

KENTUCKY STATE UNIVERSITY

Financial Statements

*As of and for the Years Ended June 30, 2013 and 2012
with Report of Independent Auditors*

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Report of Independent Auditors

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

Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Kentucky State University (the University) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements which collectively comprise the University's basic financial statements as listed on the table of contents. We have also audited the financial statements of the Kentucky State University Foundation, Inc. (the Foundation), the University's discretely presented component unit, as of and for the year ended June 30, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Foundation, which represents 100% percent, of the assets, net assets, and revenues of the discretely presented component unit as required by Statement No. 39 of the Governmental Accounting Standards Board, as of June 30, 2012 and for the year then ended. Those financial statements were audited by other auditors, whose report thereon 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained and the report of other auditors is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits 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, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the 2012 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

December 2, 2013
Lexington, Kentucky

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2013

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, 2013, with comparative information for the year ended June 30, 2012. 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, 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, 2013, reflected total assets of \$129.7 million and total liabilities of \$15.5 million. Total net position was \$114.1 million.

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

June 30, 2013

Financial Highlights, Continued

- Total assets decreased \$3.0 million or 2.2%, primarily due to decreases in student accounts receivable, grant and loans receivables, capital assets, and cash and cash equivalents. Total liabilities decreased by \$2.5 million or 13.5% primarily due to a decrease in bond and lease obligations, a decrease in compensated absences, a decrease in deferred revenue, and a decrease in accounts payable and accrued liability. Total net position decreased \$442 thousand.
- Unrestricted net position increased \$1.1 million, which the University reserves for spending in programs and other capital-related contingencies.
- 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 \$39.8 million and operating expenditures were \$71.2 million, resulting in a loss from operations of \$31.4 million. Net non-operating revenues were \$30.9 million, including \$23.5 million in state appropriations, which, when combined with the loss from operations and capital appropriations, resulted in an overall decrease in net assets of \$442 thousand.

Using the Financial Statements

The University's Financial Statements consist of three financial statements: a Statement of Net Position (Balance Sheet); a Statement of Revenues, Expenses and Changes in Net Position (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.

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities. Net position, the difference between total assets and total liabilities, is an important indicator of the current financial condition, while the change in net position 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, 2013

Condensed Statement of Net Position

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets	\$ 32,521,844	\$ 36,245,542
Noncurrent assets	<u>97,130,896</u>	<u>96,383,732</u>
Total assets	<u>\$ 129,652,740</u>	<u>\$ 132,629,274</u>
LIABILITIES		
Current liabilities	7,303,864	9,263,719
Non-current liabilities	<u>8,292,611</u>	<u>8,867,398</u>
Total liabilities	<u>15,596,475</u>	<u>18,131,117</u>
NET POSITION		
Invested in capital assets, net of related debt	75,009,634	75,796,540
Restricted		
Nonexpendable	8,657,506	8,657,506
Expendable	5,905,037	6,668,365
Unrestricted	<u>24,484,088</u>	<u>23,375,746</u>
Total net position	<u>\$ 114,056,265</u>	<u>\$ 114,498,157</u>

Assets: As of June 30, 2013, total assets amounted to \$129.7 million. Of this amount, investment in capital assets (net of depreciation) of \$83.2 million, or 64.1% of total assets, represented the largest asset class. Investments amounted to \$13.5 million or 10.4% of total assets. During the year, total assets decreased by \$3.0 million, primarily due to decreases in cash and cash equivalents, student accounts receivable, grant and loans receivables, and capital assets.

Liabilities: As of June 30, 2013, total liabilities amounted to \$15.5 million. Long-term debt includes bonds payable for housing and dining system and energy-related equipment and technology equipment purchased under a Master Lease Agreement. During the year, total liabilities decreased by \$2.5 million, primarily due to a decrease in accounts payable, unearned revenue, and bonds and capital lease obligations.

Net Position: Net position of the University was \$114.1 million at June 30, 2013 and was reported in four net position categories: invested in capital assets, net of related debt \$75.0 million (66.1%), restricted nonexpendable \$8.6 million (7.6%), restricted expendable \$5.9 million (5.2%), and unrestricted \$24.5 million (21.1%).

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

June 30, 2013

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position is 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 Statement of Revenues, Expenses and Changes in Net Position as revenues, expenses, gains or losses.

Financial activities are reported as either operating or non-operating. GASB Statement No. 35 requires state appropriations, gifts, investment income and endowment income to be classified as non-operating revenues. Accordingly, the University reports an operating loss prior to the addition of non-operating 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 position for the years ended June 30, 2013 and June 30, 2012 is as follows.

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

June 30, 2013

Condensed Statement of Revenues, Expenses and Changes in Net Position

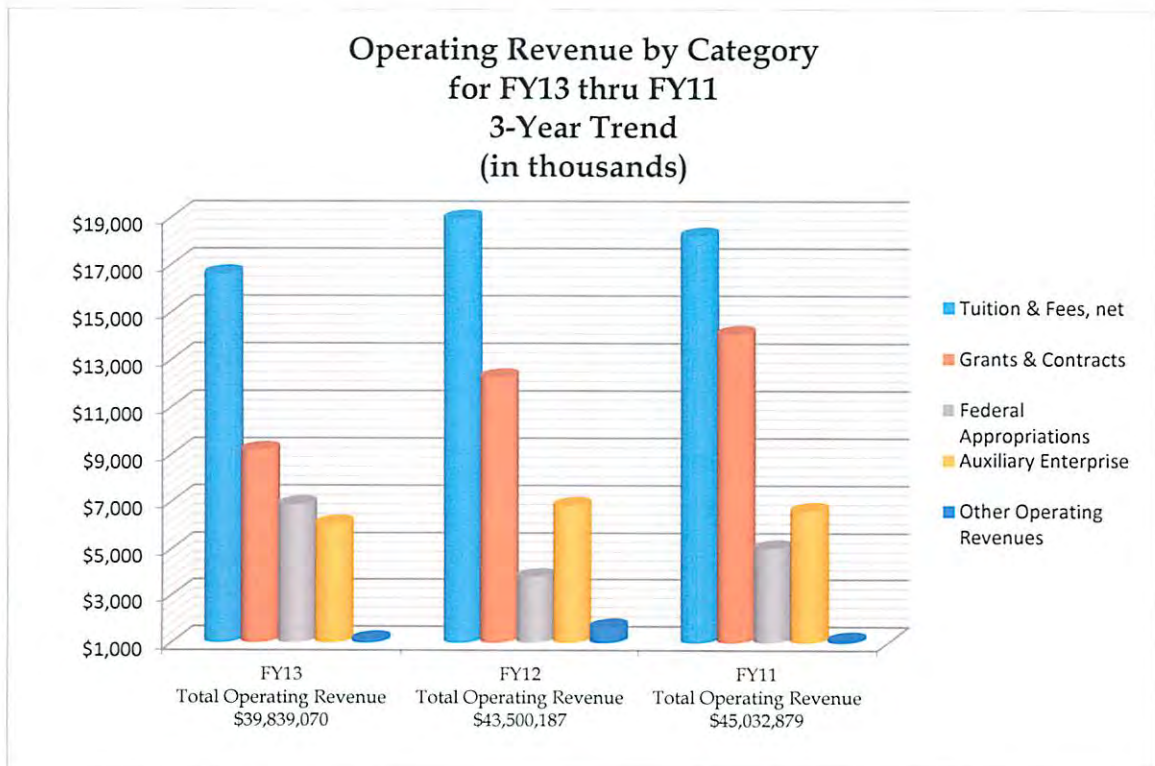
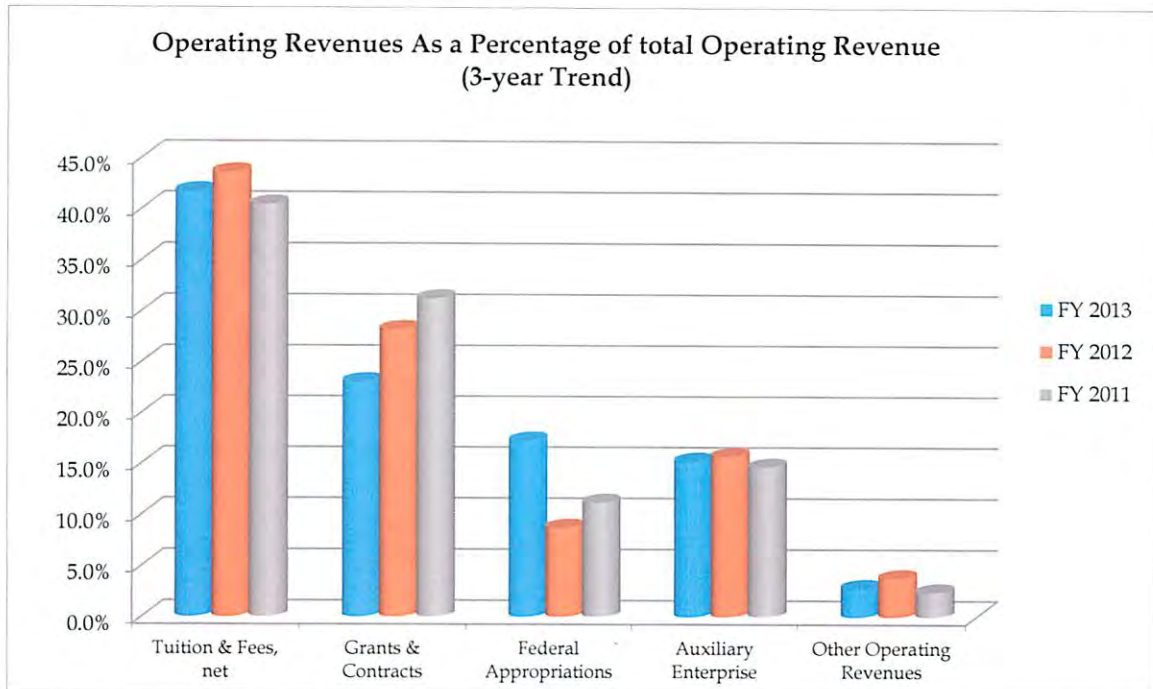
	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Student tuition and fees, net	\$ 16,595,920	\$ 18,943,062
Grants and contracts	9,172,968	12,267,993
Federal appropriations	6,873,169	3,796,394
Auxiliary enterprises	6,065,393	6,838,829
Other operating revenue	<u>1,131,620</u>	<u>1,653,909</u>
Total operating revenues	<u>39,839,070</u>	<u>43,500,187</u>
OPERATING EXPENSES		
Educational and general	64,595,994	70,193,882
Auxiliary enterprises	<u>6,610,652</u>	<u>6,208,366</u>
Total operating expenses	<u>71,206,646</u>	<u>76,402,248</u>
OPERATING LOSS	<u>(31,367,576)</u>	<u>(32,902,061)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	23,537,402	24,660,001
Federal grants and contracts	5,922,954	7,373,490
Gifts and grants	-	251,309
Investment income (loss)	1,150,833	849,729
Interest on capital asset – related debt	(276,050)	(373,738)
Other	<u>583,269</u>	<u>337,867</u>
Total non-operating revenues	<u>30,918,408</u>	<u>33,098,658</u>
Income before other revenues, expenses, gains (losses)	(449,168)	196,597
Endowment Gifts	7,276	106,552
Capital appropriations	<u>-</u>	<u>-</u>
Total increase(decrease) in net position	(441,892)	303,149
Net position, beginning of year	<u>114,498,157</u>	<u>114,195,008</u>
Net position, end of year	<u>\$ 114,056,265</u>	<u>\$ 114,498,157</u>

