

KENTUCKY STATE UNIVERSITY
Financial Statements

Years Ended June 30, 2011 and 2010
with Independent Auditors' Report Thereon

CONTENTS

	<u>Pages</u>
Independent Auditors' Report.....	1 - 2
Management's Discussion and Analysis.....	3 - 17
Financial Statements:	
Kentucky State University	
Statements of Net Assets.....	18
Kentucky State University Foundation, Inc.	
Statement of Financial Position.....	19
Kentucky State University	
Statements of Revenues, Expenses and Changes in Net Assets.....	20 - 21
Kentucky State University Foundation, Inc.	
Statement of Activities.....	22
Kentucky State University	
Statements of Cash Flows.....	23 - 24
Kentucky State University	
Notes to the Financial Statements.....	25 - 41
Kentucky State University Foundation, Inc.	
Notes to the Financial Statements.....	41 - 44

DEAN || DORTON || ALLEN || FORD
PLLC

Independent Auditors' Report

Members of the Board of Regents
Kentucky State University
Frankfort, Kentucky

Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

We have audited the accompanying financial statements of Kentucky State University (the University) as of June 30, 2011, and for the year then ended. 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 audit. The financial statements of Kentucky State University as of June 30, 2010, were audited by other auditors whose report dated November 5, 2010, expressed an unqualified opinion on those statements. We did not audit the financial statements of Kentucky State University Foundation, Inc. (the Foundation), an entity included as a component unit as required by Statement No. 39 of the Governmental Accounting Standards Board, as of June 30, 2011 and for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, 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 the University as of June 30, 2011, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

December 16, 2011
Lexington, Kentucky

Weldon Gordon Allen Ford, PLLC

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2011

Introduction

Management's Discussion and Analysis of Kentucky State University's (the University) financial statements provide an overview of the financial position and activities of the University for the year ended June 30, 2011, with comparative information for the year ended June 30, 2010 and selected information for the year ended June 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

Kentucky State University is a Commonwealth of Kentucky coeducational institution for higher education. The University's mission is to build on its legacy of achievement as a historically black, liberal arts, and 1890 land-grant university, afford access to and prepare a diverse student population of traditional and non-traditional students to compete in a multifaceted, ever-changing global society by providing student-centered learning while integrating teaching, research, and service through high-quality undergraduate and select graduate programs. Kentucky State University is committed to keeping relevant its legacy of service by proactively engaging the community in partnerships on civic projects driven by the objective of positively impacting the quality of life of the citizens of the Commonwealth.

Basis of Presentation

The annual financial report and statements include the University and Kentucky State University Foundation, Inc., a component unit of the University. Kentucky State University Foundation, Inc. (the "Foundation") is a not-for-profit Kentucky corporation which was established to receive, invest and expend funds to promote and implement educational and developmental activities at Kentucky State University (the "University"). The Foundation is managed by a Board of Trustees independent from that of the University. The Foundation is supported primarily through contributions from alumni.

Financial Highlights

- The University's financial position at June 30, 2011, reflected total assets of \$133.1 million and total liabilities of \$17.1 million. Total net assets were \$116.0 million. Financial operations were in accordance with revenue expectations and the approved budget plan.
- Total assets increased \$9.7 million or 7.8%, primarily due to increases in student accounts, grant and loans receivables, capital assets and investments. Total liabilities decreased by \$0.9 million, or 4.8% primarily due to a decrease in bond and lease obligations. Total net assets increased \$10.6 million.
- Unrestricted net assets increased \$7.9 million, which the University reserves for spending in programs and other capital-related contingencies.

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, Continued

June 30, 2011

Financial Highlights, Continued

- The University classifies amounts earned on endowments as spendable or non-spendable in accordance with the endowment's donor stipulations. Nonexpendable restricted net assets represent amounts, which must be maintained in perpetuity. Expendable restricted net assets include endowment earnings that are spendable, consistent with the University's spending policy.
- Operating revenues were \$45 million and operating expenditures were \$69.1 million, resulting in a loss from operations of \$24.1 million. Net non-operating revenues were \$34.7 million, including \$25.4 million in state appropriations, which, when combined with the loss from operations and capital appropriations, resulted in an overall increase in net assets of \$10.6 million.

Using the Financial Statements

The University's Financial Statements consist of three financial statements: a Statement of Net Assets (Balance Sheet); a Statement of Revenues, Expenses and Changes in Net Assets (Income Statement); and a Statement of Cash Flows, along with the accompanying Notes to the Financial Statements. These financial statements are 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*.

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

Statements of Net Assets

The Statements of Net Assets present the financial position of the University at the end of the fiscal year and includes all assets and liabilities. Net assets, the difference between total assets and total liabilities, are an important indicator of the current financial condition, while the change in net assets is an indicator of whether the overall financial position has improved or worsened during the year.

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, Continued

June 30, 2011

Condensed Statements of Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Current assets	\$ 38,395,850	\$ 30,819,820	\$ 24,432,068
Noncurrent assets	<u>94,700,547</u>	<u>92,557,670</u>	<u>89,508,514</u>
Total assets	<u>133,096,397</u>	<u>123,377,490</u>	<u>113,940,582</u>
LIABILITIES			
Current liabilities	7,449,319	7,588,173	7,477,804
Noncurrent liabilities	<u>9,667,863</u>	<u>10,393,089</u>	<u>12,329,490</u>
Total liabilities	<u>17,117,182</u>	<u>17,981,262</u>	<u>19,807,294</u>
NET ASSETS			
Invested in capital assets, net of related debt	73,936,126	71,831,353	67,690,461
Restricted			
Nonexpendable	8,594,513	8,048,379	8,110,728
Expendable	5,119,673	5,063,026	4,079,665
Unrestricted	<u>28,328,903</u>	<u>20,453,470</u>	<u>14,252,434</u>
Total net assets	<u>\$ 115,979,215</u>	<u>\$ 105,396,228</u>	<u>\$ 94,133,288</u>

Assets: As of June 30, 2011, total assets amounted to \$133.1 million. Of this amount, investment in capital assets (net of depreciation) of \$83.4 million, or 62.7% of total assets, represented the largest asset class. Investments amounted to \$10.6 million or 8.0% of total assets. During the year, total assets increased by \$9.7 million, primarily due to increases in cash and cash equivalents, student accounts, grant and loans receivables, capital assets and investments.

Liabilities: As of June 30, 2011, total liabilities amounted to \$17.1 million. Long-term debt includes bonds payable for educational buildings, the housing and dining system, energy-related equipment and technology equipment purchased under a Master Lease Agreement. During the year, total liabilities decreased by \$0.9 million, primarily due to a decrease in bonds and capital lease obligations.

Net Assets: Net assets of the University were \$116.0 million at June 30, 2011 and were reported in four net asset categories: invested in capital assets, net of related debt \$73.9 million (63.7%), restricted nonexpendable \$8.6 million (7.4%), restricted expendable \$5.1 million (4.4%), and unrestricted \$28.3 million (24.4%).

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, Continued

June 30, 2011

2010 versus 2009. Total assets amounted to \$123.4 million and \$113.9 million in fiscal year 2010 and 2009 respectively. Total liabilities amount to \$18.0 million in fiscal year 2010 and \$19.8 million in fiscal year 2009. When compared to fiscal year 2009, the University's total assets for fiscal year 2010 increased \$9.5 million primarily in the current asset category due to an increase in student accounts, grant and loans receivables, investments, and capital assets.

Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses and Changes in Net Assets are prepared on 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. All items that increase or decrease net assets must appear on the Statements of Revenues, Expenses and Changes in Net Assets as revenues, expenses, gains or losses.

Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state appropriations, gifts, investment income and endowment income to be classified as nonoperating revenues. Accordingly, the University reports an operating loss prior to the addition of nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition revenue is reduced by gift scholarships and institutional aid, and is reported net of scholarship allowances in the financial statements. A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2011, 2010 and 2009 is as follows:

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, Continued

June 30, 2011

Condensed Statements of Revenues, Expenses and Changes in Net Assets

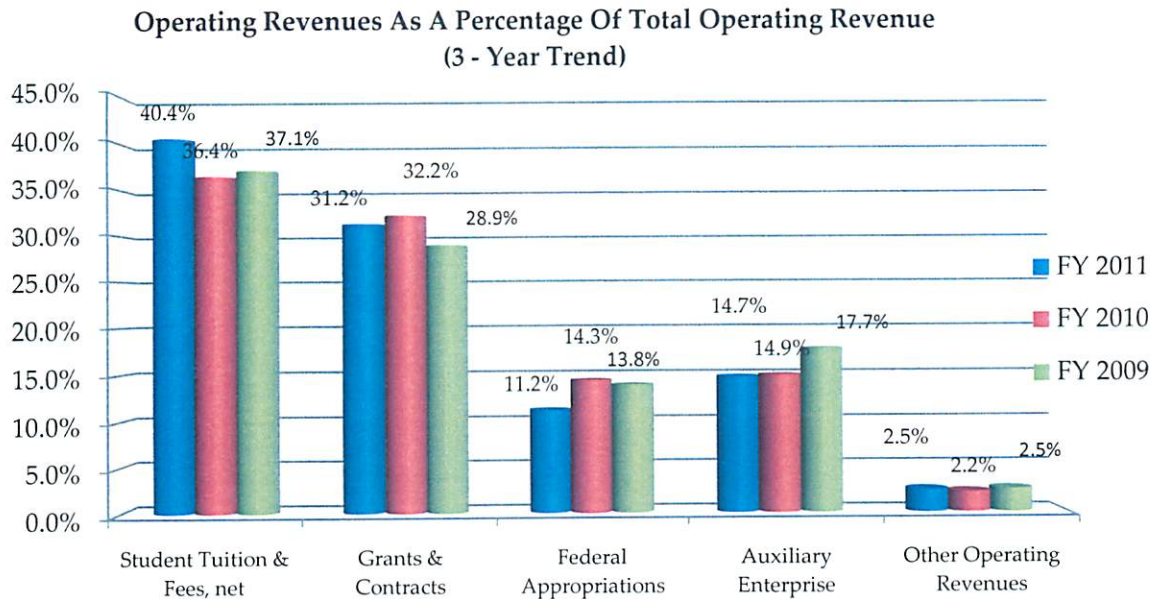
	<u>2011</u>	<u>2010</u>	<u>2009</u>
OPERATING REVENUES			
Student tuition and fees, net	\$ 18,200,942	\$ 16,512,333	\$ 13,328,034
Grants and contracts	14,066,912	14,589,783	10,389,449
Federal appropriations	5,042,652	6,507,463	4,977,599
Auxiliary enterprises	6,618,704	6,745,546	6,356,430
Other operating revenue	<u>1,103,669</u>	<u>1,006,390</u>	<u>909,262</u>
Total operating revenues	45,032,879	45,361,515	35,960,774
OPERATING EXPENSES			
Educational and general	63,647,079	61,873,552	57,103,977
Auxiliary enterprises	<u>5,511,984</u>	<u>5,764,044</u>	<u>5,798,861</u>
Total operating expenses	<u>69,159,063</u>	<u>67,637,596</u>	<u>62,902,838</u>
OPERATING LOSS	(24,126,184)	(22,276,081)	(26,942,064)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	25,363,422	24,630,377	26,435,199
Federal grants and contracts	7,062,876	6,556,989	4,300,478
Gifts	969,703	613,057	548,970
Investment income (loss)	1,789,055	1,158,756	(1,068,877)
Interest on capital asset – related debt	(429,253)	(483,085)	(535,089)
Other	<u>(46,632)</u>	<u>(697,500)</u>	<u>(1,966,265)</u>
Total non-operating revenues	<u>34,709,171</u>	<u>31,778,594</u>	<u>27,714,416</u>
Income before capital appropriations	10,582,987	9,502,513	772,352
Capital appropriations	<u>-</u>	<u>1,760,427</u>	<u>-</u>
Increase in net assets	10,582,987	11,262,940	772,352
Net assets, beginning of year	<u>105,396,228</u>	<u>94,133,288</u>	<u>93,360,936</u>
Net assets, end of year	\$ <u>115,979,215</u>	\$ <u>105,396,228</u>	\$ <u>94,133,288</u>

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, Continued

June 30, 2011

Figure 1



Total operating revenues were \$45.0 million for the year ended June 30, 2011, a decrease of \$328,636 compared to FY10. The primary components were federal, state and local grants and contracts of \$14.1 million (31.2%), student tuition and fees, net of \$18.2 million (40.4%), federal appropriations of \$5 million (11.2%) and auxiliary services and other revenues of \$7.7 million (17.2%). FY11 Student tuition and fees revenue increased \$1,688,609 compared to FY10 due to increased tuition fees and enrollment. FY11 Grants and contracts revenue decreased \$522,871 compared to FY10 due to decreased awards and spending. FY11 Federal appropriations decreased \$1,464,811 compared to FY10. FY11 auxiliary enterprises revenue decreased \$126,842 compared to FY10. Refer to *Figure 1* for the three year trend of the operating revenues as a percent to total operating revenues.

KENTUCKY STATE UNIVERSITY

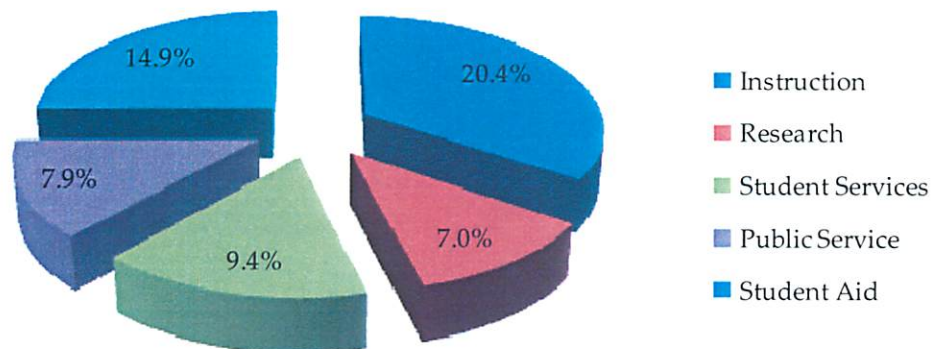
Management's Discussion and Analysis, Continued

June 30, 2011

Operating expenses totaled \$69.1 million, an increase of \$1,521,467 over last year due to an increase in federal grants spending and bad debt. Of this amount, \$41.2 million (59.7%) was expended directly for the primary mission of the University – instruction (20.4%), research (7.0%), student services (9.4%), student aid (14.9%), and public service (7.9%). Instruction is the main component of primary mission expenses amounting to \$14.1 million in fiscal year 2011 or 20.4%. Refer to *Figure 2* for the operating expenses categorized into the primary mission of the University.

Figure 2

Fiscal Year 2011 Primary Mission Expenses as a % of Total Operating Expenses



KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, Continued

June 30, 2011

The University continued to invest in student aid and support services to provide students with opportunities to be successful in fiscal 2011. For the year ended June 30, 2011, student aid related to tuition and fees totaled \$15.2 million, with student aid expenses of \$10.3 million and scholarship allowances of \$4.9 million.

The University had an overall increase in institutional support of \$404 thousand, along with a decrease in auxiliary enterprises of \$252,060. The large expenditures in the primary areas of instruction, research and student services, in conjunction with minimal increases to fixed cost areas, confirms the University resource allocations are clearly aligned with the University's strategic priorities to support academic and student excellence.

The net loss from operations for the year amounted to \$24.1 million. Nonoperating revenues, net of expenses, amounted to \$34.7 million, resulting in an increase in income before capital appropriations of \$10.6 million for the year. After capital appropriations, the increase in net assets was \$10.6 million. Nonoperating revenues include state appropriations of \$25.4 million, federal grants and contracts of \$7.1 million, gifts of \$970 thousand and investment income of \$1.8 million, and other nonoperating loss net of revenue of \$46,632.

