Total notes payable		<u>790,000</u>		<u>460,000</u>	<u>110,000</u>	<u>-</u>	<u>350,000</u>	<u>43,700</u>	<u>110,000</u>	<u>33,250</u>
Total		<u>\$ 56,075,473</u>		<u>\$ 37,874,783</u>	<u>\$ 7,800,243</u>	<u>\$ 5,698,519</u>	<u>\$ 35,773,059</u>	<u>\$ 1,091,191</u>	<u>\$ 3,567,149</u>	<u>\$ 1,443,208</u>

MOREHEAD STATE UNIVERSITY
SCHEDULE OF HOUSING SYSTEM
REVENUES AND EXPENDITURES
Year ended June 30, 2005

REVENUES

Housing fees	\$ 6,710,673
Interest income	<u>44,844</u>
	6,755,517

OPERATING EXPENDITURES

Residence hall grants	116,137
Maintenance and IT allocations	2,247,879
Residence hall services	1,005,009
Student housing	821,277
Telephone	283,573
Married student housing	<u>139,167</u>
	<u>4,613,042</u>

REVENUES IN EXCESS OF
OPERATING EXPENDITURES

2,142,475

DEBT SERVICE EXPENDITURES

Principal	1,635,000
Interest	<u>866,229</u>
	<u>2,501,229</u>

DEFICIENCY OF REVENUES OVER EXPENDITURES

\$ (358,754)

MOREHEAD STATE UNIVERSITY
SCHEDULE OF BOND RESERVES
June 30, 2005

	Sinking Fund	Housing and Dining System Debt Service Reserve Fund	Repair Fund	Consolidated Educational Building Bonds	Totals
Balances, beginning of year	\$ -	\$ 2,492,194	\$ 487,129	\$ 1,688,635	\$ 4,667,958
Receipts and other additions:					
Transfers, net	6,414,032	-	75,886	175,675	6,665,593
Income from investments	<u>284</u>	<u>38,294</u>	<u>7,644</u>	<u>46,317</u>	<u>92,539</u>
Total available funds	6,414,316	38,294	83,530	221,992	6,758,132
Disbursements and other deductions:					
Transfers, net	-	19,229	-	-	19,229
Redemption of bonds	5,585,000	-	-	-	5,585,000
Payment of interest	675,791	-	-	-	675,791
Administrative fees	<u>44</u>	<u>-</u>	<u>-</u>	<u>3,734</u>	<u>3,778</u>
Total disbursements and other deductions	<u>6,260,835</u>	<u>19,229</u>	<u>-</u>	<u>3,734</u>	<u>6,283,798</u>
Balances, end of year	<u>\$ 153,481</u>	<u>\$ 2,511,259</u>	<u>\$ 570,659</u>	<u>\$ 1,906,893</u>	<u>\$ 5,142,292</u>

MOREHEAD STATE UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Pass Through Number</u>	<u>CFDA #</u>	<u>Grant Period</u>	<u>Grant Amount</u>	<u>Expenditures</u>
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES - NATIONAL INSTITUTE OF HEALTH:					
Direct Programs -					
NIH - Amphetamine		93.279	07/01/02-06/30/05	\$ 115,625	\$ 8,102
Prefront Cortex 03-06		93.242	04/01/03-03/31/06	112,133	42,200
NWP Rural Sites 04		93.570	07/01/03-06/30/04	10,000	<u>10,000</u>
					60,302
Passed through National Youth Sports Program-					
NYSP 2004	RGC-2004-323	93.570	01/01/05-08/31/05	67,000	49,104
Pass through UL Research Foundation -					
INBRE - Mattingly 04-09	2P20RR016481-04	93.389	07/01/04-06/30/05	55,248	55,248
INBRE - White 04-09	2P20RR016481-04	93.385	07/01/04-06/30/05	139,266	136,891
INBRE - DeMoss 04-09	2P20RR016481-04	93.385	06/01/04-06/30/05	155,915	<u>155,915</u>
					348,054
Passed through KBRIN-					
Limbic Structure 03	01-0555AS1	93.389	01/01/03-08/31/03	50,451	747
Passed through Kentucky Cabinet Families And Children -					
STEPS 04-05	M-04210189	93.558	07/01/04-06/30/05	98,080	43,238