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

June 30, 2013

Figure1



KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

June 30, 2013

Fiscal Year 2013 Operating Revenues as a % of total Operating Revenue



Operating Revenue

Total operating revenues were \$39.8 million for the year ended June 30, 2013, a decrease of \$3.7 million compared to FY12. The primary components were federal, state and local grants and contracts of \$9.2 million (23.0%) student tuition and fees, net of \$16.6 million (41.6%), federal appropriations of \$6.9 million (17.3%) and auxiliary services and other revenues of \$7.2 million (18.1%). FY13 Student tuition and fees revenue decreased \$2.3 million compared to FY12. FY13 Grants and contracts revenue decreased \$3.1 million compared to FY12 due to decreased awards and spending. FY13 Federal appropriations increased \$3.1 million compared to FY12. FY13 Auxiliary services and other revenue decreased \$1.3 million compared to FY12. Of this decrease, \$486 thousand decreased in dining revenue, \$442 thousand decreased in residence halls and \$522 thousand decreased in other operating revenues. Refer to *Figure 1* for the three year trend of the operating revenues as a percent to total operating revenues and revenue by category.

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

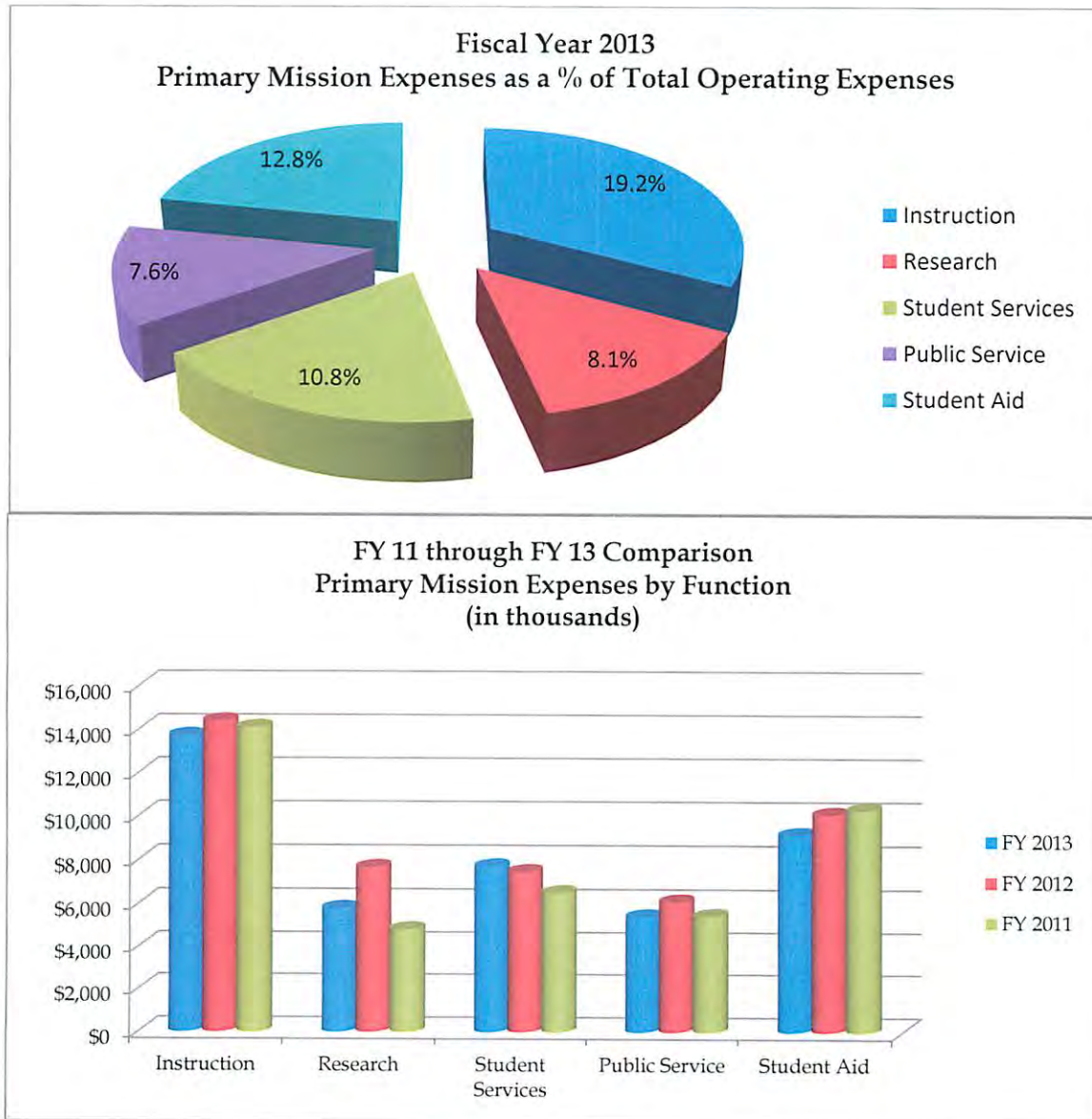
June 30, 2013

Operating Expenses

Operating expenses totaled \$71.2 million, a decrease of \$5.2 million over last year. Of this amount, \$41.8 million (58.5%) was expended directly for the primary mission of the University – instruction (19.2%), research (8.1%), student services (10.8%), student aid (12.8%), and public service (7.6%). Instruction is the main component of Primary Mission expenses amounting to \$13.7 million in fiscal year 2013 or 19.2%. Refer to **Figure 2** for the operating expenses categorized into the Primary Mission of the University.

(Percentages below do not include depreciation or operations/maintenance allocations.)

Figure 2

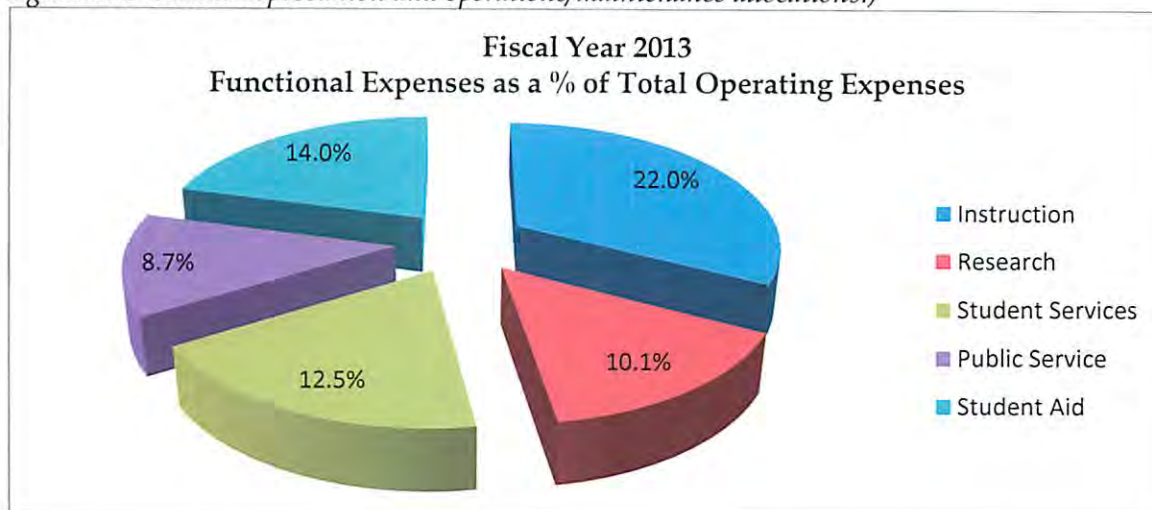


KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

June 30, 2013

In addition to the Primary Mission expenses of the University, there are expenses from depreciation and operations & maintenance that are allocated to the various functional classifications (See note 12 – Schedule of Expenses by Program.) See below for the operating expenses categorized into the Functional Expenses of the University. *(Percentages below include depreciation and operations/maintenance allocations.)*



The University continued to invest in student aid and support services to provide students with opportunities to be successful in fiscal 2013. For the year ended June 30, 2013, student aid related to tuition and fees totaled \$8.3 million, with student aid expenses of \$9.2 million and scholarship allowances of \$4.3 million.