2010 versus 2009

Operating revenues in fiscal year 2009 were \$36.0 million and operating expenditures were \$62.9 million, resulting in a loss from operations of \$26.9 million. Net nonoperating revenues were \$27.7 million, including \$26.4 million in state appropriations. Compared to fiscal year 2010, revenue increases have been due to tuition and fee increases, grant and contracts increases, federal appropriations and auxiliary enterprises.

Statements of Cash Flows

The Statements of Cash Flows presents information related to the University's cash inflows and outflows summarized by operating activities, noncapital financing activities, capital financing activities and investing activities. The primary purpose of the Statements of Cash Flows is to provide information about the cash receipts and cash payments made by the University during the year, to allow financial statement readers to assess the University's ability to generate future net cash flows, its ability to meet obligations as they become due and its possible need for external financing.

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, Continued

June 30, 2011

Condensed Statements of Cash Flows

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash (used) provided by:			
Operating activities	\$ (20,655,496)	\$ (17,461,609)	\$ (18,374,044)
Non-capital financing activities	33,349,369	30,885,913	29,325,080
Capital and related financing activities	(7,375,948)	(7,777,980)	(6,781,586)
Investing activities	<u>1,332,846</u>	<u>261,222</u>	<u>466,546</u>
Net increase (decrease) in cash	6,650,771	5,907,546	4,635,996
Cash and cash equivalents at beginning year	<u>22,972,425</u>	<u>17,064,879</u>	<u>12,428,883</u>
Cash and cash equivalents at end of year	\$ <u>29,623,196</u>	\$ <u>22,972,425</u>	\$ <u>17,064,879</u>

Major sources of cash received from operating activities are student tuition and fees of \$17.0 million and grants and contracts of \$18.4 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$36.0 million and to vendors and contractors of \$17.4 million.

Noncapital financing activities included state appropriations from the Commonwealth of Kentucky of \$25.4 million.

Capital and related financing activities include purchases and payments of \$7.4 million expended for construction and acquisition of capital assets and for principal and interest payments on the retirement of the University's bonds and other capital related debt.

Net cash of \$1.3 million was received for conducting investing activities, including purchase and sales of investments, and interest and dividends earned on investments. Investing activity was primarily related to management of the University's endowments.

2010 versus 2009

Compared to fiscal year 2009, the amount of cash used to fund operations has been reduced primarily due to operational efficiencies that have been implemented. Net cash for noncapital financing activities and investment activities remains constant.

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, Continued

June 30, 2011

State Appropriations

State appropriations represent approximately 31.8% of all operating and non-operating revenues. The level of state support is a key factor influencing the University's overall financial condition. State appropriations are unrestricted revenue and is included as non-operating revenue. State appropriations are used to support payroll and benefits for University employees.

The following details the net Commonwealth appropriations received by the University for fiscal years ending June 30, 2011, 2010 and 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Commonwealth appropriations	\$ 25,363,422	\$ 24,630,377	\$ 26,435,199
Federal appropriations	<u>5,042,652</u>	<u>6,507,463</u>	<u>4,977,599</u>
Total appropriations	<u>\$ 30,406,074</u>	<u>\$ 31,137,840</u>	<u>\$ 31,412,798</u>

Capital Appropriations from the Commonwealth

The University faces financial challenges to maintain and upgrade its capital assets including its infrastructure, buildings and grounds. A combination of revenue sources funds the University's investment in capital improvements, including appropriations provided by the Commonwealth of Kentucky. In fiscal year 2011, the Commonwealth provided no capital appropriations to the University. State capital appropriations plus federal sources play an important role in the University's efforts to address deferred maintenance projects.

Grant and Contract Revenue

The following table details the University's operating grant and contract revenue for fiscal years ended June 30, 2011, 2010 and 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Federal grants and contracts	\$ 18,818,044	\$ 18,890,125	\$ 11,941,053
State grants and contracts	2,311,744	2,210,849	2,689,092
Nongovernmental grants and contracts	<u>-</u>	<u>45,798</u>	<u>59,782</u>
Total grants and contracts	<u>\$ 21,129,788</u>	<u>\$ 21,146,772</u>	<u>\$ 14,689,927</u>

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, Continued

June 30, 2011

Capital Plan

In April 2011, the University submitted its Six Year Capital Plan to the Kentucky General Assembly to be acted upon during the 2012 regular session of the General Assembly. This plan included projects separated into three biennia beginning in 2012 and ending 2018. The execution of the University's capital plan is contingent upon sufficient funding from the Commonwealth.

The \$352.4 million request for the first biennium (2012-2014) is comprised of new construction projects, maintenance projects and information technology projects. The University primarily funds its projects from four sources: state general fund appropriations, federal USDA funds, agency funds, and private funding. University-issued bond funding is also available.

New construction projects proposed include: \$9,028,000 to expand or build a new Betty White Nursing Building, which will provide 24,000 square feet of new classroom space to accommodate enrollment into the nursing program; \$46,382,000 to construct a centralized boiler plant to replace the existing seventy year old plant; \$2,206,000 to construct a pedestrian bridge across U.S. 60 to allow students, faculty and staff safe passage across a heavily traveled highway which bisects campus; \$31,528,000 to construct a Business & Technology Center to house the business school and the computer science program; \$96,034,000 to build a Performing Arts Center to replace antiquated Bradford Hall. Maintenance projects include but are not limited to: Roof Repair & Maintenance Pool \$6,500,000 million and a \$2,100,000 Capital Renewal & Maintenance Pool. Information Technology projects include but are not limited to: Integrated Digital Campus \$11,400,000; Expand Emergency Notification System \$4,500,000; Upgrade Information Technology Infrastructure \$6,200,000.

Designated and Nondesignated Spending

In the tables below, expenses have been categorized into designated or nondesignated spending categories. The designated spending category includes funds expended by function from contracts and grants, land grant, auxiliary and depreciation. These funds must be expended for the purposes for which the funds were received or budgeted. This category also includes funds for student aid. All other spending is categorized as nondesignated spending. Expenses for nondesignated fund categories in 2011 increased for research, public service, and institutional support over the prior year and decreased for instruction, academic support, student services and plant operations and maintenance. Total spending for all functions in the nondesignated category decreased by approximately \$87 thousand in 2011.

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, Continued

June 30, 2011

	-----2011-----		
	Designated <u>Spending</u>	Nondesignated <u>Spending</u>	Combined <u>Spending</u>
Instruction	\$ 1,148,878	\$ 12,941,594	\$ 14,090,472
Research	3,318,645	1,500,901	4,819,546
Public service	4,431,031	1,025,014	5,456,045
Academic support	2,336,289	1,695,298	4,031,587
Student services	768,070	5,749,372	6,517,442
Institutional support	1,850,569	8,914,143	10,764,712
Operation and plant maintenance	-	3,428,856	3,428,856
Student aid	9,899,935	402,826	10,302,761
Auxiliary	4,905,720	-	4,905,720
Depreciation	<u>4,841,922</u>	<u>-</u>	<u>4,841,922</u>
Total	\$ <u>33,501,059</u>	\$ <u>35,658,004</u>	\$ <u>69,159,063</u>

	-----2010-----		
	Designated <u>Spending</u>	Nondesignated <u>Spending</u>	Combined <u>Spending</u>
Instruction	\$ 508,407	\$ 13,279,394	\$ 13,787,801
Research	3,853,012	1,241,526	5,094,538
Public service	4,065,303	553,742	4,619,045
Academic support	1,625,724	1,720,385	3,346,109
Student services	651,616	5,492,757	6,144,373
Institutional support	1,823,777	8,536,204	10,359,981
Operation and plant maintenance	283,344	4,457,261	4,740,605
Student aid	9,055,800	463,463	9,519,263
Auxiliary	5,111,449	-	5,111,449
Depreciation	<u>4,914,432</u>	<u>-</u>	<u>4,914,432</u>
Total	\$ <u>31,892,864</u>	\$ <u>35,744,732</u>	\$ <u>67,637,596</u>

