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## Report of Independent Auditors

Board of Trustees  
Morehead State University Foundation, Inc.  
Morehead, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of Morehead State University Foundation, Inc. (the Foundation) which comprise the statements of financial position as of June 30, 2015 and 2014, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morehead State University Foundation, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 12 to the financial statements, the Foundation was notified subsequent to June 30, 2015 that a pledge receivable with a year-end net present value of \$1,198,817, would not be honored. The Foundation has chosen to record this transaction as an expense during the year ending June 30, 2016. Our opinion is not modified with respect to this matter.

*Dean Dotson Allen Ford, PLLC*

September 18, 2015  
Lexington, Kentucky

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statements of Financial Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 2,207,340	\$ 1,424,084
Accrued interest receivable	2,372	2,752
Accounts receivable	50,000	60,000
Current portion of pledges receivable	1,019,933	1,726,224
Current portion of net investment in capital leases	<u>49,187</u>	<u>78,623</u>
Total current assets	3,328,832	3,291,683
Noncurrent assets:		
Investments, at fair value	43,293,270	43,894,298
Cash surrender value – life insurance	113,381	107,228
Property and equipment, net	231,660	227,131
Pledges receivable, net of current portion	3,731,893	3,739,012
Net investment in capital leases, net of current portion	<u>301,534</u>	<u>350,721</u>
Total noncurrent assets	<u>47,671,738</u>	<u>48,318,390</u>
Total assets	<u>\$ 51,000,570</u>	<u>\$ 51,610,073</u>

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statements of Financial Position, continued

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of annuities payable	\$ 219,448	\$ 215,448
Due to Morehead State University	<u>1,610,408</u>	<u>131,180</u>
Total current liabilities	1,829,856	346,628
Long-term liabilities:		
Funds held in trust for Morehead State University	12,014,828	12,014,828
Annuities payable, net of current portion	<u>960,620</u>	<u>1,019,312</u>
Total long-term liabilities	<u>12,975,448</u>	<u>13,034,140</u>
Total liabilities	14,805,304	13,380,768
Net assets:		
Unrestricted	(2,860,452)	(1,515,236)
Temporarily restricted	18,492,341	20,525,078
Permanently restricted	<u>20,563,377</u>	<u>19,219,463</u>
Total net assets	<u>36,195,266</u>	<u>38,229,305</u>
Total liabilities and net assets	<u>\$ 51,000,570</u>	<u>\$ 51,610,073</u>

*See accompanying notes.*

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statements of Activities

Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 263,490	\$ 1,543,186	\$ 1,343,914	\$ 3,150,590
Other revenue and gains:				
Investment income:				
Interest and dividend income, net	18,341	434,389	-	452,730
Realized and unrealized gains (losses)	2,875	(560,336)	-	(557,461)
In-kind contributed services	81,276	-	-	81,276
Development activities	455,528	281,315	-	736,843
Other income	62,118	38,361	-	100,479
Annuities payable adjustment	(142,526)	-	-	(142,526)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>3,769,652</u>	<u>(3,769,652)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	4,510,754	(2,032,737)	1,343,914	3,821,931
 Expenses:				
Program expenses:				
Contributions to Morehead State				
University for:				
Academic programs	3,763,372	-	-	3,763,372
Athletics	256,990	-	-	256,990
University support:				
Operations and materials	857,062	-	-	857,062
Student financial aid	533,965	-	-	533,965
Athletics	<u>123,307</u>	<u>-</u>	<u>-</u>	<u>123,307</u>
Total program expenses	5,534,696	-	-	5,534,696
General and administrative	237,855	-	-	237,855
Fundraising	<u>83,419</u>	<u>-</u>	<u>-</u>	<u>83,419</u>
Total expenses	<u>5,855,970</u>	<u>-</u>	<u>-</u>	<u>5,855,970</u>
 Change in net assets	(1,345,216)	(2,032,737)	1,343,914	(2,034,039)
 Net assets, beginning of year	<u>(1,515,236)</u>	<u>20,525,078</u>	<u>19,219,463</u>	<u>38,229,305</u>
Net assets, end of year	<u>\$ (2,860,452)</u>	<u>\$ 18,492,341</u>	<u>\$ 20,563,377</u>	<u>\$ 36,195,266</u>

See accompanying notes.