(Continued)

MOREHEAD STATE UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Pass Through Number</u>	<u>CFDA #</u>	<u>Grant Period</u>	<u>Grant Amount</u>	<u>Expenditures</u>
Passed Through Eastern Kentucky University -					
Faulkner - PCW 04-05	EKU 04-372	93.648	07/01/03-06/30/04	\$ 8,810	\$ 6,657
Hesterberg - PCW 04-05	EKU 02-276	93.648	07/01/04-06/30/05	9,134	7,488
MSU Training 04-05	EKU 05-302	93.568	07/01/04-06/30/05	83,366	<u>43,008</u>
					57,153
Passed through University of Kentucky Research Foundation -					
Nurse Practitioner 04-05	UKRF 4-63922-01-284	93.247	01/01/01-06/30/04	23,180	17,287
Passed through Kentucky Seniors Saving Medicare -					
Kentucky Medicare 04-05	RGC 2003-03	93.048	07/01/04-06/30/05	19,610	19,610
Passed through Council on Postsecondary Education -					
Adult Ed Acad 01-04	RGC 2000-01-238	93.652	07/01/01-06/30/05	597,692	1,071
Adult Ed Acad 04-05	M-04241268	93.652	07/01/04-06/30/05	273,744	<u>221,533</u>
					<u>222,604</u>
Total United States Department of Health and Human Services					<u>818,099</u>

(Continued)

MOREHEAD STATE UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2005

Federal Grantor/Pass Through Grantor/Program Title	Pass Through Number	CFDA #	Grant Period	Grant Amount	Expenditures
UNITED STATES DEPARTMENT OF EDUCATION:					
Direct Programs -					
Student Financial Aid Cluster					
Federal Work Study		84.033	07/01/04-06/30/05	\$ 972,877	\$ 697,093
Pell Grant Program		84.063	07/01/04-06/30/05	11,470,392	11,470,392
SEOG		84.007	07/01/04-06/30/05	329,371	410,933
Perkins Loan Program		84.038	07/01/04-06/30/05	801,680	3,609,064
Federal Direct Loans		84.268	07/01/04-06/30/05	23,784,004	<u>23,784,004</u>
					39,971,486
TRIO Cluster					
CEOC - NE 04-05		84.066	09/01/04-08/31/05	436,418	314,611
CEOC - NE 99-04		84.066	09/01/99-08/31/04	1,068,371	82,690
CEOC - SE 02-04		84.066	09/01/02-08/31/05	190,000	204,581
Student Support Services 01-03		84.042	09/01/01-08/31/04	259,507	291,840
Talent Search 02-04		84.044	09/01/02-08/31/04	410,941	420,022
Talent Search II 02-03		84.044	09/01/02-08/31/04	288,500	251,528
Upward Bound 00-05		84.047	06/01/00-05/31/02	1,060,542	473,434
Upward Bound 05-06		84.047	06/01/05-05/31/06	577,357	120,495
Upward Bound Math/Science 99-03		84.047	09/01/99-08/31/03	629,180	118,461
Upward Bound Math/Science 04-05		84.047	09/01/04-08/31/05	222,916	150,200
Upward Bound East 03-04		84.047	09/01/03-08/31/04	544,248	<u>298,570</u>
					2,726,432
PT-3 Grant 00-04		84.342	06/01/00-08/31/04	489,489	24,002
Gear-up IRAPP 00-04		84.334	09/15/00-09/14/04	2,338,947	<u>1,892,064</u>
					44,613,984

(Continued)