The University had an overall decrease in institutional support of \$2.5 million, along with an increase in auxiliary enterprises of \$402 thousand. 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 \$31.4 million. Non-operating revenues, net of expenses, amounted to \$30.9 million, resulting in a decrease in income before other revenues, expenses, gains or loss of \$442 thousand for the year. After capital appropriations and endowment gifts, the decrease in net assets was \$442 thousand. Non-operating revenues include state appropriations of \$23.5 million, federal grants and contracts of \$5.9 million, gifts of \$7 thousand and investment income of \$1.2 million, and other non-operating income net of revenue of \$583 thousand.

Statement of Cash Flows

The Statement 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 Statement 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, 2013

Condensed Statement of Cash Flows

	<u>2013</u>	<u>2012</u>
Cash (used) provided by:		
Operating activities	\$(27,644,376)	\$(32,111,912)
Non-capital financing activities	30,090,766	32,813,838
Capital and related financing activities	(4,000,212)	(6,743,889)
Investment activities	<u>(1,180,915)</u>	<u>261,488</u>
Net increase (decrease) in cash	(2,734,737)	(5,780,475)
 Cash and cash equivalents, beginning year	 <u>23,842,721</u>	 <u>29,623,196</u>
Cash and cash equivalents, end of year	<u>\$ 21,107,984</u>	<u>\$ 23,842,721</u>

Cash and Investments

Major sources of cash received from operating activities are student tuition and fees of \$14.8 million and grants and contracts of \$18.2 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$39.3 million and to vendors and contractors of \$19.9 million.

Noncapital financing activities included state appropriations from the Commonwealth of Kentucky of \$23.5 million.

Capital and related financing activities include purchases and payments of \$4.0 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 (\$1.2) million was spent for conducting investing activities, including purchase and sales of investments, and interest and dividends earned on investments. Investment activity was primarily related to management of the University's endowments.

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

June 30, 2013

State Appropriations

State appropriations represent approximately 33.1% of all operating and non-operating revenues. The level of state support is a key factor influencing the University's overall financial condition. State appropriation is unrestricted revenue and is included as non-operating revenue. State appropriation is 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, 2013, 2012 and 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Commonwealth appropriations	\$ 23,537,402	\$ 24,660,001	\$ 25,363,422
Federal appropriations	<u>6,873,169</u>	<u>3,796,394</u>	<u>5,042,652</u>
Total appropriations	<u>\$ 30,410,571</u>	<u>\$ 28,456,395</u>	<u>\$ 30,406,074</u>

Capital Appropriations for 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 2013, 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, 2013, 2012 and 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Federal grants and contracts	\$ 13,511,866	\$ 18,094,479	\$ 18,818,044
State grants and contracts	1,584,056	1,547,004	2,311,744
Nongovernmental grants and contracts	<u>-</u>	<u>-</u>	<u>-</u>
Total grants and contracts	<u>\$ 15,095,922</u>	<u>\$ 19,641,483</u>	<u>\$ 21,129,788</u>

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

June 30, 2013

Capital Plan

During fiscal year 2013, the Kentucky State University completed construction on the Main Campus Entrance Arch and Information Center. The University also completed several roof replacement projects including Russell Court Apartment Building, Jordan Warehouse and Boiler Plant, and the Atwood Research Building. In addition to the roof projects three (3) new parking lots were constructed and two (2) existing parking lots were expanded to provide additional parking for students, faculty and staff.

In April 2013, the University submitted its Six Year Capital Plan to the Kentucky General Assembly to be acted upon during the 2014 regular session of the General Assembly. This plan included projects separated into three biennia beginning in 2014 and ending 2020. The execution of the University's capital plan is contingent upon sufficient funding from the Commonwealth.

The \$480.8 million request for the first biennium (2014-2016) 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 million to expand or build a new Betty White Nursing Building, which will provide 19,800 square feet of new classroom space to accommodate enrollment into the nursing program; \$46.4 million to construct a centralized boiler plant to replace the existing seventy year old plant; \$31.5 million to construct a Business & Technology Center to house the business school and the computer science program; \$96 million to build a Performing Arts Center to replace antiquated Bradford Hall. Maintenance projects include but are not limited to: Roof Repair & Maintenance Pool \$3.4 million and a \$1.5 million Capital Renewal & Maintenance Pool. Information Technology projects include but are not limited to: Integrated Digital Campus \$11.4 million; Expand Emergency Notification System \$4.5 million; Upgrade Information Technology Infrastructure \$6.2 million.

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

June 30, 2013

Designated and Non-designated Spending

In the tables below, expenses have been categorized into designated or non-designated 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 non-designated spending. Expenses for non-designated fund categories in 2013 increased for student services and operations and plant maintenance over the prior year and decreased for instruction, research, public service, academic support and institutional support. Total spending for all functions in the non-designated category decreased by approximately \$4.2 million in 2013.

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

June 30, 2013

	-----2013-----		
	Designated Spending	Non-designated Spending	Combined Spending
Instruction	\$ 460,694	\$ 13,240,545	\$ 13,701,239
Research	4,931,690	851,901	5,783,591
Public service	4,511,828	907,700	5,419,528
Academic support	1,338,819	2,029,074	3,367,893
Student services	1,404,988	6,307,175	7,712,163
Institutional support	983,132	8,689,664	9,672,796
Operation and plant maintenance	-	5,602,000	5,602,000
Student aid	9,162,677	-	9,162,677
Auxiliary	6,273,691	-	6,273,691
Depreciation	<u>4,511,068</u>	<u>-</u>	<u>4,511,068</u>
Total	<u>\$ 33,578,587</u>	<u>\$ 37,628,059</u>	<u>\$ 71,206,646</u>

	-----2012-----		
	Designated Spending	Non-designated Spending	Combined Spending
Instruction	\$ 369,949	\$ 14,011,648	\$ 14,381,597
Research	5,522,265	2,146,725	7,668,990
Public service	4,429,836	1,683,409	6,113,245
Academic support	1,860,720	2,425,369	4,286,089
Student services	1,274,704	6,190,203	7,464,907
Institutional support	652,520	12,088,135	12,740,655
Operation and plant maintenance	-	3,297,562	3,297,562
Student aid	10,098,858	-	10,098,858
Auxiliary	5,864,567	-	5,864,567
Depreciation	<u>4,485,778</u>	<u>-</u>	<u>4,485,778</u>
Total	<u>\$ 34,559,197</u>	<u>\$ 41,843,051</u>	<u>\$ 76,402,248</u>

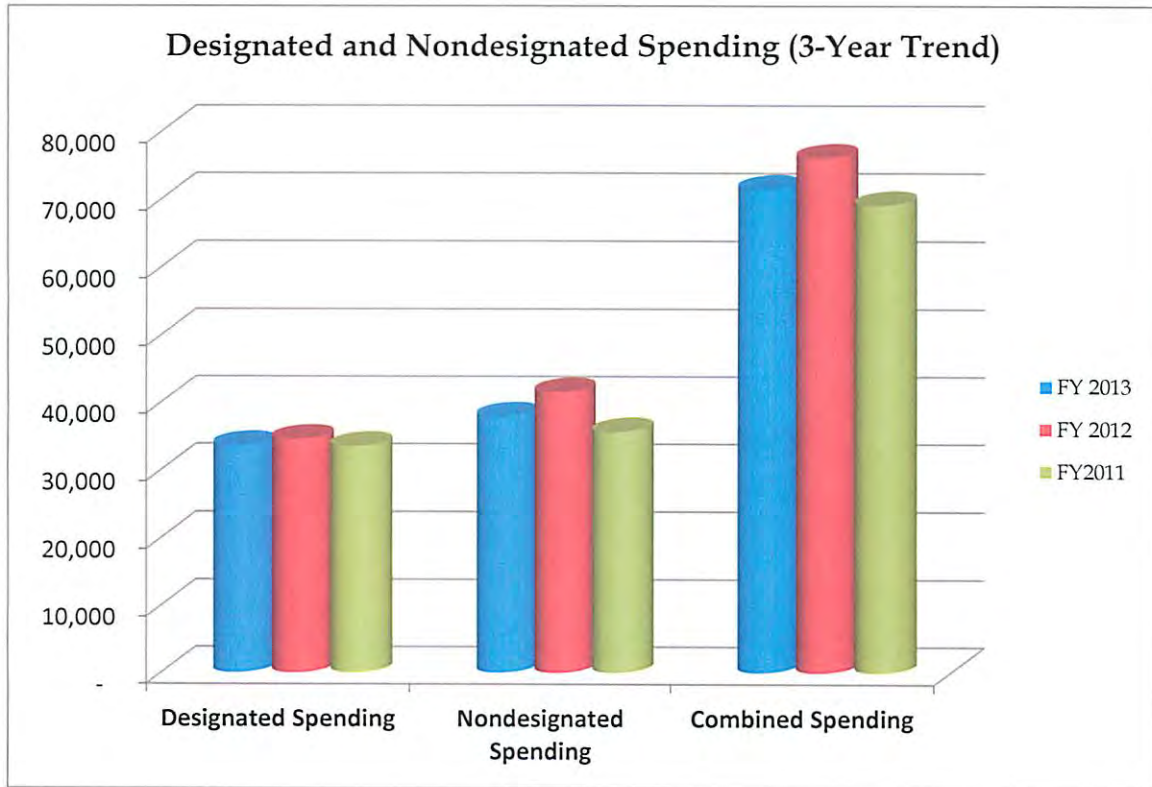
The graph in *Figure 3* shows a three year trend of designated, non-designated, and combined spending. Non-designated spending is higher than designated spending in FY13. However, designated spending increased \$1.0 million in 2012 and decreased \$1.0 million in 2013. Non-designated spending increased \$5.5 million in 2012 and decreased \$4.2 million in 2013. Overall, the combined spending followed the same trend as designated spending with an increase of \$6.9 million in 2012 and a decrease of \$5.2 million in 2013.