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statements of Activities

Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 697,554	\$ 5,328,272	\$ 1,173,102	\$ 7,198,928
Other revenue and gains:				
Investment income:				
Interest and dividend income, net	18,160	637,169	-	655,329
Realized and unrealized gains	5,847	4,589,937	-	4,595,784
In-kind contributed services	102,377	-	-	102,377
Development activities	412,805	232,324	-	645,129
Other income	56,292	31,681	-	87,973
Annuities payable adjustment	(142,457)	-	-	(142,457)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>2,956,057</u>	<u>(2,956,057)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	4,106,635	7,863,326	1,173,102	13,143,063
Expenses:				
Program expenses:				
Contributions to Morehead State				
University for:				
Academic programs	1,965,410	-	-	1,965,410
Athletics	181,295	-	-	181,295
University support:				
Operations and materials	848,384	-	-	848,384
Student financial aid	489,203	-	-	489,203
Athletics	<u>80,736</u>	<u>-</u>	<u>-</u>	<u>80,736</u>
Total program expenses	3,565,028	-	-	3,565,028
General and administrative	283,930	-	-	283,930
Fundraising	<u>27,317</u>	<u>-</u>	<u>-</u>	<u>27,317</u>
Total expenses	<u>3,876,275</u>	<u>-</u>	<u>-</u>	<u>3,876,275</u>
Change in net assets	230,360	7,863,326	1,173,102	9,266,788
Net assets, beginning of year	<u>(1,745,596)</u>	<u>12,661,752</u>	<u>18,046,361</u>	<u>28,962,517</u>
Net assets, end of year	<u>\$ (1,515,236)</u>	<u>\$ 20,525,078</u>	<u>\$ 19,219,463</u>	<u>\$ 38,229,305</u>

See accompanying notes.

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statements of Cash Flows

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (2,034,039)	\$ 9,266,788
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized losses (gains) on investments	557,461	(4,595,784)
Increase in cash surrender value – life insurance	(6,153)	(47,308)
Depreciation	15,170	13,013
Bad debt expense	27,122	165,311
Contributions to permanent endowment	(1,343,914)	(1,173,102)
(Gain) loss on sale of property and equipment	(4,000)	884
Computational adjustment of annuities payable	142,526	142,457
Interest income on capital leases	(32,872)	(37,477)
Life insurance benefits received in dividends	10,000	-
Increase (decrease) in cash due to changes in:		
Accrued interest receivable	380	606
Pledges receivable, net	686,288	(3,370,900)
Annuities payable	14,604	48,985
Due to Morehead State University	<u>1,479,228</u>	<u>99,252</u>
Net cash (used in) provided by operating activities	(488,199)	512,725
<b>Cash flows from investing activities:</b>		
Changes in investments, net	43,567	(878,692)
Proceeds from payments on capital leases	111,495	111,495
Proceeds from sale of property and equipment	4,000	-
Purchase of property and equipment	<u>(19,699)</u>	<u>(31,709)</u>
Net cash provided by (used in) investing activities	139,363	(798,906)
<b>Cash flows from financing activities:</b>		
Payments of annuities payable	(211,822)	(200,233)
Proceeds from contributions to permanent endowment	<u>1,343,914</u>	<u>1,173,102</u>
Net cash provided by financing activities	<u>1,132,092</u>	<u>972,869</u>
Net increase in cash	783,256	686,688
Cash, beginning of year	<u>1,424,084</u>	<u>737,396</u>
Cash, end of year	<u>\$ 2,207,340</u>	<u>\$ 1,424,084</u>
<b>Supplemental disclosure of cash flow information:</b>		
Noncash investing activity:		
Accounts receivable for life insurance benefits	\$ -	\$ 60,000

See accompanying notes.



## MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

### Notes to the Financial Statements

#### 1. Description of Organization

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

#### 2. Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Foundation in the preparation of its financial statements.

##### Basis of Presentation

The Foundation's financial statements are presented in accordance with GAAP. Under these standards net assets and revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

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

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

## MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

### Notes to the Financial Statements, continued

#### 2. Summary of Significant Accounting Policies, continued

##### Cash

The Foundation maintains its cash balances in financial institutions, which at times, may exceed federally insured limits. The Foundation has not experienced any losses on such accounts. The Foundation believes it is not exposed to any significant credit risk related to its cash balances.

