

**MOREHEAD STATE UNIVERSITY
FOUNDATION, INC.**

Financial Statements

*Years Ended June 30, 2014 and 2013
with Report of Independent Auditors*

CONTENTS

Pages

Report of Independent Auditors	1 - 2
Financial Statements:	
Statements of Financial Position	3 - 4
Statements of Activities.....	5 - 6
Statements of Cash Flows	7
Notes to the Financial Statements.....	8 - 22

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, 2014 and 2013, and 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, 2014 and 2013, 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.

Dean Dotson Allen Ford, PLLC

September 24, 2014
Lexington, Kentucky

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current assets:		
Cash	\$ 1,424,084	\$ 737,396
Accrued interest receivable	2,752	3,358
Accounts receivable	60,000	-
Current portion of pledges receivable	1,726,224	870,620
Current portion of net investment in capital leases	<u>78,623</u>	<u>74,018</u>
Total current assets	3,291,683	1,685,392
Noncurrent assets:		
Investments, at fair value	43,894,298	38,419,822
Cash surrender value – life insurance	107,228	119,920
Property and equipment, net	227,131	209,319
Pledges receivable, net of current portion	3,739,012	1,389,027
Net investment in capital leases, net of current portion	<u>350,721</u>	<u>429,344</u>
Total noncurrent assets	<u>48,318,390</u>	<u>40,567,432</u>
Total assets	<u>\$ 51,610,073</u>	<u>\$ 42,252,824</u>

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position, concluded

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of annuities payable	\$ 215,448	\$ 201,948
Due to Morehead State University	<u>131,180</u>	<u>31,928</u>
Total current liabilities	346,628	233,876
Long-term liabilities:		
Funds held in trust for Morehead State University	12,014,828	12,014,828
Annuities payable, net of current portion	<u>1,019,312</u>	<u>1,041,603</u>
Total long-term liabilities	<u>13,034,140</u>	<u>13,056,431</u>
Total liabilities	13,380,768	13,290,307
Net assets:		
Unrestricted	(1,515,236)	(1,745,596)
Temporarily restricted	20,525,078	12,661,752
Permanently restricted	<u>19,219,463</u>	<u>18,046,361</u>
Total net assets	<u>38,229,305</u>	<u>28,962,517</u>
Total liabilities and net assets	<u>\$ 51,610,073</u>	<u>\$ 42,252,824</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 Activities

Year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 311,534	\$ 1,148,778	\$ 644,629	\$ 2,104,941
Other revenue and gains:				
Investment income:				
Interest and dividend income, net	16,026	560,589	-	576,615
Realized and unrealized gains	2,698	2,568,260	-	2,570,958
In-kind contributed services	99,499	-	-	99,499
Development activities	431,368	294,245	-	725,613
Other income	58,823	40,124	-	98,947
Annuities payable adjustment	(134,870)	-	-	(134,870)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>2,150,192</u>	<u>(2,150,192)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	2,935,270	2,461,804	644,629	6,041,703
Expenses:				
Program expenses:				
Contributions to Morehead State				
University for:				
Academic programs	1,148,462	-	-	1,148,462
Athletics	202,287	-	-	202,287
University support:				
Operations and materials	758,823	-	-	758,823
Student financial aid	506,177	-	-	506,177
Athletics	<u>111,490</u>	<u>-</u>	<u>-</u>	<u>111,490</u>
Total program expenses	2,727,239	-	-	2,727,239
General and administrative	191,633	-	-	191,633
Fundraising	<u>34,775</u>	<u>-</u>	<u>-</u>	<u>34,775</u>
Total expenses	<u>2,953,647</u>	<u>-</u>	<u>-</u>	<u>2,953,647</u>
Change in net assets	(18,377)	2,461,804	644,629	3,088,056
Net assets, beginning of year	<u>(1,727,219)</u>	<u>10,199,948</u>	<u>17,401,732</u>	<u>25,874,461</u>
Net assets, end of year	<u>\$ (1,745,596)</u>	<u>\$ 12,661,752</u>	<u>\$ 18,046,361</u>	<u>\$ 28,962,517</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 9,266,788	\$ 3,088,056
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(4,595,784)	(2,570,958)
Increase in cash surrender value – life insurance	(47,308)	(4,204)
Depreciation	13,013	12,468
Bad debt expense	165,311	59,991
Contributions to permanent endowment	(1,173,102)	(644,629)
Loss on sale of property and equipment	884	-
Computational adjustment of annuities payable	142,457	134,870
Interest income on capital leases	(37,477)	(47,392)
Increase (decrease) in cash due to changes in:		
Accrued interest receivable	606	2,354
Pledges receivable, net	(3,370,900)	165,571
Accrued liabilities	-	(23,954)
Annuities payable	48,985	-
Due to Morehead State University	99,252	(29,020)
Net cash provided by operating activities	512,725	143,153
Cash flows from investing activities:		
Changes in investments, net	(878,692)	(931,473)
Proceeds from contributions to permanent endowment	1,173,102	644,629
Proceeds from payments on capital leases	111,495	234,030
Purchase of property and equipment	(31,709)	(1,000)
Net cash provided by (used in) investing activities	374,196	(53,814)
Cash flows from financing activities:		
Payments of annuities payable	(200,233)	(196,919)
Net cash used in financing activities	(200,233)	(196,919)
Net increase (decrease) in cash	686,688	(107,580)
Cash, beginning of year	737,396	844,976
Cash, end of year	\$ 1,424,084	\$ 737,396
Supplemental disclosure of cash flow information:		
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 (\$607,248 and \$263,922 as of June 30, 2014 and 2013, respectively). The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. The allowance represents an amount, which in management's judgment, will be adequate to absorb probable losses on existing pledges that may become uncollectible.