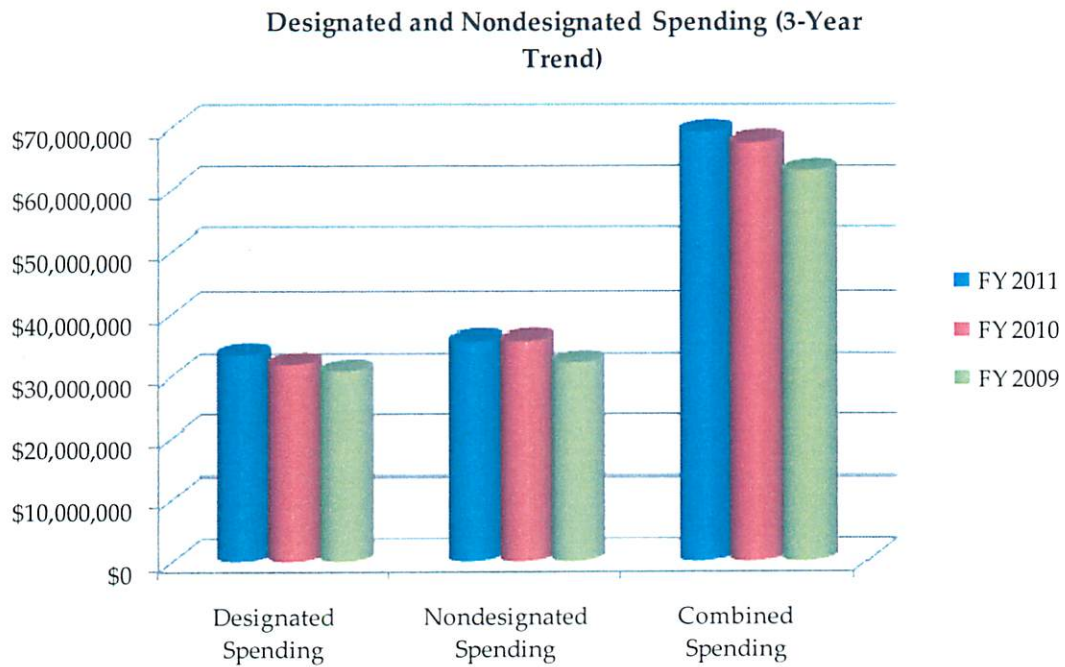
The graph in *Figure 3* shows a three year trend of designated, nondesignated, and combined spending. Nondesignated spending is slightly less than designated spending in FY11. However, designated spending increased \$1.1 million in 2010 and increased \$1.6 million in 2011. Nondesignated spending increased \$3.6 million in 2010 and decreased \$87 thousand in 2011. Overall, the combined spending followed the same trend as designated spending with an increase of \$4.7 million in 2010 and \$1.5 million in 2011.

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, Continued

June 30, 2011

Figure 3



KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, Continued

June 30, 2011

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$83.4 million at June 30, 2011, an increase of \$403,565. Capital assets as of June 30, 2011 and 2010 and significant changes in capital assets during the year are as follows (in millions):

	<u>June 30,</u> <u>2009</u>	Net Additions (Reductions) <u>FY 09-10</u>	<u>June 30,</u> <u>2010</u>	Net Additions (Reductions) <u>FY 10-11</u>	<u>June 30,</u> <u>2011</u>
Land and land improvements	\$ 5.6	-	\$ 5.6	-	\$ 5.6
Buildings, fixed equipment and infrastructure	114.5	27.5	142.0	3.2	145.2
Equipment, vehicles and capitalized software	25.6	2.5	28.1	0.2	28.3
Library materials and art	9.4	0.3	9.7	-	9.7
Construction in progress	26.2	(22.9)	3.3	1.8	5.1
Accumulated depreciation	<u>(100.7)</u>	<u>(5.0)</u>	<u>(105.7)</u>	<u>(4.8)</u>	<u>(110.5)</u>
Total	<u>\$ 80.6</u>	<u>\$ 2.4</u>	<u>\$ 83.0</u>	<u>\$ 0.4</u>	<u>\$ 83.4</u>

At June 30, 2011, the University has capital construction projects in progress totaling \$5.1 million in scope.

Long-Term Debt

At June 30, 2011, bonds and lease payable amounted to \$9.4 million, as summarized below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Lease Obligations	\$ 4,972,861	\$ 5,402,330	\$ 5,927,416
Consolidated Educational Buildings Revenue Bonds	-	935,000	1,825,000
General Receipts Bonds	4,525,000	4,875,000	5,215,000
Bond discount and issue costs	<u>(57,460)</u>	<u>(70,720)</u>	<u>(70,720)</u>
Total	<u>\$ 9,440,401</u>	<u>\$ 11,141,610</u>	<u>\$ 12,896,696</u>

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, Continued

June 30, 2011

Economic Factors Impacting Future Periods

University management continues its strategic mission to uniquely position Kentucky State University as an institution of excellence for the citizens of the Commonwealth and for advancing higher education in Kentucky by inspiring innovation, growing leaders and advancing Kentucky. Executive management continues to work with the Council on Postsecondary Education to address the needs of the Commonwealth and believes that it has well-positioned the University for becoming a strong, financially viable and efficient institution of higher learning as funding issues continue to be decided.

Future economic factors impacting Kentucky State University include the following known facts:

- Tuition and costs of attendance—Kentucky State University continues to weigh its costs of attendance with the funding provided by the General Assembly to successfully deliver its programs and remain one of the most affordable public institutions in the Commonwealth. Funding levels and methodologies used for institutions of higher education in the Commonwealth are developed and approved by the Council on Postsecondary Education.
- Enrollment growth and student retention—Kentucky State University recruits a diverse student body of traditional, nontraditional and transfer students seeking baccalaureate and advanced degrees. Enrollment growth and retention continues to be a priority of University management.
- Program expansion—the University is well positioned to meet the needs of Kentuckians through its programs and educational activities. The University offers the following programs: Bachelors in Mass Communications and Journalism, a Masters of Art in Special Education, and a Masters in Business Administration, a Masters in Public Administration, a Masters in Computer Science, and a Masters in Environmental Studies
- Regional Stewardship—Kentucky State University began the initiative to meet the economic and community needs of its area of geographic responsibility through collaborative initiatives with businesses, community-based organizations, schools and other educational agencies, citizens and local and state officials.

The overall financial position of the University strengthened during fiscal year 2011. Revenue streams remain secure and steady. As the University adapts to present economic environments, new opportunities for funding will be explored to compliment state support. Executive management's goal is to deliver exceptional programs and services to students and constituents while maintaining financial integrity. Management believes Kentucky State University is able to sustain its sound financial position and solidify its progress toward becoming a regional university of excellence.

KENTUCKY STATE UNIVERSITY

Statements of Net Assets

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 29,623,196	\$ 22,972,425
Accounts, grants and loans receivable, net	8,408,728	6,200,663
Investments	-	1,297,194
Inventory and other current assets	<u>363,926</u>	<u>349,538</u>
Total current assets	<u>38,395,850</u>	<u>30,819,820</u>
Noncurrent assets		
Accounts, grants and loans receivable, net	742,612	756,703
Investments	10,581,408	8,828,005
Capital assets, net	<u>83,376,527</u>	<u>82,972,962</u>
Total noncurrent assets	<u>94,700,547</u>	<u>92,557,670</u>
Total assets	<u>133,096,397</u>	<u>123,377,490</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	2,210,577	1,635,787
Accrued compensated absences	2,131,019	1,770,396
Deferred revenue	2,146,007	2,136,064
Deposits	36,372	35,883
Other current liabilities	161,097	295,575
Bonds and capital lease obligations, current portion	<u>764,247</u>	<u>1,714,468</u>
Total current liabilities	7,449,319	7,588,173
Noncurrent liabilities		
Bonds and capital lease obligations, noncurrent portion	8,676,154	9,427,142
Federal grants refundable	<u>991,709</u>	<u>965,947</u>
Total noncurrent liabilities	<u>9,667,863</u>	<u>10,393,089</u>
Total liabilities	<u>17,117,182</u>	<u>17,981,262</u>
NET ASSETS		
Invested in capital assets, net of related debt	73,936,126	71,831,353
Restricted		
Nonexpendable	8,594,513	8,048,379
Expendable	5,119,673	5,063,026
Unrestricted	<u>28,328,903</u>	<u>20,453,470</u>
Total net assets	\$ <u>115,979,215</u>	\$ <u>105,396,228</u>

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.