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

June 30, 2013

Figure 3



KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

June 30, 2013

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$83.2 million at June 30, 2012, a decrease of \$1.2 million. Capital assets as of June 30, 2013 and significant changes in capital assets during the year are as follows (in millions):

	<u>June 30,</u> <u>2013</u>	<u>Net Additions</u> <u>(Reductions)</u> <u>FY 12-13</u>	<u>June 30,</u> <u>2012</u>	<u>Net Additions</u> <u>(Reductions)</u> <u>FY 11-12</u>	<u>June 30,</u> <u>2011</u>
Land and land improvements	\$ 6.3	\$ 0.6	\$ 5.7	\$ -	\$ 5.7
Buildings, fixed equipment and infrastructure	154.7	1.6	153.1	7.4	145.7
Equipment, vehicles and capitalized software	31.4	1.5	29.9	1.6	28.3
Library materials and art	10.4	0.6	9.8	0.1	9.7
Construction in progress	-	(1.1)	1.1	(4.0)	5.1
Accumulated depreciation	<u>(119.6)</u>	<u>(4.5)</u>	<u>(115.1)</u>	<u>(4.5)</u>	<u>(110.6)</u>
Total	<u>\$ 83.2</u>	<u>\$ (1.3)</u>	<u>\$ 84.5</u>	<u>\$ 0.6</u>	<u>\$ 83.9</u>

At June 30, 2013, the University has capital construction projects in progress totaling \$4,900 in scope.

Long Term Debt

At June 30, 2013, bonds and lease payable amounted to \$8.2 million, as summarized below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Lease Obligations	\$ 4,139,613	\$ 4,565,078	\$ 4,972,861
Note payable to City of Frankfort	300,000	-	-
General Receipts Bonds	3,790,000	4,165,000	4,525,000
Bond discount and issue costs	<u>(53,629)</u>	<u>(57,460)</u>	<u>(57,460)</u>
Total	<u>\$ 8,175,984</u>	<u>\$ 8,672,618</u>	<u>\$ 9,440,401</u>

KENTUCKY STATE UNIVERSITY

Management's Discussion and Analysis, continued

June 30, 2013

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 continues 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.
- Land Grant – Kentucky State University continues to fulfill its mission as a land grant institution providing innovative research opportunities on its research vessel, the Kentucky River Thorobred and community based extension through the Rosenwald Center for Families and Children
- State Funding Model – On January 16, 2013, Moody's Investor Service downgraded its outlook for the entire US higher education sector to negative. The state is being forced to innovate and come up with strategies for getting better results with less money. One of the strategies is the idea of tying state education allocations to performance metrics instead of enrollment.

The overall financial position of the University was maintained during fiscal year 2013. 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 being a regional university of excellence.

KENTUCKY STATE UNIVERSITY

Statements of Net Position

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 21,107,984	\$ 23,842,721
Accounts, grants and loans receivable, net	10,875,339	12,171,673
Inventory and other current assets	<u>538,521</u>	<u>231,148</u>
Total current assets	<u>32,521,844</u>	<u>36,245,542</u>
Noncurrent assets		
Accounts, grants and loans receivable, net	443,881	744,925
Investments	13,501,397	11,169,649
Capital assets, net	<u>83,185,618</u>	<u>84,469,158</u>
Total noncurrent assets	<u>97,130,896</u>	<u>96,383,732</u>
Total assets	<u>129,652,740</u>	<u>132,629,274</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	3,291,014	4,281,912
Accrued compensated absences	1,633,551	1,730,370
Unearned revenue	1,280,078	2,211,334
Deposits	160,856	120,991
Other current liabilities	63,283	122,183
Long-term debt, current portion	<u>875,082</u>	<u>796,929</u>
Total current liabilities	<u>7,303,864</u>	<u>9,263,719</u>
Noncurrent liabilities		
Long-term debt, noncurrent portion	7,300,902	7,875,689
Federal grants refundable	<u>991,709</u>	<u>991,709</u>
Total noncurrent liabilities	<u>8,292,611</u>	<u>8,867,398</u>
Total liabilities	<u>15,596,475</u>	<u>18,131,117</u>
NET POSITION		
Invested in capital assets, net of related debt	75,009,634	75,796,540
Restricted		
Nonexpendable	8,657,506	8,657,506
Expendable	5,905,037	6,668,365
Unrestricted	<u>24,484,088</u>	<u>23,375,746</u>
Total net position	<u>\$114,056,265</u>	<u>\$ 114,498,157</u>

See accompanying notes.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position

June 30, 2013

Assets	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 1,966,708	\$ 1,031,386
Total current assets	1,966,708	1,031,386
Investments, at fair value	7,924,717	7,111,449
Property and equipment:		
Equipment	140,400	140,400
Buildings and improvements	<u>65,526</u>	<u>65,526</u>
	205,926	205,926
Accumulated depreciation	<u>(142,279)</u>	<u>(124,561)</u>
Property and equipment, net	63,647	81,365
Other assets	<u>31,203</u>	<u>34,606</u>
Total assets	<u>\$ 9,986,275</u>	<u>\$ 8,258,806</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 9,489	\$ 8,124
Total liabilities	9,489	8,124
Net assets:		
Unrestricted:	315,740	290,777
Temporarily restricted:	6,433,260	1,264,132
Permanently restricted	<u>3,227,786</u>	<u>6,695,773</u>
Total net assets	<u>9,976,786</u>	<u>8,250,682</u>
Total liabilities and net assets	<u>\$ 9,986,275</u>	<u>\$ 8,258,806</u>

See accompanying notes.

KENTUCKY STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$4,276,036 and \$4,533,476)	\$ 16,595,920	\$ 18,943,062
Federal grants and contracts	7,588,912	10,720,989
Federal appropriations	6,873,169	3,796,394
State and local grants and contracts	1,584,056	1,547,004
Auxiliary enterprises:		
Residence halls	2,836,181	3,278,362
Dining	2,775,383	3,261,069
Bookstore	152,500	152,500
Other auxiliaries	301,329	146,898
Other operating revenues	<u>1,131,620</u>	<u>1,653,909</u>
Total operating revenues	<u>39,839,070</u>	<u>43,500,187</u>
EXPENSES		
Operating expenses		
Educational and general		
Instruction	13,701,239	14,381,597
Research	5,783,591	7,668,990
Public service	5,419,529	6,113,245
Academic support	3,367,893	4,286,089
Student services	7,712,162	7,464,907
Institutional support	9,672,796	12,740,655
Operation and maintenance of plant	5,602,000	3,297,562
Student aid	9,162,677	10,098,858
Depreciation	4,174,107	4,141,979
Auxiliary enterprises		
Residence halls	2,626,565	2,426,878
Dining	2,608,016	2,896,641
Other auxiliaries	1,039,110	541,047
Depreciation	<u>336,961</u>	<u>343,800</u>
Total operating expenses	<u>71,206,646</u>	<u>76,402,248</u>
Operating loss	(31,367,576)	(32,902,061)

KENTUCKY STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position, continued

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 23,537,402	\$ 24,660,001
Federal grants and contracts	5,922,954	7,373,490
Gifts	-	251,309
Investment income (net of investment expense)	1,150,833	849,729
Interest on capital asset-related debt	(276,050)	(373,738)
Other non-operating revenues	583,269	337,867
Endowment gifts	<u>7,276</u>	<u>106,552</u>
Net non-operating revenues	<u>30,925,684</u>	<u>33,205,210</u>
 (Decrease)/increase in net position	 (441,892)	 303,149
 Net position, beginning of year (as restated)	 <u>114,498,157</u>	 <u>114,195,008</u>
 Net position, end of year	 <u>\$ 114,056,265</u>	 <u>\$ 114,498,157</u>

See accompanying notes.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC

Statements of Activities

Year ended June 30, 2013

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 20,557	\$ 1,415,205	\$ 82,224	\$ 1,517,986
Investment income:				
Interest and dividends	5,061	222,698	-	227,759
Realized and unrealized gains	<u>17,826</u>	<u>736,259</u>	<u>-</u>	<u>754,085</u>
Total investment income	22,887	958,957	-	981,844
Other income	159,164	-	-	159,164
Releases from restrictions	<u>755,245</u>	<u>(755,245)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	957,853	1,618,917	82,224	2,658,994
Expenses:				
Scholarships	79,436	-	-	79,436
Operating expenses	156,289	-	-	156,289
Personal services	137,128	-	-	137,128
Interfund management fees	158,876	-	-	158,876
University support	255,508	-	-	255,508
Student support	86,493	-	-	86,493
Travel and promotion	<u>59,160</u>	<u>-</u>	<u>-</u>	<u>59,160</u>
Total expenses	<u>932,890</u>	<u>-</u>	<u>-</u>	<u>932,890</u>
Change in net assets	24,963	1,618,917	82,224	1,726,104
Net assets, beginning of year	290,777	1,264,132	6,695,773	8,250,682
Reclassification	<u>-</u>	<u>3,550,211</u>	<u>(3,550,211)</u>	<u>-</u>
Net assets, end of year	<u>\$ 315,740</u>	<u>\$ 6,433,260</u>	<u>\$ 3,227,786</u>	<u>\$ 9,976,786</u>

See accompanying notes.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.