MOREHEAD STATE UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Pass Through Number</u>	<u>CFDA #</u>	<u>Grant Period</u>	<u>Grant Amount</u>	<u>Expenditures</u>
Passed through National Writing Project Corp. -					
National Writing Project 03-04	94KY07	84.298	07/01/03-06/30/04	\$ 38,000	\$ 2,061
National Writing Project 04-05	94KY07	84.298	07/01/04-06/30/05	43,000	43,000
NWP Rural Voice 03-04	RCG2002-03-088	84.298	07/01/03-06/30/04	10,000	<u>54</u>
					45,115
Passed through Kentucky Educational Development Corp -					
Learning Comm. 03-04	RCG03-04-071	84.215	11/01/03-06/30/04	18,468	12,148
Passed through Kentucky Postcouncil on Secondary Education -					
Kentucky GearUp 04-05	M-04577025	84.334	09/15/04-09/14/05	339,232	248,164
Kentucky GearUp 01-02	RCG 2001-03-024	84.334	09/15/01-09/14/02	158,320	138,800
CCLD - Region 8 04-05	X402962	84.048	05/01/04-04/30/05	66,000	41,869
Collaborative 99-03	01-31-415-WBLD-B402	84.048	01/01/99-06/30/03	196,000	13,176
College Ticket 04-05	RGC 2003-04-058	84.048	04/01/04-06/30/05	70,000	78,453
Senior Conference 2005	M-05175582	84.048	05/25/05-07/15/05	22,000	<u>15,179</u>
					535,641
Passed through Kentucky Cabinet for Health Services -					
First Steps 04-05	M-04123288	84.181	07/01/04-06/30/05	123,903	122,854
First Steps 03-04	M-03111301	84.181	07/01/03-06/30/04	118,176	<u>398</u>
					123,252

(Continued)

MOREHEAD STATE UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Pass Through Number</u>	<u>CFDA #</u>	<u>Grant Period</u>	<u>Grant Amount</u>	<u>Expenditures</u>
Pass through Kentucky Development of Education - First Coach 04-05	M-03207911	84.357	07/15/03-06/30/04	\$ 126,895	\$ 126,657
Passed through Kentucky Workforce Development Cabinet -					
Title Ic - ADN 04-05	M-05015354	84.048	10/01/04-06/30/05	192,611	35,770
Title Ic - IET 04-05	M-05015354	84.048	10/01/04-06/30/05	192,611	32,684
Title Ic - IS 04-05	M-05015354	84.048	10/01/04-06/30/05	192,611	32,370
Field Based 03-04	46204-10Z	84.048	10/01/04-06/30/05	13,253	500
Title Ic - VET 04-05	M-05015354	84.048	10/01/04-06/30/05	192,611	58,334
Title Ic - RS 04-05	M-05015354	84.048	10/01/04-06/30/05	192,611	43,376
					<u>203,034</u>
Passed through Kentucky Department of Education -					
TE-01 Everett 04-05	TE-01	84.048	11/01/04-06/30/05	16,629	7,139
TE-01 Kantrovich 04-05	TE-01	84.048	11/01/04-06/30/05	16,629	2,526
TE-01 Zargari 04-05	TE-01	84.048	11/01/04-06/30/05	16,629	3,719
TE-02 Zargari 05	TE-02	84.048	11/01/04-06/30/05	3,719	3,020
TMP 03-04	M-04641510	84.367	03/15/04-09/30/04	781,950	198,768
FEA Camp 2005	M-05195952	84.048	05/01/05-06/30/05	25,000	13,310
Peterson - KDE 05-06	M-04672952	84.367	02/01/05-06/30/06	37,800	28,460
SHIPP 05	M-05026709	84.048	03/01/05-06/30/05	5,000	1,600
					<u>258,542</u>
Passed through Department for Voc. Rehab -					
CDP Rehabilitation Center 04-06	M-04106347	84.126	07/01/04-06/30/06	1,343,032	560,657

(Continued)