##### Revenue Recognition

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

##### Pledges Receivable

Pledges receivable of amounts greater than \$500, less an appropriate allowance amount, are recorded at the net present value of estimated future cash flows using a discount rate commensurate with the risks involved. Net present value was computed using discount rates ranging from .72% to 5.25%, depending upon the age of the pledge and the expected timing of the payment.

Pledges receivable are presented net of an allowance for doubtful accounts (\$527,981 and \$607,248 as of June 30, 2015 and 2014, respectively). The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. The allowance represents an amount, which in management's judgment, will be adequate to absorb probable losses on existing pledges that may become uncollectible.

##### Investments

Investments in mutual funds having a readily determinable fair value and all debt securities are carried at fair value. Investment returns include dividend, interest and other investment income and realized and unrealized gains and losses on investments carried at fair value. Investment returns that are initially restricted by donor stipulation and for which the restriction will be satisfied in the same year are included as unrestricted net assets. Other investment returns are reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

## MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

### Notes to the Financial Statements, continued

#### 2. Summary of Significant Accounting Policies, continued

##### Property and Equipment

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

##### Annuities Payable

The Foundation pays stipulated amounts periodically to individuals (annuitants) who have given to the Foundation certain assets and who have entered into agreements that such payments cease at the death of the annuitant. Total annuity payments for the years ended June 30, 2015 and 2014 were \$211,822 and \$200,233 respectively.

The June 30, 2015 and 2014 annuity liability balances of \$1,180,168 and \$1,234,760, respectively are the present values of the monthly, quarterly, or semiannual payments to the annuitants based on the life expectancies of the annuitants and interest rates ranging from .69% to 4.39%. The estimated remaining life expectancies of the annuitants ranged from 3.7 to 17.5 years and 4.0 to 18.2 years for the years ended June 30, 2015 and 2014, respectively.

##### Due to Morehead State University

Contributions were made to the Foundation related to a program that the University has prefunded. The Foundation and the University have agreed that contributions made to the Foundation on behalf of this program will be remitted to the University annually. In accordance with GAAP, the contributions have been included as a liability on the Foundation's statements of financial position.

##### Funds Held in Trust for Morehead State University

The Foundation is the custodian of funds owned by the University for the purpose of establishing certain endowment funds as authorized by the Kentucky Council on Postsecondary Education and the Kentucky General Assembly. The Foundation invests the principal with a portion of the income derived from the principal to be remitted annually to the University. For the years ended June 30, 2015 and 2014, the Foundation held \$12,014,828 for the University's investment purposes.

## MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

### Notes to the Financial Statements, continued

#### 2. Summary of Significant Accounting Policies, continued

##### Income Taxes

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

##### Contributions

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

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

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

## MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Notes to the Financial Statements, continued

### 2. Summary of Significant Accounting Policies, continued

#### Donated Materials and Property

Donated materials and property are recorded at their estimated fair value when received. The statements of activities for the years ended June 30, 2015 and 2014 include in-kind contributions of \$325,905 and \$406,118, respectively.

#### Functional Allocation of Expenses

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

#### Subsequent Events

Management has evaluated the period from July 1, 2015 to September 18, 2015, the date the financial statements were ready to be issued. Except as disclosed in Note 12, there were no events occurring during the evaluation period that require recognition or disclosure in the financial statements.

### 3. Investments

Investments held as of June 30, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Mutual funds	\$ 28,378,486	\$ 28,059,163
Alternative investments	14,711,067	15,635,481
Corporate bonds and stocks	53,919	54,219
Annuity investments	<u>149,798</u>	<u>145,435</u>
Total investments at fair value	<u>\$ 43,293,270</u>	<u>\$ 43,894,298</u>

Investment management fees were approximately \$95,500 and \$92,000 during the years ended June 30, 2015 and 2014, respectively.

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Notes to the Financial Statements, continued

**4. Fair Value Measurements**

The Foundation has determined the fair value of certain assets and liabilities through application of GAAP.