Statement of Activities

Year ended June 30, 2012

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 19,000	\$ 495,980	\$ 145,448	\$ 660,428
Investment income:				
Interest and dividends	5,922	25,006	180,566	211,494
Realized and unrealized gains	<u>5,451</u>	<u>19,761</u>	<u>145,223</u>	<u>170,435</u>
Total investment income	11,373	44,767	325,789	381,929
Other income	148,055	-	-	148,055
Releases from restrictions	<u>546,976</u>	<u>(357,962)</u>	<u>(189,014)</u>	<u>-</u>
Total revenues, gains and other support	725,404	182,785	282,223	1,190,412
Expenses				
Scholarships	75,285	-	-	75,285
Operating expenses	122,873	-	-	122,873
Personal services	61,084	-	-	61,084
Interfund management fees	147,749	-	-	147,749
University support	261,016	-	-	261,016
Student support	36,725	-	-	36,725
Travel and promotion	<u>60,278</u>	<u>-</u>	<u>-</u>	<u>60,278</u>
Total expenses	<u>765,010</u>	<u>-</u>	<u>-</u>	<u>765,010</u>
Change in net assets	(39,606)	182,785	282,223	425,402
Net assets, beginning of year	330,383	1,122,706	6,372,191	7,825,280
Reclassification	<u>-</u>	<u>(41,359)</u>	<u>41,359</u>	<u>-</u>
Net assets, end of year	<u>\$ 290,777</u>	<u>\$ 1,264,132</u>	<u>\$ 6,695,773</u>	<u>\$ 8,250,682</u>

See accompanying notes.

KENTUCKY STATE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Tuition and fees	\$ 15,559,397	\$ 19,069,511
Grants and contracts	17,525,213	8,629,305
Payments to suppliers	(20,782,828)	(19,210,632)
Payments to employees	(39,359,104)	(38,796,052)
Student financial aid	(8,254,844)	(10,068,725)
Loans issued to students	-	(241,777)
Collection of loans issued to students	301,045	239,465
Auxiliary enterprises:		
Residence halls and dining	5,611,564	6,539,431
Bookstore	152,500	152,500
Other auxiliaries	301,329	146,898
Other receipts	<u>1,301,352</u>	<u>1,428,164</u>
Net cash from operating activities	(27,644,376)	(32,111,912)
Cash flows from non-capital financing activities		
State appropriations	23,537,402	24,660,001
Federal grants and contracts	5,922,954	7,373,490
Gifts for other than capital purposes	-	251,309
Endowment gifts	7,276	106,552
Student organization agency receipts	109,910	158,164
Student organization agency disbursements	(70,045)	(73,545)
Other receipts (payments)	<u>583,269</u>	<u>337,867</u>
Net cash from non-capital financing activities	30,090,766	32,813,838
Cash flows from capital financing activities		
Purchases of capital assets	(3,227,528)	(5,602,368)
Principal paid on capital debt	(496,634)	(767,783)
Interest paid on capital debt	<u>(276,050)</u>	<u>(373,738)</u>
Net cash from capital financing activities	(4,000,212)	(6,743,889)
Cash flows from investing activities		
Investment income	1,235,741	901,436
Investment expenses	(84,908)	(51,707)
Proceeds from sale of investments	5,932,168	3,977,271
Purchases of investments	<u>(8,263,916)</u>	<u>(4,565,512)</u>
Net cash from investing activities	(1,180,915)	261,488
Net decrease in cash and cash equivalents	(2,734,737)	(5,780,475)
Cash and cash equivalents at beginning of year	<u>23,842,721</u>	<u>29,623,196</u>
Cash and cash equivalents at end of year	<u>\$ 21,107,984</u>	<u>\$ 23,842,721</u>

KENTUCKY STATE UNIVERSITY

Statements of Cash Flows, continued

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of net operating loss to net cash from operating activities		
Operating loss	\$ (31,367,576)	\$ (32,902,061)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	4,511,068	4,485,779
Bad debt expense	1,637,173	3,146,807
Changes in assets and liabilities:		
Receivables, net	(39,795)	(8,151,253)
Inventory and other current assets	(307,373)	132,778
Accounts payable and accrued liabilities	(990,898)	1,550,274
Accrued compensated absences	(96,819)	(400,649)
Other liabilities	(58,900)	(38,914)
Unearned revenue	<u>(931,256)</u>	<u>65,327</u>
Net cash from operating activities	<u>\$ (27,644,376)</u>	<u>\$ (32,111,912)</u>

See accompanying notes.

KENTUCKY STATE UNIVERSITY

Notes to the 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. BTA's 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, has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Therefore, the University follows GASB pronouncements and all Financial Accounting Standards Board pronouncements except those that conflict with or contradict GASB pronouncements.

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 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.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Basis of Accounting, continued

- **Restricted:**

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

Expendable– Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted:** Net position whose use by the University is not subject to externally imposed stipulations. Unrestricted net position 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 position, revenues, expenses, changes in net position and cash flows.

Cash Equivalents

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

Accounts, Grants, and Loans 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.

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.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Endowment Funds

Kentucky State University recognizes its fiduciary duty not only to invest the University's endowment holdings in formal compliance with the *Uniform Prudent Management of Institutional Funds Act (UPMIFA)* but also to manage those funds in continued recognition of the basic long-term nature of the University. The University interprets this to mean, in addition to the adopted spending guidelines and restrictions described below, that the assets of the University shall be actively managed, that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. The University recognizes that, commensurate with its overall objective of maximizing long-range return while maintaining a high standard of portfolio quality and consistency of return, it is necessary that proper diversification of assets be maintained both among and within the classes of securities held. Within this context of active management and the necessity of adherence to proper diversification, the University relies upon appropriate professional advice.

The University recognizes that long-term objectives are most important, but it is also necessary that shorter-term benchmarks be used to assess the periodic performance of the investment program. The University anticipates annual spending of five percent (5%) of the average market value for the past three years, the amount of which shall be determined in January of each year.

The University believes that it is prudent to diversify endowment investments so as to minimize the risks of large losses and has established asset allocation ranges based upon the University's participation demographics, anticipated cash flow requirements and the expected returns of the capital markets. The University President will allocate assets within classes of investments which he/she considers to be appropriate.

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.

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:

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Capital Assets, continued

<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 position and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net position.

Unearned Revenue

Unearned revenue includes amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent reporting period. Unearned revenues also include amounts received from grant and contract sponsors and state deferred maintenance funds that have not yet been earned.

Income Taxes

The University is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.290 through 164.475. Accordingly, the University is generally exempt from federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986, as amended. The Foundation has received a determination from the Internal Revenue Service granting exemption from federal income taxation pursuant to the provisions of the Internal Revenue Code section 501(c)(3).

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.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Operating Activities

The University defines operating activities, as reported on the statement of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state and certain federal appropriations, gifts and investment income, are recorded as non-operating 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 non-exchange transactions and are recorded as non-operating 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 the 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, 2013 and 2012, the Foundation made distributions of approximately \$255,508 and \$261,016 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.

Restatements

The accompanying 2012 financial statements have been restated to correct errors from the prior fiscal years. Errors occurred mainly from account reconciliations not being performed in a timely manner, and accrued retirement sick leave liability not recorded in the appropriate year of pronouncement. The effect of the restatement was to decrease the 2012 increase in net position by \$809,127. Also the cumulative errors from prior years have been adjusted for the effects of the restatement on prior years 2009, 2010 and 2011, through beginning net position. The effect on beginning net position for 2012 was a decrease of \$1,784,207.