MOREHEAD STATE UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Pass Through Number</u>	<u>CFDA #</u>	<u>Grant Period</u>	<u>Grant Amount</u>	<u>Expenditures</u>
Passed through Murray State University - Education Center 02-03	OSP 2003-014	84.215	07/01/02-12/30/04	\$ 41,000	\$ 9,539
Reading River 04-05	OSP 2004-185	84.367	04/01/04-06/30/05	58,920	<u>22,948</u>
					32,487
Passed through University of Kentucky - CCLD-MSU 04-05	X402961	84.048	06/01/04-05/31/05	66,000	67,115
Passed through Collaborative Center for Literary Development - CCLD 02-04	2002-2004	84.048	09/01/02-08/31/04	79,242	7,383
Passed through Western Kentucky University - Teacher Quality 03-04	WKURF 543604-04-13	84.336	07/01/03-09/30/05	75,807	19,403
Teacher Quality 04-05	WKURF 543604-05-22	84.336	07/01/04-12/31/05	78,198	<u>49,956</u>
					<u>69,359</u>
Total United States Department of Education					<u>46,655,374</u>
UNITED STATES DEPARTMENT OF LABOR:					
Passed through TENCO Workforce Investment Board-					
Today's Youth 03-04	FY04-5245	17.250	07/01/03-06/30/04	159,453	25
Today's Youth 04-05	FY05-5245	17.255	07/01/04-06/30/05	145,471	<u>128,750</u>
Total United States Department of Labor					<u>128,775</u>

(Continued)

MOREHEAD STATE UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Pass Through Number</u>	<u>CFDA #</u>	<u>Grant Period</u>	<u>Grant Amount</u>	<u>Expenditures</u>
APPALACHIAN REGIONAL COMMISSION:					
Passed through University of Kentucky Research Foundation - MECN-IRAPP 04					
	UKRF 4-67886-04-437	23.011	10/01/04-12/31/04	\$ 3,000	\$ 1,668
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:					
Direct Programs - RSVP 03-06					
		94.002	07/01/03-06/30/06	99,020	96,781
Passed through Kentucky Cabinet for Families and Children -					
	Promise Corps 03-04	M-03190456	94.006	254,113	36,203
	Promise Corps 04-05	M-04185843	94.006	180,000	<u>385,807</u>
					<u>422,010</u>
Total Corporation for National Service					<u>518,791</u>
NATIONAL ENDOWMENT FOR THE HUMANITIES:					
Passed through Natural Endowment for the Humanities -					
	The Coopers 05	2005-027	45.129	1,075	1,075

(Continued)

MOREHEAD STATE UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Pass Through Number</u>	<u>CFDA #</u>	<u>Grant Period</u>	<u>Grant Amount</u>	<u>Expenditures</u>
UNITED STATES DEPARTMENT OF AGRICULTURE:					
Direct Programs -					
Distance Learning 05		10.855	01/01/05-12/31/06	\$ 499,153	\$ 281,283
USDA 03-05		10.769	10/01/03-09/30/05	162,729	<u>82,023</u>
					363,306
Passed through Kentucky Department of Education -					
Up Bound Food 02	103-X30-999-SU	10.558	06/01/02-07/14/02	41,816	<u>21,045</u>
Total United States Department of Agriculture					<u>384,351</u>
DEPARTMENT OF HOUSING/ URBAN DEVELOPMENT:					
Direct Programs -					
COPC 02-05		14.511	10/01/02-09/30/05	399,999	83,956
Passed through Hazard Community and Technical College -					
Youthbuild IRAPP 04-06	RCG 2005	14.243	09/01/04-08/31/06	30,000	<u>27,463</u>
Total Department of Housing/ Urban Development					<u>111,419</u>

(Continued)