June 30, 2015	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Equity				
U.S. Large Cap	\$ 6,892,368	\$ 6,892,368	\$ -	\$ -
U.S. Small Cap	3,482,958	3,482,958	-	-
International	5,459,412	5,459,412	-	-
Global	1,699,926	1,699,926	-	-
Fixed income and cash:				
Cash	1,567,452	1,567,452	-	-
Core	6,512,938	6,512,938	-	-
Non-core/tactical	2,763,432	2,763,432	-	-
Alternative investments:				
Hedge funds	9,843,588	-	-	9,843,588
Real assets	4,319,020	-	-	4,319,020
Private equity	548,459	-	-	548,459
Corporate bonds and stocks	53,919	53,919	-	-
Annuity investment	149,798	149,798	-	-
Total assets	\$ 43,293,270	\$ 28,582,203	\$ -	\$ 14,711,067

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Notes to the Financial Statements, continued

**4. Fair Value Measurements, continued**

Financial assets and liabilities valued using level 3 inputs are valued as follows:

Quantitative Information about Level 3 Fair Value Measurements		
	Valuation Techniques	Unobservable Inputs
Hedge funds	Capital contribution adjusted for allocated profits and losses based upon participation percentage (investor capital account divided total capital accounts) as determined at the beginning of the fiscal year.	<ul style="list-style-type: none"> <li>- Valuation and performance of underlying fund(s) being invested in by the hedge fund</li> <li>- Diversification of the underlying fund(s)</li> <li>- Leverage model used by the underlying fund(s)</li> </ul>
Real assets	Investment is in various funds, which are valued individually using the following methods: 1) Capped, float-adjusted, capitalization-weighted methodology  2) Net asset value of underlying companies/funds being invested in, which hold real estate  3) Current appraisal values and market information for properties held  4) Market comparable companies	<ul style="list-style-type: none"> <li>- Valuation and performance of underlying fund(s) being invested in</li> <li>- Diversification of the underlying fund(s)</li> <li>- Leverage model used by the underlying fund(s)</li> <li>- Relative health of industry in which real assets held are associated with</li> </ul>
Private equities	Market comparable companies	<ul style="list-style-type: none"> <li>- Discount for lack of marketability</li> <li>- Control premium</li> <li>- Threats from competition and regulatory environment</li> </ul>

There have been no changes in the methodology used to determine the fair market value at June 30, 2015 and 2014.

## MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

### Notes to the Financial Statements, continued

#### 4. Fair Value Measurements, continued

##### Donor-Designated Endowments, continued

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

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

The current financial management and investment policy establishes an annual maximum approved spending goal for distributions of up to 3.5% of endowment assets, a combined Foundation management fee to support the annual operating budget and investment consultant fees shall not be greater than 2.5% of the portfolio value, and therefore the long-term target minimum annual return shall be 6.0%. In order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed more than 10% of total, and no more than 25% of total should be invested in any one sector.

The Foundation's investments include endowment investments for the University associated with the Technology Endowment Program and RUETF Endowment Match Program, also known as "Bucks for Brains". Funds held for the Technology Endowment Program are matched by the University of at least one dollar for every dollar of grant funds. As of both June 30, 2015 and 2014, the amount of funds included in the Foundation's investments held for the Technology Endowment Program was \$290,229. Funds held for the RUETF Endowment Match Program are endowed for the purposes of supporting endowed chairs and professorships, scholarships, fellowships, research funds, and mission support funds. As of June 30, 2015 and 2014, the amount of funds included in the Foundation's investments held for the RUETF Endowment Match Program was \$11,724,599 each year. These amounts are shown as funds held in trust for Morehead State University on the statements of financial position and are therefore not included in donor-designated endowment net assets.



**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Notes to the Financial Statements, continued

**4. Fair Value Measurements, continued**

Donor-Designated Endowments, continued

Endowment net asset composition by fund type and changes in endowment net assets by fund type as of June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ 12,966,108	\$ 19,219,463	\$ 32,185,571
Contributions	-	-	1,343,914	1,343,914
Interest and dividend income	-	355,125	-	355,125
Net depreciation	-	(560,336)	-	(560,336)
Amounts appropriated for expenditure	-	(525,593)	-	(525,593)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 12,235,304</u>	<u>\$ 20,563,377</u>	<u>\$ 32,798,681</u>

Endowment net asset composition by fund type and changes in endowment net assets by fund type as of June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ 8,664,493	\$ 18,046,361	\$ 26,710,854
Contributions	-	-	1,173,102	1,173,102
Interest and dividend income	-	545,407	-	545,407
Net appreciation	-	4,589,937	-	4,589,937
Amounts appropriated for expenditure	-	(833,729)	-	(833,729)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 12,966,108</u>	<u>\$ 19,219,463</u>	<u>\$ 32,185,571</u>

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Notes to the Financial Statements, continued