Statement of Financial Position

June 30, 2011

(With comparative totals for June 30, 2010)

ASSETS	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Cash and cash equivalents	\$ 42,359	\$ 197,447	\$ 888,531	\$ 1,128,337	\$ 1,091,987
Marketable securities	193,562	937,075	5,454,621	6,585,258	5,416,623
Property and equipment, net of accumulated depreciation	99,083	-	-	99,083	116,801
Other assets	1,040	5,046	29,039	35,125	33,748
Total assets	\$ 336,044	\$ 1,139,568	\$ 6,372,191	\$ 7,847,803	\$ 6,659,159
LIABILITIES AND NET ASSETS					
Accounts payable	\$ 5,661	\$ 16,862	-	\$ 22,523	\$ 44,067
Total liabilities	5,661	16,862	-	22,523	44,067
Net assets	330,383	1,122,706	\$ 6,372,191	7,825,280	6,615,092
Total liabilities and net assets	\$ 336,044	\$ 1,139,568	\$ 6,372,191	\$ 7,847,803	\$ 6,659,159

KENTUCKY STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$4,902,590 and \$4,471,761)	\$ 18,200,942	\$ 16,512,333
Federal grants and contracts	11,755,168	12,333,136
Federal appropriations	5,042,652	6,507,463
State and local grants and contracts	2,311,744	2,210,849
Nongovernmental grants and contracts	-	45,798
Auxiliary enterprises:		
Residence halls	3,327,151	3,369,793
Dining	3,016,738	3,147,196
Bookstore	164,725	172,205
Other auxiliaries	110,090	56,352
Other operating revenues	<u>1,103,669</u>	<u>1,006,390</u>
Total operating revenues	<u>45,032,879</u>	<u>45,361,515</u>
EXPENSES		
Operating expenses		
Educational and general		
Instruction	14,090,472	13,787,801
Research	4,819,546	5,094,538
Public service	5,456,045	4,619,045
Academic support	4,031,587	3,346,109
Student services	6,517,442	6,144,373
Institutional support	10,764,712	10,359,981
Operation and maintenance of plant	3,428,856	4,740,605
Student aid	10,302,761	9,519,263
Depreciation	4,235,658	4,261,837
Auxiliary enterprises		
Residence halls	1,668,880	1,886,543
Dining	2,809,722	2,981,547
Other auxiliaries	427,119	243,359
Depreciation	<u>606,263</u>	<u>652,595</u>
Total operating expenses	<u>69,159,063</u>	<u>67,637,596</u>
Operating loss	(24,126,184)	(22,276,081)

KENTUCKY STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Assets, Continued

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 25,363,422	\$ 24,630,377
Federal grants and contracts	7,062,876	6,556,989
Gifts	969,703	613,057
Investment income (net of investment expense)	1,789,055	1,158,756
Interest on capital asset-related debt	(429,253)	(483,085)
Other nonoperating revenues (expenses)	<u>(46,632)</u>	<u>(697,500)</u>
Net nonoperating revenues	<u>34,709,171</u>	<u>31,778,594</u>
 Income before capital appropriations	 10,582,987	 9,502,513
Capital appropriations	<u>-</u>	<u>1,760,427</u>
 Increase in net assets	 10,582,987	 11,262,940
 Net assets, beginning of year	 <u>105,396,228</u>	 <u>94,133,288</u>
 Net assets, end of year	 <u><u>\$ 115,979,215</u></u>	 <u><u>\$ 105,396,228</u></u>

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.

Statement of Activities

Year ended June 30, 2011

(With comparative totals for June 30, 2010)

	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and support:					
Contributions	\$ 8,926	\$ 449,936	\$ 340,243	\$ 799,105	\$ 592,872
Interest and dividends	6,461	22,164	162,747	191,372	178,798
Net realized and unrealized gains (losses) on marketable securities	28,265	98,144	642,926	769,335	303,841
Interfund management fees and other income	128,098	-	-	128,098	127,542
Net assets released from restrictions	546,273	(393,086)	(153,187)	-	-
Total revenue and support	718,023	177,158	992,729	1,887,910	1,203,053
Expenses:					
Scholarships	48,589	-	-	48,589	91,760
Operating expenses	98,419	-	-	98,419	116,697
Personal services	48,783	-	-	48,783	41,611
Interfund management fees	126,491	-	-	126,491	115,846
University support	193,179	-	-	193,179	166,843
Student support	89,181	-	-	89,181	81,020
Travel and promotion	73,080	-	-	73,080	45,648
Total expenses	677,722	-	-	677,722	659,425
Increase in net assets	40,301	177,158	992,729	1,210,188	543,628
Transfers	-	-	-	-	-
Net assets, beginning of year	290,082	945,548	5,379,462	6,615,092	6,071,464
Net assets, end of year	\$ 330,383	\$ 1,122,706	\$ 6,372,191	\$ 7,825,280	\$ 6,615,092

KENTUCKY STATE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Tuition and fees	\$ 17,013,052	\$ 17,597,145
Grants and contracts	18,371,985	19,511,851
Payments to suppliers	(17,398,053)	(18,949,245)
Payments to employees	(36,041,598)	(35,268,268)
Student financial aid	(10,090,455)	(8,813,245)
Loans issued to students	(127,276)	-
Collection of loans issued to students	141,366	117,100
Auxiliary enterprises:		
Residence halls and dining	6,343,889	6,516,989
Bookstore	164,725	172,205
Other auxiliaries	110,090	56,352
Other receipts	<u>856,779</u>	<u>1,597,507</u>
Net cash from operating activities	(20,655,496)	(17,461,609)
Cash flows from non-capital financing activities		
State appropriations	25,363,422	24,630,377
Federal grants and contracts	7,062,876	6,556,989
Gifts for other than capital purposes	969,703	613,057
Student organization agency receipts	23,225	7,884
Student organization agency disbursements	(39,096)	(2,961)
Other receipts (payments)	<u>(30,761)</u>	<u>(919,433)</u>
Net cash from non-capital financing activities	33,349,369	30,885,913
Cash flows from capital and related financing activities		
Capital appropriations	-	1,760,427
Purchases of capital assets	(5,245,486)	(7,300,237)
Principal paid on capital debt	(1,701,209)	(1,755,085)
Interest paid on capital debt	<u>(429,253)</u>	<u>(483,085)</u>
Net cash from capital and related financing activities	(7,375,948)	(7,777 980)
Cash flows from investing activities		
Investment income	1,835,922	628,029
Investment expenses	(46,867)	(47,544)
Proceeds from sale of investments	1,988,570	2,254,713
Purchases of investments	<u>(2,444,779)</u>	<u>(2,573,976)</u>
Net cash from investing activities	1,332,846	261,222
Net increase in cash and cash equivalents	6,650,771	5,907,546
Cash and cash equivalents at beginning of year	<u>22,972,425</u>	<u>17,064,879</u>
Cash and cash equivalents at end of year	<u><u>\$ 29,623,196</u></u>	<u><u>\$ 22,972,425</u></u>

KENTUCKY STATE UNIVERSITY

Statements of Cash Flows, Continued

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of net operating loss to net cash from operating activities		
Operating loss	\$ (24,126,184)	\$ (22,276,081)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	4,841,921	4,914,432
Changes in assets and liabilities:		
Receivables, net	(2,193,974)	(195,122)
Inventory and other current assets	(14,388)	(50,902)
Accounts payable and accrued liabilities	574,790	(433,076)
Accrued compensated absences	360,623	257,015
Other liabilities	(108,227)	(80,630)
Deferred revenue	<u>9,943</u>	<u>402,755</u>
Net cash from operating activities	\$ <u>(20,655,496)</u>	\$ <u>(17,461,609)</u>

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies

Reporting Entity

Kentucky 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 Kentucky 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 that the Foundation holds and invests is 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), including Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*, issued in June and November, 1999, respectively. The University reports as a Business Type Activity (BTA), as defined by GASB Statement No. 35. BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services. The University, as a BTA, applies (a) all applicable Financial Accounting Standards Board (FASB) pronouncements issued before December 1, 1989, and (b) those GASB pronouncements issued after that date.