The corrections effects on each line item for fiscal year 2012 are stated below:

	Prior to Restatement	After Restatement
SNP		
• Accounts, grants and loans receivable, net	\$ 13,941,173	\$ 12,171,673
• Total current assets	38,295,793	36,245,542
• Capital assets, net	84,512,241	84,469,158
• Total noncurrent assets	96,426,815	96,383,732
• Total assets	134,722,608	132,629,274
• Accounts payable and accrued liabilities	3,781,912	4,281,912
• Total current liabilities	8,763,719	9,263,719
• Total liabilities	17,631,117	18,131,117
• Invested in capital assets, net of related debt	75,839,623	75,796,540
• Unrestricted net position	25,925,997	23,375,746
• Total net position	117,091,491	114,498,157
SRECNP		
• Institutional support	\$ 12,059,904	\$ 12,740,655
• Depreciation expense	4,466,655	4,485,779

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Restatements, continued

• Total Operating expenses	75,702,373	76,402,248
• Operating loss	(32,202,186)	(32,902,061)
• Other non-operating revenues (expenses)	447,119	337,867
• Net non-operating revenues	33,314,462	33,205,210
• Increase (decrease) in net position	1,112,276	303,149
• Net position, beginning of year	115,979,215	114,195,008
• Net position, end of year	117,091,491	114,498,157

Recent Pronouncements

In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administers as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

Cost-sharing governmental employers will also be required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. All governments participating in the defined benefit pension plan would also have the following in their note disclosures:

- Descriptions of the plan and benefits provided
- Significant assumptions employed in the measurement of the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Assumptions related to the discount rate and impact on the total pension liability of a 1 percentage point increase and decrease in the discount rate
- Net pension assets and liabilities

The provisions of this Statement are effective for fiscal years beginning after June 15, 2014. The University is currently evaluating the effects of this statement on its financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The University is currently evaluating the effects of this statement on its financial statements.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Recent Pronouncements, continued

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 were implemented as of June 30, 2013. The implementation of this statement affected the financial statement titles and renamed net assets to net position. The University did not have any amounts that were required to be reclassified and reported as deferred inflows or deferred outflows.

2. Cash, Cash Equivalents, and Investments

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

At June 30, 2013 and 2012 the University had petty cash funds totaling zero, and deposits as reflected by bank balances as follows:

	<u>2013</u>	<u>2012</u>
Insured, commercial banks	\$ 250,000	\$ 250,000
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	5,018,080	7,864,956
Maintained by Commonwealth of Kentucky, collateral held by the Commonwealth in the Commonwealth's name	<u>15,926,887</u>	<u>17,325,437</u>
	<u>\$ 21,194,967</u>	<u>\$ 25,440,393</u>

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

At June 30, 2013 and 2012, the University had no cash and cash equivalents that are restricted for capital expenditures.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

2. Cash, Cash Equivalents, and Investments, continued

As of June 30, 2013, 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	\$ 2,471,417	\$ 160,000	\$1,122,984	\$ 533,278	\$ 655,155
Bond Mutual Funds	2,868,982	-	2,868,982	-	-
Money Market Funds	801,131	801,131	-	-	-
Real Estate Funds	<u>611,011</u>	<u>-</u>	<u>611,011</u>	<u>-</u>	<u>-</u>
	\$ 6,752,541	\$ 961,131	\$4,602,977	\$ 533,278	\$ 655,155
Equities and Equity Mutual Funds	<u>6,748,856</u>				
	<u>\$13,501,397</u>				

As of June 30, 2012, 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	\$ 1,982,885	\$ 405,000	\$ 770,000	\$ 387,885	\$ 420,000
Bond Mutual Funds	1,397,341	-	1,397,341	-	-
Money Market Funds	736,937	736,937	-	-	-
Real Estate Funds	<u>391,442</u>	<u>-</u>	<u>391,442</u>	<u>-</u>	<u>-</u>
	\$ 4,508,605	\$ 1,141,937	\$ 2,558,783	\$ 387,885	\$ 420,000
Equities and Equity Mutual Funds	<u>6,661,044</u>				
	<u>\$ 11,169,649</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 the 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 Loan Receivable

Accounts, grants and loans receivable consist of the following as of June 30, 2013 and 2012. Approximately \$4.6 million (unaudited) related to grants and contracts was collected in the first quarter of fiscal year ending June 30, 2014.

	<u>2013</u>	<u>2012</u>
Student tuition and fees	\$ 7,760,848	\$ 6,883,207
Student loans	2,068,658	2,369,702
Grants and contracts	5,334,984	7,557,789
Other	<u>419,575</u>	<u>642,100</u>
	15,584,065	17,452,798
Less: allowance for doubtful accounts	<u>(4,264,845)</u>	<u>(4,536,200)</u>
	11,319,220	12,916,598
Non-current portion	<u>443,881</u>	<u>744,925</u>
Current portion	<u>\$ 10,875,339</u>	<u>\$ 12,171,673</u>

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net

Capital assets as of June 30, 2013, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>Cost</u>				
Land and improvements	\$ 5,648,990	\$ 626,041	\$ -	\$ 6,275,031
Buildings	153,206,036	1,533,993	-	154,740,029
Equipment	24,267,330	973,646	-	25,240,976
Computer software	1,433,622	25,000	-	1,458,622
Library holdings	9,780,929	585,556	-	10,366,485
Transportation equipment	4,153,384	521,785	-	4,675,169
Construction in progress	<u>1,043,396</u>	<u>724,880</u>	<u>1,763,373</u>	<u>4,903</u>
	<u>199,533,687</u>	<u>4,990,901</u>	<u>1,763,373</u>	<u>202,761,215</u>
<u>Accumulated depreciation</u>				
Buildings	87,131,071	2,420,440	-	89,551,511
Equipment	14,796,247	1,653,856	-	16,450,103
Library holdings	9,217,036	273,593	-	9,490,629
Transportation equipment	<u>3,920,175</u>	<u>163,179</u>	<u>-</u>	<u>4,083,354</u>
	<u>115,064,529</u>	<u>4,511,068</u>	<u>-</u>	<u>119,575,597</u>
Capital assets, net	<u>\$ 84,469,158</u>	<u>\$ 479,833</u>	<u>\$ 1,763,373</u>	<u>\$ 83,185,618</u>

Capital assets as of June 30, 2012, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>Cost</u>				
Land and improvements	\$ 5,648,990	\$ -	\$ -	\$ 5,648,990
Buildings	145,243,348	7,462,688	-	152,706,036
Equipment	22,785,173	1,482,157	-	24,267,330
Computer software	1,428,493	5,129	-	1,433,622
Library holdings	9,695,371	85,558	-	9,780,929
Transportation equipment	4,042,874	110,510	-	4,153,384
Construction in progress	<u>5,087,069</u>	<u>3,919,014</u>	<u>7,462,688</u>	<u>1,543,395</u>
	<u>193,931,318</u>	<u>13,065,056</u>	<u>7,462,688</u>	<u>199,533,686</u>
<u>Accumulated depreciation</u>				
Buildings	84,854,568	2,276,502	-	87,131,070
Equipment	13,357,648	1,438,599	-	14,796,247
Library holdings	8,721,684	495,352	-	9,217,036
Transportation equipment	<u>3,644,849</u>	<u>275,326</u>	<u>-</u>	<u>3,920,175</u>
	<u>110,578,749</u>	<u>4,485,779</u>	<u>-</u>	<u>115,064,528</u>
Capital assets, net	<u>\$ 83,352,569</u>	<u>\$ 8,579,277</u>	<u>\$ 7,462,688</u>	<u>\$ 84,469,158</u>

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Payable to vendors and contractors	\$ 63,548	\$ 1,745,138
Accrued sick leave liability	500,000	500,000
Accrued salaries and other liabilities	<u>2,727,466</u>	<u>2,036,774</u>
	<u>\$ 3,291,014</u>	<u>\$ 4,281,912</u>

6. Unearned Revenue

Unearned revenue consists of the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Unearned summer school tuition and fees	\$ 390,665	\$ 605,875
Unearned grants and contracts	<u>889,413</u>	<u>1,605,459</u>
	<u>\$ 1,280,078</u>	<u>\$ 2,211,334</u>

7. Long-Term Liabilities

Long-term liabilities as of June 30, 2013, 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>
General receipts bonds	\$ 4,165,000	\$ -	\$ 375,000	\$ 3,790,000	\$ 385,000	\$ 3,405,000
Note payable – City of Frankfort	-	500,000	200,000	300,000	50,000	250,000
Capital lease obligations-energy savings	4,565,078	-	425,465	4,139,613	443,913	3,695,700
Bond discount and issuance costs	<u>(57,460)</u>	<u>-</u>	<u>(3,831)</u>	<u>(53,629)</u>	<u>(3,831)</u>	<u>(49,798)</u>
Total bonds payable and capital lease obligations	8,672,618	500,000	996,634	8,175,984	875,082	7,300,902
Federal grants refundable	<u>991,709</u>	<u>-</u>	<u>-</u>	<u>991,709</u>	<u>-</u>	<u>991,709</u>
Total long-term liabilities	<u>\$ 9,664,327</u>	<u>\$ 500,000</u>	<u>\$ 996,634</u>	<u>\$ 9,167,693</u>	<u>\$ 875,082</u>	<u>\$ 8,292,611</u>

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Long-Term Liabilities, continued

Long-term liabilities as of June 30, 2012, 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>
General receipts bonds	4,525,000	-	360,000	4,165,000	375,000	3,790,000
Capital lease obligations- energy savings	4,972,861	-	407,783	4,565,078	425,465	4,139,613
Bond discount and issuance costs	<u>(57,460)</u>	<u>-</u>	<u>-</u>	<u>(57,460)</u>	<u>(3,536)</u>	<u>(53,924)</u>
Total bonds payable and capital lease obligations	9,440,401	-	767,783	8,672,618	796,929	7,875,689
Federal grants refundable	<u>991,709</u>	<u>-</u>	<u>-</u>	<u>991,709</u>	<u>-</u>	<u>991,709</u>
Total long-term liabilities	<u>\$ 10,432,110</u>	<u>\$ -</u>	<u>\$ 767,783</u>	<u>\$ 9,664,327</u>	<u>\$ 796,929</u>	<u>\$ 8,867,398</u>

The outstanding General Receipts Bonds Series A Bonds have interest rates from 3.625% - 3.875%. The bonds mature through 2027. The reserve requirements for these issues have been fully funded as of June 30, 2013.