MOREHEAD STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Pass Through Number</u>	<u>CFDA #</u>	<u>Grant Period</u>	<u>Grant Amount</u>	<u>Expenditures</u>
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION:					
Direct Programs -					
NASA 03-04		43.001	10/01/03-08/31/04	\$ 447,000	\$ 156,032
Passed through Western Kentucky University -					
NASA Travel 03-04	WKU513105-03-04	43.001	10/01/03-08/31/04	447,000	1,000
NASA Travel 04-05	WKURF-516108-05-23	43.001	07/01/04-06/30/05	1,000	1,000
Kentucky Earth 01-04	WKU 521751-01-01	43.001	04/01/01-03/31/04	25,350	5,298
Stellar Workshop 02-03	WKU 516106-03-06	43.001	07/01/02-06/30/03	7,871	2,256
Solar Physics 03-04	WKURF-516107-04-16	43.001	07/01/03-06/30/04	6,000	2,986
					<u>12,540</u>
Total National Aeronautics and Space Administration					<u>168,572</u>
NATIONAL SCIENCE FOUNDATION:					
Direct Programs -					
NSF Jerde 04-07		47.050	08/01/04-07/31/07	263,400	223,887
NSF-Wangsaputra 04-06		47.076	08/01/04-06/30/05	94,992	71,985
CSMS 03-07		47.076	09/01/03-08/31/07	398,757	60,204
					<u>356,076</u>
Passed through University of Kentucky Research Foundation -					
Planetary Neb. 02-04	UKRF 2001-02-086	47.076	04/01/02-11/30/04	21,829	596
AMSP 02-04	4-66358-03-191	47.076	10/01/02-09/30/06	628,378	148,045
					<u>148,641</u>

(Continued)

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*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated September 26, 2005.

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.



Crowe Chizek and Company LLC

Louisville, Kentucky
September 26, 2005



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND 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 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, 2005. The University's major federal programs are identified in the summary of auditor's 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, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 05-01 through 05-04.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted certain matters related to the University's internal control over compliance which are described in the accompanying schedule of findings and questioned costs as items 05-01 through 05-04.

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.



Crowe Chizek and Company LLC

Louisville, Kentucky
September 26, 2005

MOREHEAD STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Morehead State University.
2. No instances of noncompliance material to the financial statements of Morehead State University were disclosed during the audit.
3. No reportable conditions were reported relative to a major federal award program.
4. The auditors' report on compliance for the major federal award programs for Morehead State University expresses an unqualified opinion.
5. There were audit findings relative to the major federal award programs identified as findings 05-01 through 05-04.
6. Major programs identified:

Student Financial Aid Cluster:

- Federal Pell Grants, CFDA 84.063
- Federal Work Study, CFDA 84.033
- Federal Supplemental Educational Opportunity Grants, CFDA 84.007
- Federal Perkins Loans, CFDA 84.038
- Federal Direct Loan Program, CFDA 84.268

TRIO Cluster:

- Upward Bound, CFDA 84.047
- Talent Search, CFDA 84.044
- Educational Opportunity Center, CFDA 84.066
- Student Support Services, CFDA 84.042
- Gear-Up IRAPP 00-04, CFDA 84.334
- KY Gear Up 04-05, CFDA 84.334

7. The threshold for distinguishing Types A and B programs was \$670,079.
8. Morehead State University was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

(Continued)

MOREHEAD STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2005

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD AUDIT

See findings 05-01 through 05-04.

D. CORRECTIVE ACTION PLAN

See findings 05-01 through 05-04.

E. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

See findings 04-01 through 04-03.

MOREHEAD STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
MAJOR FEDERAL AWARDS
June 30, 2005

FINDING 05-01 - Pell Grant Program (CFDA No. 84.063), Federal Supplemental Education Grant Program (CFDA No. 84.007), Federal Work Study Program (CFDA No. 84.033), Perkins Loan Program (CFDA No. 84.038) and Federal Direct Loan Program (CFDA No. 84.268)

Criteria: Per the federal regulations, a school must still complete a Return calculation in order to determine whether the student is eligible for a post-withdrawal disbursement. The University must also include all aid to which the student was eligible at the time of withdrawing from the institution, but not yet disbursed, in the return calculation to determine if a post-withdrawal is necessary.