Investments

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

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, 2014 and 2013 were \$200,233 and \$196,919, respectively.

The June 30, 2014 and 2013 annuity liability balances of \$1,234,760 and \$1,243,551, 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 4.0 to 18.2 years and 4.2 to 18.9 years for the years ended June 30, 2014 and 2013, 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, 2014 and 2013, 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.

The Foundation has evaluated the tax positions taken on all income tax returns that remain open to examination by the respective taxing authorities (those returns filed for the years 2010 through 2013) and does not believe there are any uncertain positions on those returns that should impact the financial statements.

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, 2014 and 2013 include in-kind contributions of \$406,118 and \$339,088, 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 subsequent events for accounting and disclosure requirements through September 24, 2014, the date the financial statements were available to be issued.

Reclassifications

Certain accounts in the 2013 financial statements have been reclassified to conform with the 2014 presentation with no effect on net assets or changes in net assets.

3. Investments

Investments held as of June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Certificates of deposit	\$ -	\$ 83,813
Mutual funds	28,059,163	24,614,332
Alternative investments	15,635,481	13,537,331
Corporate bonds and stocks	54,219	43,170
Annuity investments	<u>145,435</u>	<u>141,176</u>
Total investments at fair value	<u>\$ 43,894,298</u>	<u>\$ 38,419,822</u>

Investment management fees were approximately \$92,000 and \$84,000 during the years ended June 30, 2014 and 2013, 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, 2014	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	\$ 6,677,186	\$ 6,677,186	\$ -	\$ -
U.S. Small Cap	3,533,021	3,533,021	-	-
International	6,210,060	6,210,060	-	-
Global	1,815,896	1,815,896	-	-
Fixed income and cash:				
Cash	1,323,400	1,323,400	-	-
Core	5,669,000	5,669,000	-	-
Non-core/tactical	2,830,600	2,830,600	-	-
Alternative investments:				
Hedge funds	9,730,685	-	-	9,730,685
Real assets	5,367,618	-	-	5,367,618
Private equity	537,178	-	-	537,178
Corporate bonds and stocks	54,219	54,219	-	-
Annuity investment	145,435	145,435	-	-
Total assets	<u>\$ 43,894,298</u>	<u>\$ 28,258,817</u>	<u>\$ -</u>	<u>\$ 15,635,481</u>

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Notes to the Financial Statements, continued

4. Fair Value Measurements, continued

June 30, 2013	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)
Certificates of deposit	\$ 83,813	\$ 83,813	\$ -	\$ -
Mutual funds:				
Equity				
U.S. Large Cap	7,113,997	7,113,997	-	-
U.S. Small Cap	1,310,088	1,310,088	-	-
International	4,938,464	4,938,464	-	-
Global	1,640,009	1,640,009	-	-
Fixed income and cash:				
Cash	1,350,564	1,350,564	-	-
Core	5,605,976	5,605,976	-	-
Non-core/tactical	2,655,234	2,655,234	-	-
Alternative investments:				
Hedge funds	9,010,726	-	-	9,010,726
Real assets	4,186,261	-	-	4,186,261
Private equity	340,344	-	-	340,344
Corporate bonds and stocks	43,170	43,170	-	-
Annuity investment	141,176	141,176	-	-
Total assets	\$ 38,419,822	\$ 24,882,491	\$ -	\$ 13,537,331

Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets.

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"> - Valuation and performance of underlying fund(s) being invested in by the hedge fund - Diversification of the underlying fund(s) - Leverage model used by the underlying fund(s)
Real assets	Investment is in various funds, which are valued individually using the following methods: <ol style="list-style-type: none"> 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"> - Valuation and performance of underlying fund(s) being invested in - Diversification of the underlying fund(s) - Leverage model used by the underlying fund(s) - Relative health of industry in which real assets held are associated with
Private equities	Market comparable companies	<ul style="list-style-type: none"> - Discount for lack of marketability - Control premium - Threats from competition and regulatory environment

There have been no changes in the methodology used to determine the fair market value at June 30, 2014 and 2013.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Notes to the Financial Statements, continued

4. Fair Value Measurements, continued

The table below presents information about the changes in the fair value of assets based on significant unobservable inputs (Level 3):