**5. Pledges Receivable**

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

Year ended June 30,		
2016	\$	1,287,593
2017		1,104,699
2018		845,550
2019		799,712
2020		753,190
Thereafter		<u>756,723</u>
		5,547,467
Less: present value discount		(267,660)
Less: allowance for uncollectible pledges		<u>(527,981)</u>
Pledges receivable, net		4,751,826
Less: current pledges receivable		<u>(1,019,933)</u>
Noncurrent pledges receivable	\$	<u>3,731,893</u>

**6. Property and Equipment**

Property and equipment as of June 30, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 53,000	\$ 53,000
Furniture and equipment	158,555	158,616
Buildings	<u>175,000</u>	<u>175,000</u>
	386,555	386,616
Less: accumulated depreciation	<u>(154,895)</u>	<u>(159,485)</u>
	<u>\$ 231,660</u>	<u>\$ 227,131</u>

Depreciation expense was \$15,170 and \$13,013 for the years ended June 30, 2015 and 2014, respectively.

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Notes to the Financial Statements, continued

**7. Deferred Giving Program**

The Foundation established a life insurance deferred giving program during 1983. The program consists of donors designating the Foundation as the owner and beneficiary of life insurance policies. There are twenty deferred giving programs with life insurance in effect totaling \$928,042 and \$625,000 for the years ended June 30, 2015 and 2014, respectively. The cash surrender value of these policies as of June 30, 2015 and 2014 is \$113,381 and \$107,228, respectively.

**8. Support for Morehead State University**

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

**9. Net Investment in Capital Leases**

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

	<u>2015</u>	<u>2014</u>
Total minimum lease payments to be received	\$ 473,925	\$ 585,419
Less: unearned income	<u>(123,204)</u>	<u>(156,075)</u>
Net investment in capital leases	<u>\$ 350,721</u>	<u>\$ 429,344</u>

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

2016	\$	77,700
2017		70,941
2018		70,941
2019		64,631
2020		52,013
Thereafter		<u>137,699</u>
	<u>\$</u>	<u>473,925</u>

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Notes to the Financial Statements, continued

**10. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available at June 30 for the following purposes:

	<u>2015</u>	<u>2014</u>
Funds restricted for specific purposes	\$ 18,291,729	\$ 20,298,343
Scholarships	29,289	15,455
Athletics	<u>171,323</u>	<u>211,280</u>
	<u>\$ 18,492,341</u>	<u>\$ 20,525,078</u>

Permanently restricted net assets at June 30, 2015 and 2014 consist of endowment funds.

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

	<u>2015</u>	<u>2014</u>
Cash	\$ 818,517	\$ 1,295,349
Pledges receivable	4,159,047	4,892,022
Accounts receivable	50,000	60,000
Investments	12,985,304	13,716,111
Buildings	128,752	132,252
Net investment in capital leases	<u>350,721</u>	<u>429,344</u>
	<u>\$ 18,492,341</u>	<u>\$ 20,525,078</u>

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

	<u>2015</u>	<u>2014</u>
Cash	\$ 1,388,823	\$ 128,734
Pledges receivable	160,585	206,539
Investments	18,960,969	18,831,190
Land	<u>53,000</u>	<u>53,000</u>
	<u>\$ 20,563,377</u>	<u>\$ 19,219,463</u>

## MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Notes to the Financial Statements, continued

### 11. Related-Party Transactions

The University entered into an agreement with the Foundation where the University will provide personnel, office space, support equipment and other services that may be necessary to the operation of the Foundation. The Foundation reimburses the University for these services at a rate determined mutually by the two entities, \$181,868 and \$179,503 for the years ended June 30, 2015 and 2014, respectively. GAAP requires recognition of professional services received if those services (a) create long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Those services in excess of the agreed upon amount are considered in-kind contributed services and are treated as both revenue and expense to the Foundation.

Related party transactions and balances are as follows during 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 81,276	\$ 102,377
Funds due to the University by the Foundation	1,610,408	131,180

Transactions with the University include direct financing capital leases and support for the University as disclosed in Notes 8 and 9.

### 12. Subsequent Events

In August 2015, the Foundation sold investments held within its endowment totaling \$1,784,897. The proceeds were transferred to Morehead State University to fund a capital project.

In September 2015, the Foundation was notified by a donor that their pledge would not be honored due to unforeseen circumstances. The net present value of the pledge receivable at June 30, 2015 was \$1,198,817. The Foundation has chosen to recognize this transaction as an expense during the year ending June 30, 2016.