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

The net book value of assets acquired through the capital leases included in the above schedule totaled \$4,362,446 and \$4,711,222 as of June 30, 2013 and 2012 respectively.

In August 2009, the University signed a 10 year promissory note with the City of Frankfort, for the purchase of real property. The note and all current and prior payments were recognized and recorded as of June 30, 2013.

The following is a schedule of future minimum payments required for the Promissory note at June 30, 2013:

Year ending June 30,	
2014	\$ 50,000
2015	50,000
2016	50,000
2017	50,000
2018	50,000
Thereafter	<u>50,000</u>
Total	<u>\$ 300,000</u>

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Long-Term Liabilities, continued

The principal and interest repayment requirements relating to the outstanding bonds payable at June 30, 2013, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2014	\$ 385,000	\$ 143,658	\$ 528,658
2015	210,000	129,701	339,701
2016	215,000	122,089	337,089
2017	225,000	114,241	339,241
2018	230,000	105,916	335,916
2019 – 2023	1,300,000	391,474	1,691,474
2024 – 2027	<u>1,225,000</u>	<u>120,900</u>	<u>1,345,900</u>
Total	<u>\$ 3,790,000</u>	<u>\$ 1,127,979</u>	<u>\$ 4,917,979</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, 2013:

Year ending June 30,	
2014	\$ 616,792
2015	616,792
2016	616,792
2017	616,792
2018	616,792
Thereafter	<u>1,850,376</u>
Total minimum lease payments	4,934,336
Less: amounts representing interest	<u>794,723</u>
Present value of minimum lease payment	<u>\$ 4,139,613</u>

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

8. Operating Lease

The University leases computer equipment under operating leases expiring on August 1, 2014. Lease payments to the lessors under these leases totaled \$125,232 and \$196,807 for the years ended June 30, 2013 and 2012, respectively.

Minimum future lease payments under all leases are as follows:

2014	\$ 125,232
2015	<u>43,691</u>
	<u>\$ 168,923</u>

9. 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 years ended June 30, 2013, 2012 and 2011 were \$2,037,331, \$2,155,711 and \$2,128,980, respectively, and equaled the required contribution for that year.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

9. Employee Benefits, continued

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.

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. The 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 years ended June 30, 2013, 2012 and 2011 were \$1,218,234, \$1,041,753 and \$929,940, 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, 403b 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.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

9. Employee Benefits, continued

Optional Retirement Plan, continued

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 ended June 30, 2013, 2012 and 2011 were \$485,224, \$434,586 and \$412,711, 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. Expenditures for all employee benefits are included as expenditures within the appropriate functional areas.

Effective July 1, 2010, KRS 61.546 states that the value of any accumulated sick leave that is added to the member's service credit in the Kentucky Employees Retirement System (KERS) and Kentucky Teachers Retirement System (KTRS) on or after July 1, 2010 shall be paid to the retirement system by the last participating employer, based upon a formula adopted by the KERS and KTRS Boards. The KERS/KTRS sick leave liability as of June 30, 2013 and 2012 was \$500,000.

10. Commitments and Contingencies

The University is a party to various law suits 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 from 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 audit 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, 2013.

11. Risk Management

The University is exposed to various risks of loss from torts; theft of, damage to, destruction of assets; business interruption; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from 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.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

11. Risk Management, continued

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.

12. Schedule of Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, 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 2013. The tables below summarize operating expenses by functional purpose for the years ended June 30, 2013 and 2012:

2013

	<u>Compensation & Benefits</u>	<u>Supplies & Services</u>	<u>Scholarships & Fellowships</u>	<u>Depreciation</u>	<u>Operations & Maintenance</u>	<u>Total</u>
Instruction	\$ 12,400,132	\$ 1,261,665	\$ 39,442	\$ 648,012	\$ 1,345,441	\$15,694,692
Research	3,698,586	2,085,005	-	797,270	617,047	7,197,908
Public service	4,002,827	1,416,702	-	287,160	535,081	6,241,770
Academic support	2,001,154	1,366,739	-	279,201	341,966	3,989,060
Student services	5,368,188	2,314,885	29,089	477,347	767,880	8,957,389
Institutional support	6,832,234	2,915,953	(75,391)	984,830	1,197,048	11,854,674
Operation & maintenance of plant	2,029,743	3,572,257	-	683,049	(6,285,049)	-
Auxiliary enterprises	1,192,313	5,081,378	-	336,961	619,841	7,230,493
Student financial aid	<u>556,159</u>	<u>344,814</u>	<u>8,261,704</u>	<u>17,238</u>	<u>860,745</u>	<u>10,040,660</u>
Total operating expense	<u>\$ 38,081,336</u>	<u>\$20,359,398</u>	<u>\$ 8,254,844</u>	<u>\$ 4,511,068</u>	<u>\$ -</u>	<u>\$71,206,646</u>

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

12. Schedule of Expenses by Program, continued

2012

	Compensation & <u>Benefits</u>	Supplies & <u>Services</u>	Scholarships & <u>Fellowships</u>	<u>Depreciation</u>	Operations & <u>Maintenance</u>	<u>Total</u>
Instruction	\$ 13,054,252	\$ 1,322,344	\$ 5,001	\$ 644,000	\$ 804,395	\$ 15,829,992
Research	3,480,460	4,188,530	-	681,001	447,016	8,797,007
Public service	3,552,916	2,547,744	12,585	81,150	331,617	6,526,012
Academic support	2,450,151	1,835,938	-	403,533	251,059	4,940,681
Student services	4,423,096	3,012,705	29,106	489,589	425,844	8,380,340
Institutional support	7,214,811	5,450,453	75,391	1,187,787	805,456	14,733,898
Operation & maintenance of plant	2,061,642	1,235,920	-	641,547	(3,939,109)	-
Auxiliary enterprises	1,183,966	4,663,407	17,193	343,800	332,364	6,540,730
Student financial aid	<u>573,460</u>	<u>(404,051)</u>	<u>9,929,449</u>	<u>13,372</u>	<u>541,358</u>	<u>10,653,588</u>
Total operating expense	<u>\$ 37,994,754</u>	<u>\$ 23,852,990</u>	<u>\$ 10,068,725</u>	<u>\$ 4,485,779</u>	<u>\$ -</u>	<u>\$ 76,402,248</u>

13. 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 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

b. Summary of Significant Accounting Policies, continued

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

Basis of Presentation

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

Unrestricted net assets - Net assets that are not subject to donor imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor imposed stipulations that will be met by actions of the Foundation, pursuant to those stipulations or that expire by the passage of time. Assets released from restrictions during 2013 and 2012 primarily relate to scholarships and University and student support.

Permanently restricted net assets - Net assets subject to donor imposed stipulations that neither expire by passage of time nor can be fulfilled or removed by actions of the Foundation pursuant to those stipulations. Permanently restricted net assets from which the income can be used consist of endowment funds restricted for scholarships and operations.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Foundation has a concentration of credit risk in that it periodically maintains bank accounts which, at times, may exceed the coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Foundation has not experienced any losses on such amounts. The Foundation believes it is not exposed to any significant credit risk on cash.

Investments

Investments are stated at fair value based on closing market quotations for such securities or similar securities.

Property and Equipment

Property and equipment is recorded at cost if purchased or fair market value at date of contribution if contributed. If the donors stipulate how long the assets must be used, the contributions of property and equipment are recorded as restricted support. In the absence of such stipulations, these contributions are recorded as unrestricted support. Depreciation is computed on a straight line basis over the estimated useful lives of the respective assets. Depreciation expense was \$17,718 for both of the years ended June 30, 2013 and 2012.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

b. Summary of Significant Accounting Policies, continued

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.

Income Taxes

Kentucky State University Foundation, Inc., a not for profit organization operating under Section 501(c)(3) of the Internal Revenue Code, is generally exempt from federal, state and local income taxes. The Foundation's management does not believe the Foundation has any unrelated business income. Accordingly, no provision for income taxes is recorded in the financial statements.

Management has evaluated the Foundation's tax positions and concluded that the Foundation had taken no material uncertain tax positions that require recognition or disclosure in the financial statements. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2009.

Subsequent Events

The Foundation's management has evaluated subsequent events for accounting and disclosure requirements through December 2, 2013, the date the financial statements were available to be issued. There were no events occurring during the evaluation period that require recognition or disclosure in the financial statements.

Reclassification

During 2013, the Foundation determined that certain amounts were improperly classified between the net asset categories. Certain amounts have been reclassified to more accurately reflect the net asset balances of the Foundation based on donor intent. This reclassification had no effect on total change in net assets or total net assets.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

c. Investments

Investments as of June 30, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Equity securities	\$ 5,860,545	\$ 4,447,689
Debt securities	1,202,729	1,580,239
U.S government securities	<u>861,443</u>	<u>1,083,521</u>
Total investments	<u>\$ 7,924,717</u>	<u>\$ 7,111,449</u>

d. Fair Value Measurements

The Foundation classifies its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs). The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

There have been no changes in the methodologies used as of June 30, 2013 and 2012.