	<u>Hedge Funds</u>	<u>Real Assets</u>	<u>Private Equity</u>	<u>Total</u>
Balance, June 30, 2012	\$ 7,639,015	\$ 3,366,300	\$ 200,000	\$ 11,205,315
Additional investment	865,000	-	-	865,000
Unrealized gains	539,099	824,085	141,344	1,504,528
Fees	(32,388)	(4,124)	(1,000)	(37,512)
Balance, June 30, 2013	\$ 9,010,726	\$ 4,186,261	340,344	\$ 13,537,331
Additional investment	3,351,411	648,996	151,586	4,151,993
Funds sold	(3,440,717)	-	-	(3,440,717)
Realized gains	2,173	-	-	2,173
Unrealized gains	826,152	541,189	46,037	1,413,378
Fees	(19,060)	(8,828)	(789)	(28,677)
Balance, June 30, 2014	<u>\$ 9,730,685</u>	<u>\$ 5,367,618</u>	<u>\$ 537,178</u>	<u>\$ 15,635,481</u>

Donor-Designated Endowments

The Foundation has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation follows UPMIFA and its own governing documents. The Foundation has interpreted UPMIFA as maintaining historical dollar value and to retain in endowment funds a portion of the investment return to support the increasing cost of benefits in the future, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation 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 made pursuant to an applicable gift agreement. The Foundation has determined that the balance of its endowments includes funds that require that the income and net appreciation be restricted to certain uses for the benefit of participants.

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.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Notes to the Financial Statements, continued

4. Fair Value Measurements, continued

Donor-Designated Endowments, continued

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, 2014 and 2013, 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, 2014 and 2013, 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, 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>

Endowment net asset composition by fund type and changes in endowment net assets by fund type as of June 30, 2013 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	\$ -	\$ 5,806,366	\$ 17,401,732	\$ 23,208,098
Contributions	-	-	644,629	644,629
Interest and dividend income	-	476,482	-	476,482
Net appreciation	-	2,538,155	-	2,538,155
Amounts appropriated for expenditure	-	(156,510)	-	(156,510)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 8,664,493</u>	<u>\$ 18,046,361</u>	<u>\$ 26,710,854</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,			
2015	\$	1,753,891	
2016		1,139,890	
2017		898,344	
2018		815,690	
2019		764,700	
Thereafter		<u>1,006,000</u>	
		6,378,515	
Less: present value discount		(306,031)	
Less: allowance for uncollectible pledges		<u>(607,248)</u>	
Pledges receivable, net		5,465,236	
Less: current pledges receivable		<u>(1,726,224)</u>	
Noncurrent pledges receivable	\$	<u><u>3,739,012</u></u>	

6. Property and Equipment

Property and equipment as of June 30, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 53,000	\$ 53,000
Furniture and equipment	158,616	127,907
Buildings	<u>175,000</u>	<u>175,000</u>
	386,616	355,907
Less: accumulated depreciation	<u>(159,485)</u>	<u>(146,588)</u>
	<u><u>\$ 227,131</u></u>	<u><u>\$ 209,319</u></u>

Depreciation expense was \$13,013 and \$12,468 for the years ended June 30, 2014 and 2013, respectively.

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 \$625,000 and \$685,000 for the years ended June 30, 2014 and 2013, respectively. The cash surrender value of these policies as of June 30, 2014 and 2013 is \$107,228 and \$119,920, respectively.

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Notes to the Financial Statements, continued

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>2014</u>	<u>2013</u>
Total minimum lease payments to be received	\$ 585,419	\$ 696,915
Less: unearned income	<u>(156,075)</u>	<u>(193,553)</u>
Net investment in capital leases	<u>\$ 429,344</u>	<u>\$ 503,362</u>

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

2015		\$ 111,495
2016		77,700
2017		70,941
2018		70,941
2019		64,631
Thereafter		<u>189,711</u>
		<u>\$ 585,419</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>2014</u>	<u>2013</u>
Funds restricted for specific purposes	\$ 20,298,343	\$ 12,623,333
Scholarships	15,455	13,681
Athletics	<u>211,280</u>	<u>24,738</u>
	<u>\$ 20,525,078</u>	<u>\$ 12,661,752</u>

Permanently restricted net assets at June 30, 2014 and 2013 consist of endowment funds.

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

	<u>2014</u>	<u>2013</u>
Cash	\$ 1,295,349	\$ 532,495
Pledges receivable	4,892,022	2,075,648
Accounts receivable	60,000	-
Investments	13,716,111	9,414,495
Buildings	132,252	135,752
Net investment in capital leases	<u>429,344</u>	<u>503,362</u>
	<u>\$ 20,525,078</u>	<u>\$ 12,661,752</u>

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

	<u>2014</u>	<u>2013</u>
Cash	\$ 128,734	\$ 204,901
Pledges receivable	206,539	138,501
Investments	18,831,190	17,649,959
Land	<u>53,000</u>	<u>53,000</u>
	<u>\$ 19,219,463</u>	<u>\$ 18,046,361</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, \$179,503 and \$81,709 for the years ended June 30, 2014 and 2013, 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 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 102,377	\$ 99,499
Funds due to the University by the Foundation	131,180	31,928

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