Condition: During our review of Return of Title IV calculations and inquiries with management, we noted that the University is not preparing a return calculation if the student withdrew past the 60% point of the semester and any aid not disbursed is cancelled in the University's financial aid system. Due to the procedures currently in place at the institution, we noted that the return calculation for one student in our sample of twenty, who officially withdrew during the current year, did not contain the loans for which he was eligible as aid that could have been disbursed. As a result, there was no post-withdrawal necessary, but the University returned too much to the federal agency than if the funds had been included.

Questioned Cost: \$488.80 of Pell Grant returned to the Department of Education in excess of what was required.

Effect: The University's current procedures could result in the return of unnecessary funds to the Department of Education or an oversight of post-withdrawal disbursement.

Cause: The cause of this finding appears to be the current procedures followed by the University. When the financial aid office is notified that a student has withdrawn, all aid that has not yet been disbursed is immediately cancelled. At this point, when the business office reviews the student's account for aid disbursed to include in the return calculation, loan funds have been cancelled and therefore, are ignored during the preparation of the return calculation.

Recommendation: We recommend that the University review its current procedures and make the necessary changes to ensure the accurate completion of all Return of Title IV calculations and thus leading to accurate funds submitted back to the federal agency.

Management's Response: We concur with this finding and have developed the Corrective Action Plan listed below.

(Continued)

MOREHEAD STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
MAJOR FEDERAL AWARDS
June 30, 2005

Corrective Action Plan: Beginning Fall 2005, the Assistant Director of Accounting & Budgetary Control for Student Services will review the Title IV financial aid that could have been disbursed prior to the Return to Title IV calculation. She will notify the Office of Financial Aid to reinstate any financial aid that may be necessary. The Assistant Director will continue to perform Return of Title IV calculations past the 60% point of the semester and will include any Title IV aid eligible for disbursement.

FINDING 05-02 - Federal Direct Loan Program (CFDA No. 84.268)

Criteria: According to 34 CFR 685.304(b), students must receive exit counseling prior to leaving the University, if known, and or the required materials mailed to the last known address within 30 days the University becomes aware that a student is no longer attending the institution.

Condition: During our review of exit counseling, we noted that exit counseling for thirteen of the twenty students selected, was not provided to the student in accordance with the federal regulations. The majority of these students consisted of graduates who should have been given this counseling prior to leaving the University.

Effect: The University is not in compliance with the federal regulations concerning exit counseling.

Cause: This finding appears to be the result of insufficient knowledge of the regulation concerning exit counseling.

Recommendation: We recommend that the University review its current procedures over exit counseling and make the necessary changes to ensure the appropriate materials are provided or sent to the borrowers in accordance with the federal regulations.

Management's Response: We concur with this finding and have developed the Corrective Action Plan listed below.

Corrective Action Plan: Beginning Fall 2005, the Office of Financial Aid will obtain anticipated graduation lists from the Registrar's office and exit counseling letters will be sent prior to graduation for the anticipated graduates with Stafford loans. The Office of Financial Aid will send exit counseling letters to students who withdraw within 30 days upon receipt of notification of withdrawal. The Office of Financial Aid will obtain a list of the unofficial withdrawals from the Office of Accounting and Budgetary Control and follow a similar procedure.

(Continued)

MOREHEAD STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
MAJOR FEDERAL AWARDS
June 30, 2005

FINDING 05-03 - Federal Direct Loan Program (CFDA No. 84.268)

Criteria: Per 34 CFR 685.309(b), changes in enrollment to less than half-time, graduated or withdrawn must be reported within 30 days to the National Student Loan Data System (NSLDS). However, if a roster file is expected within 60 days, the University may provide the date on that roster file.