Basis of Accounting

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.

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 assets 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.

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

1. Organization and Summary of Significant Accounting Policies, continued

- **Restricted:**

Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

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.

Cash Equivalents

For the Statements of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments are valued at fair value based on quoted market prices. Short-term investments are investments that are not cash equivalents but mature within the next fiscal year and are classified as current assets.

Accounts Receivable, net

Accounts receivables consist of tuition and fee charges, loans to students and amounts due from federal and state governments, non-governmental sources, in connection with reimbursements of allowable expenses made pursuant to grants and contracts. Accounts receivables are recorded net of allowance for doubtful accounts.

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.

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

1. Organization and Summary of Significant Accounting Policies, continued

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market and consist of physical plant items. Inventories consist of physical plant, postage and printing supplies.

Capital Assets

Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of gift. Equipment with a unit cost of \$2,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets. 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>
Improvements	20 years
Buildings	40 years
Transportation equipment	5-15 years
Equipment	5-20 years
Enterprise resource software	7 years
Library holdings	10 years

Compensated Absences

The liability and expense incurred for employee vacation and sick pay are recorded as accrued compensated absences in the statements of net assets and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net assets.

Deferred Revenue

Deferred revenue includes 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 and state deferred maintenance funds that have not yet been earned.

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

1. Organization and Summary of Significant Accounting Policies, continued

Restricted Asset Spending Policy

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

Operating Activities

The University defines operating activities, as reported on the Statements 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 and certain federal appropriations, gifts and investment income, are recorded as nonoperating revenues, in accordance with GASB Statement No. 35.

Scholarship Discounts and Allowances

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans and funds provided to students awarded by third parties, is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Federal Grants and Contracts

Per GASB Statement No. 24, pass-through grants should be reported as revenues and expenses in the financial statements if that entity has any administrative or direct financial involvement in the program. An entity has administrative involvement if it determines eligible secondary recipients or projects, even if using grantor-established criteria. Therefore, Pell Grants are considered nonexchange transactions and are recorded as nonoperating revenues in the accompanying financial statements.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

1. Organization and Summary of Significant Accounting Policies, continued

Component Unit Disclosure

The accompanying financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the FASB. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

During the year ended June 30, 2011 and 2010, the Foundation made distributions of \$193,179 and \$166,843 respectively, on behalf of the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Kentucky State University Foundation, Inc. at P.O. Box 4210, Frankfort, KY 40604.

Recent Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The University is currently evaluating the effects of this statement on its financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It eliminates the need for financial statement preparers to determine which accounting principles apply to state and local governments. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The University does not expect this statement to have a significant impact on its financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this statement is to improve financial reporting for a governmental financial reporting entity. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2012. The University is currently evaluating the effects of this statement on its financial statements.

Reclassifications

Certain reclassifications have been made to 2010 amounts in order to make them comparable with the 2011 presentation.

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

2. Cash, Cash Equivalents, and Investments

The Statements of Net Assets classification "cash and cash equivalents" includes all readily available sources of cash such as petty cash, demand deposits, certificates of deposit and temporary investments in marketable securities with original maturities less than three months.

At June 30, 2011 and 2010 the University had petty cash funds totaling zero, and deposits as reflected by bank balances as follows:

	<u>2011</u>	<u>2010</u>
Insured, commercial banks	\$ 250,000	\$ 100,000
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	4,207,544	7,255,846
Maintained by Commonwealth of Kentucky	<u>25,954,476</u>	<u>16,699,628</u>
	<u>\$ 30,412,020</u>	<u>\$ 24,055,474</u>

The difference in the cash carrying amount per the Statements of Net Assets and the above bank balances represented items in transit.

At June 30, 2011 and 2010, the University had no cash and cash equivalents that are restricted for capital expenditures.

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

2. Cash, Cash Equivalents, and Investments, continued

As of June 30, 2011, the University had the following investments and maturities.

Investment Maturities (in years)

<u>Investment Type</u>	<u>Fair Value</u>	<u><1</u>	<u>1-5</u>	<u>6-10</u>	<u>11-20</u>
Bonds	\$ 1,954,384	\$ 204,384	\$1,075,000	\$ 400,000	\$ 275,000
Bond Mutual Funds	1,261,347		1,261,347	-	-
Money Market Funds	694,000	694,000	-	-	-
Real Estate Investments	<u>51,595</u>	<u>-</u>	<u>51,595</u>	<u>-</u>	<u>-</u>
	3,961,326	\$ 898,384	\$2,387,942	\$ 400,000	\$ 275,000
Equities and Equity Mutual Funds	<u>6,620,082</u>				
	<u>\$ 10,581,408</u>				

As of June 30, 2010, the University had the following investments and maturities.

Investment Maturities (in years)

<u>Investment Type</u>	<u>Fair Value</u>	<u><1</u>	<u>1-5</u>	<u>6-10</u>	<u>11-20</u>
Bonds	\$ 3,260,944	\$ 228,949	\$1,180,402	\$1,519,511	\$ 332,082
Bond Mutual Funds	910,273	-	910,273	-	-
Money Market Funds	708,992	708,992	-	-	-
Real Estate Investments	<u>104,663</u>	<u>-</u>	<u>104,663</u>	<u>-</u>	<u>-</u>
	4,984,872	\$ 937,941	\$2,195,338	\$1,519,511	\$ 332,082
Equities and Equity Mutual Funds	<u>5,140,327</u>				
	<u>\$ 10,125,199</u>				

The University has an investment management agreement with Fifth Third Bank (Fifth Third). Fifth Third serves individual and institutional clients.

Credit Risk

The University's average credit quality rating according to Moody's is Aa3.

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

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.

3. Accounts, Grants and Loans Receivable

Accounts, grants and loans receivable consist of the following as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Student tuition and fees	\$ 4,835,906	\$ 4,570,026
Student loans	2,367,390	2,381,480
Grants and contracts	3,944,606	2,958,855
Other	<u>588,286</u>	<u>341,396</u>
	11,736,188	10,251,757
Less: allowance for doubtful accounts	<u>(2,584,848)</u>	<u>(3,294,391)</u>
	9,151,340	6,957,366
Noncurrent portion	<u>742,612</u>	<u>756,703</u>
Current portion	\$ <u>8,408,728</u>	\$ <u>6,200,663</u>

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

4. Capital Assets, Net

Capital assets as of June 30, 2011, are summarized as follows:

<u>Cost</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 5,648,990	\$ -	\$ -	\$ 5,648,990
Buildings	141,992,351	3,250,997	-	145,243,348
Equipment	22,544,322	370,176	129,325	22,785,173
Computer software	1,428,493	-	-	1,428,493
Library holdings	9,696,930	56,249	57,808	9,695,371
Transportation equipment	4,030,858	12,016	-	4,042,874
Construction in progress	<u>3,343,888</u>	<u>5,107,391</u>	<u>3,364,210</u>	<u>5,087,069</u>
	<u>188,685,832</u>	<u>8,796,829</u>	<u>3,551,343</u>	<u>193,931,318</u>
<u>Accumulated depreciation</u>				
Buildings	82,165,784	2,664,826	-	84,830,610
Equipment	12,087,481	1,270,167	-	13,357,648
Library holdings	8,129,165	592,519	-	8,721,684
Transportation equipment	<u>3,330,440</u>	<u>314,409</u>	<u>-</u>	<u>3,644,849</u>
	<u>105,712,870</u>	<u>4,841,921</u>	<u>-</u>	<u>110,554,791</u>
Capital assets, net	\$ <u>82,972,962</u>	\$ <u>3,954,908</u>	\$ <u>3,551,343</u>	\$ <u>83,376,527</u>