Common stocks, debt securities, U.S. government securities, equity exchange traded funds, marketable limited partnerships, and equity securities: Valued at the closing price reported on the active market on which the individual securities are traded. Some level 2 inputs are used for pricing of municipal and corporate bonds; therefore, they are all classified as level 2.

Mutual funds and real estate investment trust: Valued at the net asset value (NAV) of shares held by the Foundation at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

d. Fair Value Measurements, continued

Fair value measurements as of June 30, 2013 are as follows:

	Level 1	Level 2	Level 3	Total
Common stocks	\$ 3,720,273	\$ -	\$ -	\$ 3,720,273
Mutual funds:				
Bond funds	279,862	-	-	279,862
Daily accrual funds	259,993	-	-	259,993
Small cap equity funds	117,643	-	-	117,643
Mid cap equity funds	126,293	-	-	126,293
International equity funds	803,320	-	-	803,320
Balanced equity funds	144,846	-	-	144,846
Debt securities:				
Municipal bonds	-	232,207	-	232,207
Corporate bonds	-	970,522	-	970,522
U.S government securities	861,443	-	-	861,443
Real estate investment trust	-	140,400	-	140,400
Equity exchange traded funds	137,742	-	-	137,742
Marketable limited partnerships	130,173	-	-	130,173
Total	<u>\$ 6,581,588</u>	<u>\$ 1,343,129</u>	<u>\$ -</u>	<u>\$ 7,924,717</u>

Fair value measurements as of June 30, 2012 are as follows:

	Level 1	Level 2	Level 3	Total
Equity securities	\$ 4,447,689	\$ -	\$ -	\$ 4,447,689
Debt securities	-	1,580,239	-	1,580,239
U.S government securities	1,083,521	-	-	1,083,521
Total	<u>\$ 5,531,210</u>	<u>\$ 1,580,239</u>	<u>\$ -</u>	<u>\$ 7,111,449</u>

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

e. Temporarily Restricted Net Assets

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

For the years ended June 30, 2013 and 2012, net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restrictions specified by donors as follows:

	<u>2013</u>	<u>2012</u>
Scholarships	\$ 79,436	\$ 36,655
University support	246,466	175,507
Operating and other expenses	126,186	31,134
Interfund management fees	158,876	20,289
Student support	86,493	35,991
Travel and other expenses	<u>57,788</u>	<u>58,386</u>
Total released from restrictions	<u>\$ 755,245</u>	<u>\$ 357,962</u>

f. Permanently Restricted Net Assets

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

For the years ended June 30, 2013 and 2012, net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restrictions by donors as follows:

	<u>2013</u>	<u>2012</u>
Scholarships	\$ -	\$ 38,630
Operating and other expenses	-	22,924
Interfund management fees	<u>-</u>	<u>127,460</u>
Total restrictions released	<u>\$ -</u>	<u>\$ 189,014</u>

g. Retirement Plan

The Foundation has a defined contribution profit sharing plan which covers all employees who meet certain requirements. Foundation contributions are discretionary. No contributions were made for the years ended June 30, 2013 and 2012.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

h. Endowment Composition

On July 15, 2010, The Commonwealth of Kentucky adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The University follows UPMIFA and its own governing documents. The University has interpreted UPMIFA as requiring the preservation of the corpus of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, and other amounts as deemed necessary by the board. As a result of this interpretation, the University classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The University has determined that the balance of its endowments includes funds on which there is no restriction on the use of the investment income or net appreciation, as well as funds that require that the income and net appreciation be restricted to certain uses for the benefit of participants.

Upon review, the University has determined that appropriate expenditures have been made to meet all donor restrictions regarding balances recorded in the endowment fund.

The University employs a conservative endowment spending policy which is evaluated annually. The amount of earnings distributed annually is based on an analysis of many factors including, the amount of earnings available to be distributed, as well as, the long and short term financial needs of the University. The University manages its long-term investments in accordance with the total return concept and the goal of maximizing long-term return within acceptable levels of risk. The University's spending policy is designed to provide a stable level of financial support and to preserve the real value of its endowment.

Endowment net asset composition by type of fund as of June 30, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 4,164,902	\$ 3,227,786	\$ 7,392,688

Endowment net asset composition by type of fund as of June 30, 2012 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ -	\$ 6,695,773	\$ 6,695,773

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

h. Endowment Composition, continued

Changes in endowment net assets as of June 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ -	\$ -	\$ 6,695,773	\$ 6,695,773
Contributions	-	-	82,224	82,224
Interest and dividends	-	192,093	-	192,093
Realized and unrealized gains	-	637,668	-	637,668
Amounts appropriated for expenditure	-	(215,070)	-	(215,070)
Reclassifications	-	3,550,211	(3,550,211)	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 4,164,902</u>	<u>\$ 3,227,786</u>	<u>\$ 7,392,688</u>

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Report of Independent Auditors

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kentucky State University (the University) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Kentucky State University's basic financial statement as listed on the table of contents, and have issued our report thereon dated December 2, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness, finding 2013-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency, finding 2013-002.

Compliance and Other Matters

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

The University's Response to Findings

The University's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Dean Dotson Allen Ford, PLLC

December 2, 2013
Lexington, Kentucky

KENTUCKY STATE UNIVERSITY

Schedule of Findings and Responses

Year ended June 30, 2013

Section I – Summary of Auditors' Results:

Financial Statements:

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

Section II – Financial Statement Findings:

Finding 2013-001:

Condition:

During the year ended June 30, 2013 the University did not have adequate controls over financial reporting to allow for timely, accurate financial reporting. All general ledger accounts were not reconciled to subsidiary ledgers or other supporting detail at least on a quarterly basis.

Effect:

During the audit several adjusting journal entries which impacted the years ended June 30, 2013, 2012, and prior years, were recorded to accurately reflect the financial position of the University as of June 30, 2013. These journal entries primarily related to the reconciliation of student accounts receivable, grants receivable and the accrual of the sick leave liability. The sick leave liability was required by KRS 61.456 beginning with the year ended June 30, 2011. Net Position for years prior to the year ended June 30, 2012 was decreased by \$2,368,336 as a result of these entries and Change in Net Position for the year ended June 30, 2012 was decreased by \$809,127 as a result of these entries.

KENTUCKY STATE UNIVERSITY

Schedule of Findings and Responses, continued

Year ended June 30, 2013

Finding 2013-001, continued:

Recommendation:

We recommend the University implement internal control procedures which require general ledger accounts to be reconciled at least quarterly. Not having accurate transactions posted in a timely manner can affect the financial statement information that is available for making informed business decisions and supervision of operations. This weakness in accounting infrastructure increases the risk of errors in the financial records and is less likely to detect irregularities, including fraud, on a timely basis. The quarterly reconciliation process allows for the preparation of accurate quarterly financial statements. The reconciliations of significant accounts should be reviewed as part of the quarterly financial statement package in preparation for presentation of the financial statements to the Board of Regents. Management should then satisfy itself as to the nature of any unusual reconciling items before authorizing adjustments to correct the balances. These adjustments should be thoroughly documented and promptly made so that it will not be necessary to carry them forward to the next reconciliation.

Management's Response:

KSU will implement procedures which require general ledger accounts to be reconciled on a regular basis. All reconciliations will be reviewed by department management prior to completion of the quarterly financial statement package. All reconciling items will be documented and prompt adjustments (if necessary) will ensue.

Finding 2013-002:

Condition:

Prompt, accurate reconciliations of the student, grant, and other accounts receivable subsidiary ledgers to the general ledger account balances should be prepared at least on a quarterly basis. Included in this reconciliation should be a review of the aging of the receivables and a calculation of the allowance that is based on University policy. This reconciliation and associated allowance calculation should be submitted for management's review and approval.

Effect:

The University posted an adjusting journal entry to reconcile student and grant accounts receivable to the general ledger account balances and to increase the allowance for doubtful accounts subsequent to year end. Increased management effort in this area can result in a reduction in the number and amount of delinquent and potentially worthless receivables. The positive results from this process may include significantly improved cash flow and profitability and should minimize the need for a year-end adjustment of this account.

KENTUCKY STATE UNIVERSITY

Schedule of Findings and Responses, continued

Year ended June 30, 2013

Finding 2013-002, continued:

Recommendation:

We recommend the University complete reconciliation's of the student, grant, and other accounts receivable subsidiary ledgers to the general ledger account balances at least on a quarterly basis and assess the collectability of all receivables, especially student receivables on a quarterly basis.

The following formal collection procedures should be established:

- The continuous review of accounts receivable for old and slow-paying accounts.
- A formal periodic review of the account receivable aged trial balance.
- The implementation of formalized procedures for contacting delinquent accounts for payment, such as sending letters to slow-paying customers.
- The increased use of collection agencies and the department of revenue to aid in collecting delinquent accounts.

Management's Response:

We concur. In addition to working with our current collection agencies, the University has submitted an application to the Kentucky Department of Revenue to aid in the collection of delinquent accounts. The University has begun the continuous review of accounts receivable for old and slow-paying accounts. The University has also implemented "The Thoroughbred Plan" which will assist in collections for currently enrolled students with balances.