Condition: While testing a sample of students who withdrew or graduated from the University during 2004-2005, we noted that December graduates were not being reported to the NSLDS as graduates but being submitted on the first Spring semester roster as withdrawn if the student did not return to the University. We also noted that students who unofficially withdrew during either semester are not being reported in compliance with the above regulation.

Effect: The University is not in compliance with the federal regulations and submitting inaccurate information to the NSLDS.

Cause: The cause of this finding appears to be insufficient knowledge of the regulation concerning enrollment submission.

Recommendation: We recommend that the University review its current procedures for submitting December graduates and unofficially withdrawals to the NSLDS and make the necessary changes to ensure all enrollment information is accurately submitted and in accordance with federal regulations.

Management's Response: We concur with the finding and have developed the Corrective Action Plan listed below.

Corrective Action Plan: Beginning with the Fall 2005 semester, the Office of Financial Aid will submit a December graduate file to the National Student Clearinghouse prior to the first-of-term file for Spring. The Assistant Director for Student Services will notify the Office of the Registrar, both Fall and Spring semesters, of the unofficial withdraw students receiving Title IV funds in order for these students to be reported in accordance with federal regulations.

(Continued)

MOREHEAD STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
- MAJOR FEDERAL AWARDS
June 30, 2005

FINDING 05-04 - Pell Grant Program (CFDA No. 84.063)

Criteria: Per 34 CFR 668.22(h)(4), a University must notify a student of a Pell overpayment due to the student's withdrawal from the institution. The student then has 45 days from the date of this notification to repay the overpayment in full, sign a repayment schedule with the University or sign an agreement with the Department of Education. If the student does not take positive action during the 45-day period, the University must report the overpayment immediately to the Department. In addition, 34 CFR 668.22(j)(1) states that a school has 30 days from the date the institution determines that a student withdrew to return all unearned funds for which it is responsible.

Condition: During our testing of Return of Title IV calculations, we noted that four students out of the 21 selected for testing incurred a Pell overpayment that was not submitted to the Department in accordance with the regulations. We also noted that Pell overpayments on an additional two students were not returned to the Department and two separate individuals whose funds were returned 30 days from the date the institution determined that they had withdrawn.

Questioned Cost: Two overpayments owed by the University that were not submitted totaled \$701.28 in Pell Grants.

Effect: The University is not in compliance with federal regulations which could adversely affect future funding.

Cause: The cause of this finding appears to be an oversight from the responsible department.

Recommendation: We recommend that the University review its current procedures over return calculations and make the necessary changes to ensure all funds appropriately and timely reported and returned in accordance with federal regulations.

Management's Response: We concur with the finding and have developed the Corrective Action Plan listed below.

Corrective Action Plan: Overpayment information will be submitted to NSLDS by the Assistant Director for Student Services in the Office of Accounting & Budgetary Control immediately upon the end of the 45-day period. The Assistant Director for Student Services in the Office of Accounting & Budgetary Control returned funds to the Department of Education on August 25, 2005, for the two separate students identified in this finding.

MOREHEAD STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2005

FINDING 04-01 - Pell Grant Program (CFDA No. 84.063)

During our testing of 21 students, who withdrew during the 03-04 year, we noted that five resulted in Pell overpayments that were not reported to the NSLDS immediately following the lapse of the 45-day period. (See finding 05-04).

Status: Overpayment information will be submitted to NSLDS by the Assistant Director for Student Services in the Office of Accounting and Budgetary Control immediately upon the end of the 45-day period.

FINDING 04-02 - Student Support Services Program (CFDA No. 84.042)

While testing a sample of 33 expenditures under the Student Support Services Program, we noted that an expenditure for grant funds pertaining to financial assistance for the Spring 2004 semester was recorded in the current fiscal year.

Status: Corrective action has been taken.

FINDING 04-03 - Perkins Loan Program (CFDA No. 84.038)

During our review of 33 students whose Perkins account entered deferment during the 03-04 year, we noted that one of the deferment forms did not contain the required student signature.

Status: Corrective action has been taken.