Capital assets as of June 30, 2010, are summarized as follows:

<u>Cost</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 5,648,990	\$ -	\$ -	\$ 5,648,990
Buildings	114,476,880	27,515,471	-	141,992,351
Equipment	21,635,019	916,670	7,367	22,544,322
Computer software	-	1,428,493	-	1,428,493
Library holdings	9,369,482	372,028	44,580	9,696,930
Transportation equipment	4,005,837	25,021	-	4,030,858
Construction in progress	<u>26,249,387</u>	<u>-</u>	<u>22,905,499</u>	<u>3,343,888</u>
	<u>181,385,595</u>	<u>30,257,683</u>	<u>22,957,446</u>	<u>188,685,832</u>
<u>Accumulated depreciation</u>				
Buildings	79,473,958	2,691,826	-	82,165,784
Equipment	10,619,304	1,468,177	-	12,087,481
Library holdings	7,690,176	438,989	-	8,129,165
Transportation equipment	<u>3,015,000</u>	<u>315,440</u>	<u>-</u>	<u>3,330,440</u>
	<u>100,798,438</u>	<u>4,914,432</u>	<u>-</u>	<u>105,712,870</u>
Capital assets, net	\$ <u>80,587,157</u>	\$ <u>25,343,251</u>	\$ <u>22,957,446</u>	\$ <u>82,972,962</u>

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Payable to vendors and contractors	\$ 82,500	\$ 27,653
Accrued salaries and other liabilities	<u>2,128,077</u>	<u>1,608,134</u>
	<u>\$ 2,210,577</u>	<u>\$ 1,635,787</u>

6. Deferred Revenue

Deferred revenue consists of the following as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Unearned summer school tuition and fees	\$ 661,763	\$ 899,992
Unearned grants and contracts	<u>1,484,244</u>	<u>1,236,072</u>
	<u>\$ 2,146,007</u>	<u>\$2,136,064</u>

7. Long-Term Liabilities

Long-term liabilities as of June 30, 2011, 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>
Consolidated Educational Building Revenue Bonds	\$ 935,000	\$ -	\$ 935,000	\$ -	\$ -	\$ -
General Receipts Bonds	4,875,000	-	350,000	4,525,000	360,000	4,165,000
Capital lease obligation						
Master Leases	38,631	-	38,631	-	-	-
Energy Savings	5,363,699	-	390,838	4,972,861	407,783	4,565,078
Bond discount and issuance costs	<u>(70,720)</u>	<u>-</u>	<u>13,260</u>	<u>(57,460)</u>	<u>(3,536)</u>	<u>(53,924)</u>
Total bonds payable and capital lease obligations	11,141,610	-	1,701,209	9,440,401	764,247	8,676,154
Federal Grants Refundable	<u>965,947</u>	<u>43,973</u>	<u>18,211</u>	<u>991,709</u>	<u>-</u>	<u>991,709</u>
Total long-term liabilities	<u>\$ 12,107,557</u>	<u>\$ 43,973</u>	<u>\$ 1,719,420</u>	<u>\$10,432,110</u>	<u>\$ 764,247</u>	<u>\$ 9,667,863</u>

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

7. Long-Term Liabilities, continued

Long-term liabilities as of June 30, 2010, 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>
Consolidated Educational Building Revenue Bonds	\$ 1,825,000	\$ -	\$ 890,000	\$ 935,000	\$ 935,000	\$ -
General Receipts Bonds	5,215,000	-	340,000	4,875,000	350,000	4,525,000
Capital Lease Obligation						
Master Leases	189,123	-	150,492	38,631	38,631	-
Energy Savings	5,738,293	-	374,594	5,363,699	390,837	4,972,862
Bond discount and issuance costs	<u>(70,720)</u>	<u>-</u>	<u>-</u>	<u>(70,720)</u>	<u>-</u>	<u>(70,720)</u>
Total bonds payable and capital lease obligations	12,896,696	-	1,755,086	11,141,610	1,714,468	9,427,142
Federal Grants Refundable	<u>1,187,881</u>	<u>-</u>	<u>221,934</u>	<u>965,947</u>	<u>-</u>	<u>965,947</u>
Total long-term liabilities	<u>\$ 14,084,577</u>	<u>\$ -</u>	<u>\$ 1,977,020</u>	<u>\$12,107,557</u>	<u>\$1,714,468</u>	<u>\$ 10,393,089</u>

The Consolidated Educational Buildings Revenue Bonds Series are Series I and had interest rates ranging from 2.0 percent to 3.2 percent. The bonds matured in 2010.

The outstanding General Receipts Bonds Series A Bonds have an interest rate of 3.625%. The bonds mature in 2027. The reserve requirements for these issues have been fully funded as of June 30, 2011.

All bonds are collateralized by University property and the pledge of certain revenues, tuition and fees.

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

7. Long-Term Liabilities, continued

The principal and interest repayment requirements relating to the outstanding bonds payable at June 30, 2011, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2012	\$360,000	\$170,302	\$530,302
2013	375,000	157,251	532,251
2014	385,000	143,658	528,658
2015	210,000	129,701	339,701
2016	215,000	122,089	337,089
2017 – 2021	1,205,000	484,531	1,689,531
2022 – 2026	1,450,000	235,406	1,685,406
Thereafter	<u>325,000</u>	<u>12,594</u>	<u>337,594</u>
Total	<u>\$4,525,000</u>	<u>\$1,455,532</u>	<u>\$5,980,532</u>

During 2005, the University entered into a capital lease for an energy management project. The lease obligation has an interest rate of 4.29% and requires annual payments of principal and interest through 2021. The lease obligation will be paid with guaranteed energy savings.

The following is a schedule of future minimum payments required for the capital lease obligation at June 30, 2011:

Year ending June 30,	
2012	\$ 616,792
2013	616,792
2014	616,792
2015	616,792
2016	616,792
Thereafter	<u>3,083,961</u>
Total minimum lease payments	6,167,921
Less: amounts representing interest	<u>1,195,060</u>
Present value of minimum lease payment	<u>\$ 4,972,861</u>

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

8. Employee Benefits

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 either in the Kentucky Teachers Retirement System (KTRS) or the Optional Retirement Plan (ORP). KTRS, a cost sharing, multiple-employer, public employee retirement system, provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age sixty, unless the employee has twenty-seven or more years of participation in the plan. The plan also provides for disability retirement, death and survivor benefits, and medical insurance.

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) 848-8500.

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. Employees hired on or after July 1, 2008 contribute 7.16% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 14.84% 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 year ending June 30, 2011, 2010 and 2009 were \$2,128,980, \$2,009,627, and \$1,998,376, respectively, and equaled the required contribution for that year.

Kentucky Employees 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.

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

8. Employee Benefits, continued

Kentucky Employees Retirement System, continued

Funding for the plan is provided from eligible employees who contribute 5.00% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 16.98% of current eligible employees' salaries to the KERS through appropriations to the University. Employees hired on or after July 1, 2008 contribute 6.0% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 16.98% 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 System each biennium. The University's contributions to KERS for the year ending June 30, 2011, 2010 and 2009 were \$929,940, \$647,378, and \$552,332, respectively, and equaled the required contribution for that year.

Optional Retirement Plan

All faculty and exempt employees who are eligible to participate in the KTRS retirement plan may elect to participate in the Optional Retirement Plan (ORP) instead of KTRS. In doing so, the employee may choose both Teachers Insurance and Annuity Association of America, (TIAA-CREF) or The Variable Annuity Life Insurance Company (VALIC). Both offer a defined contribution, 403(b) plan.

Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF), is one of the largest and most respected financial service providers in the world. TIAA-CREF Individual & Institutional Services, Inc. distributes CREF and TIAA Real Estate Account variable annuities. Teachers Personal Investors Services, Inc. distributes Personal Annuity variable annuities, TIAA-CREF Mutual Funds, TIAA-CREF Institutional Mutual Funds, and TIAA-CREF Tuition Financing, Inc. products. TIAA-CREF Trust Company, FSB, provides trust services. Located in New York, NY, Teachers Insurance and Annuity Association of America (TIAA) and TIAA-CREF Life Insurance Company issue insurance and annuities. Financial statements are available on the website, www.tiaa-cref.com.

AIG VALIC is the marketing name for the family of companies comprising VALIC Financial Advisors, Inc.; VALIC Retirement Services Company; VALIC Trust Company; and The Variable Annuity Life Insurance Company (VALIC); all members of American International Group, Inc. Complete information about VALIC's variable annuities, including financial statements, fees, charges, expenses and contract limitations, can be obtained by visiting the website www.aigvalic.com or by calling 1-800-428-2542.

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 8.74% of current eligible employees' salaries to the ORP through appropriations to the University. The University's contributions to ORP for the years ending June 30, 2011, 2010 and 2009 were \$412,711, \$393,650, and \$237,031, respectively, and equaled the required contribution for the year.

Health care and life insurance benefits are provided for eligible retired employees through the above pension plans.

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

8. Employee Benefits, continued

Optional Retirement Plan, continued

Expenditures for all employee benefits are included as expenditures within the appropriate functional areas.

9. Commitments and Contingencies

The University is a party to various litigations and other claims in the ordinary course of business. University officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these 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. 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, 2011.

10. 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 these risks. 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.

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

11. Schedule of Expenses by Program

In the Statements of Revenues, Expenses and Changes in Net Assets, operating expenses are presented by functional expense purpose. Functional expense purpose is classified below by natural classification, such as salaries, benefits, and goods and services.

Depreciation is allocated below based on functional classification as required by IPEDS for fiscal year 2011. The tables below summarize operating expenses by functional purpose for the years ended June 30, 2011 and 2010:

2011

	<u>Compensation & Benefits</u>	<u>Supplies & Services</u>	<u>Scholarships & Fellowships</u>	<u>Depreciation</u>	<u>Operations & Maintenance</u>	<u>Total</u>
Instruction	\$ 12,380,019	\$ 1,574,896	\$ 135,557	\$ 664,461	\$ 838,218	\$ 15,593,151
Research	3,100,235	1,719,311	-	511,307	525,057	5,855,910
Public service	3,094,408	1,915,254	446,383	54,253	371,741	5,882,039
Academic support	2,673,141	1,358,446	-	404,745	276,381	4,712,713
Student services	4,527,107	1,723,410	266,925	537,122	456,827	7,511,391
Institutional support	7,219,969	3,161,499	383,244	1,246,296	874,231	12,885,239
Operation & maintenance of plant	2,024,003	1,404,853	-	817,474	(4,246,330)	-
Auxiliary enterprises	926,533	3,979,188	-	606,263	317,851	5,829,835
Student financial aid	<u>456,806</u>	<u>987,609</u>	<u>8,858,346</u>	<u>-</u>	<u>586,024</u>	<u>10,888,785</u>
Total operating expense	<u>\$ 36,402,221</u>	<u>\$ 17,824,466</u>	<u>\$ 10,090,455</u>	<u>\$ 4,841,921</u>	<u>\$ -</u>	<u>\$ 69,159,063</u>

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

11. Schedule of Expenses by Program, continued

2010

	Compensation & Benefits	Supplies & Services	Scholarships & Fellowships	Depreciation	Operations & Maintenance	Total
Instruction	\$ 12,221,671	\$ 1,042,606	\$ 37,645	\$ 1,021,609	\$ 1,071,077	\$ 15,394,608
Research	3,201,475	1,621,140	87,356	531,004	419,012	5,859,987
Public service	3,048,670	1,390,655	22,480	173,590	350,887	4,986,282
Academic support	2,786,332	432,383	-	536,820	280,926	4,036,461
Student services	3,831,263	1,852,672	242,091	510,766	477,828	6,914,620
Institutional support	6,835,680	5,169,701	-	1,362,310	1,003,439	14,371,130
Operation & maintenance of plant	2,041,268	2,539,678	-	125,738	(4,706,684)	-
Auxiliary enterprises	944,572	4,166,877	-	652,595	431,019	6,195,063
Student financial aid	<u>614,351</u>	<u>168,925</u>	<u>8,423,673</u>	<u>-</u>	<u>672,496</u>	<u>9,879,445</u>
Total operating expense	<u>\$ 35,525,282</u>	<u>\$ 18,384,637</u>	<u>\$ 8,813,245</u>	<u>\$ 4,914,432</u>	<u>\$ -</u>	<u>\$ 67,637,596</u>

12. Kentucky State University Foundation, Inc.

a. Organization:

Kentucky State University Foundation, Inc. (the "Foundation") is a not-for-profit Kentucky corporation which was established to receive, invest and expend funds to promote and implement educational and developmental activities at Kentucky State University (the "University"). The Foundation is managed by a Board of Trustees independent from that of the University. The Foundation is supported primarily through contributions from alumni.

b. Summary of Significant Accounting Policies

The financial statements of the Foundation have been prepared on the accrual basis of accounting and include the assets, liabilities and results of operations of the Foundation.

i. Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

12. Kentucky State University Foundation, Inc., continued

b. Summary of Significant Accounting Policies, continued

ii. *Depreciation:*

Depreciation is computed by the straight-line method over the estimated useful life of the respective asset. Accumulated depreciation at June 30, 2011 and 2010 was \$106,843 and \$89,125, respectively.

iii. *Revenue Recognition:*

Contributions are generally recognized when received. However, pledges are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

iv. *Estimates:*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

v. *Marketable Securities:*

Marketable securities are composed of publicly-traded U.S. Government obligations, corporate bonds and notes, and equity securities and are carried at fair value.

c. Marketable Securities:

Marketable securities as of June 30, 2011 and 2010 are as follows:

	2011		2010	
	Cost	Market Value	Cost	Market Value
U.S. Government obligations	\$1,302,887	\$1,396,810	\$1,331,187	\$1,438,732
Equity securities	3,000,264	4,153,689	2,430,896	3,031,237
Bonds and notes	990,833	1,034,759	894,010	946,654
	\$5,293,984	\$6,585,258	\$4,656,093	\$5,416,623

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

12. Kentucky State University Foundation, Inc., continued

d. Federal Income Taxes:

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

e. Summarized Financial Statements for the Year Ended June 30, 2010:

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principals. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2010 from which the summarized information was derived.

f. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available primarily for scholarships and University and student support.

For the year ended June 30, 2011, net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restrictions specified by donors as follows:

Scholarships	\$ 25,148
University support	184,806
Operating and other expenses	16,200
Interfund management fees	18,901
Student support	79,777
Travel and other expenses	68,254
Total restrictions released	\$393,086

g. Permanently Restricted Net Assets:

Net assets are permanently restricted primarily for scholarships and University support.

For the year ended June 30, 2011 net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restrictions by donors as follows:

Scholarships	\$ 23,441
Operating and other expenses	22,156
Interfund management fees	107,590
Total restrictions released	\$153,187

KENTUCKY STATE UNIVERSITY

Notes to Financial Statements, Continued

12. Kentucky State University Foundation, Inc., continued

h. Retirement Plan:

The Foundation has a defined contribution profit sharing plan which covers all employees who meet certain requirements. Foundation contributions are discretionary.

No contribution was made for the year ended June 30, 2011.

i. Supplemental Cash Flow Information:

Cash paid for interest was \$2,519 for the year ended June 30, 2010.

j. Fair Value Measurement:

The fair value of the Foundation's marketable securities is based on quoted market prices for those specific or identical instruments. On a recurring basis, all assets were classified as Level 1 in the fair value hierarchy for financial assets measured at fair value.

k. Subsequent Events:

The Foundation has evaluated subsequent events through September 16, 2011, the date management's review of the financial statements was completed. There were no events that would impact the results of operations or financial position as of that date.