



DEAN DORTON

DEAN DORTON ALLEN FORD, PLLC

KENTUCKY STATE UNIVERSITY
Single Audit Reports Under OMB Circular A-133

Years Ended June 30, 2013 and 2012
with Report of Independent Auditors

CONTENTS

Pages

Report of Independent Auditors.....	1 - 2
Management's Discussion and Analysis.....	3 - 19
Financial Statements:	
Kentucky State University	
Statements of Net Position	20
Kentucky State University Foundation, Inc.	
Statements of Financial Position.....	21
Kentucky State University	
Statements of Revenues, Expenses and Changes in Net Position.....	22 - 23
Kentucky State University Foundation, Inc.	
Statements of Activities	24 - 25
Kentucky State University	
Statements of Cash Flows.....	26 - 27
Kentucky State University	
Notes to the Financial Statements	28 - 46
Kentucky State University Foundation, Inc.	
Notes to the Financial Statements	46 - 53
Schedule of Expenditures of Federal Awards.....	54 - 59
Notes to the Schedule of Expenditures of Federal Awards	60
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	61 - 62
Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	63 - 65
Schedule of Findings and Questioned Costs.....	66 - 74
Summary Schedule of Prior Audit Findings	75 - 79



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 in 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 Kentucky State University Foundation, Inc. (the Foundation), a discretely presented component unit, which statements reflect total assets constituting 100% of total assets at June 30, 2012, and total revenues constituting 100% of total revenues for the year then ended. Those statements were audited by other auditors, who report has been furnished to us, and our opinion for 2012, 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 of 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, based on our audits, 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 year 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kentucky State University's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by the U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

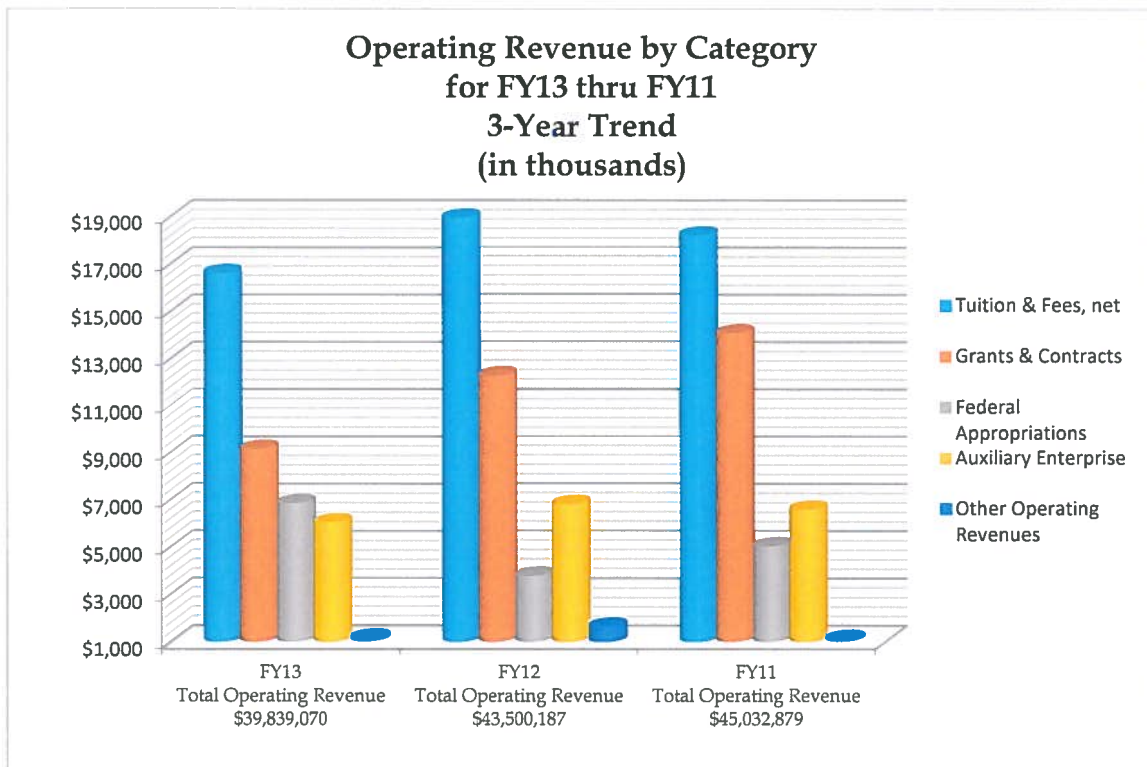
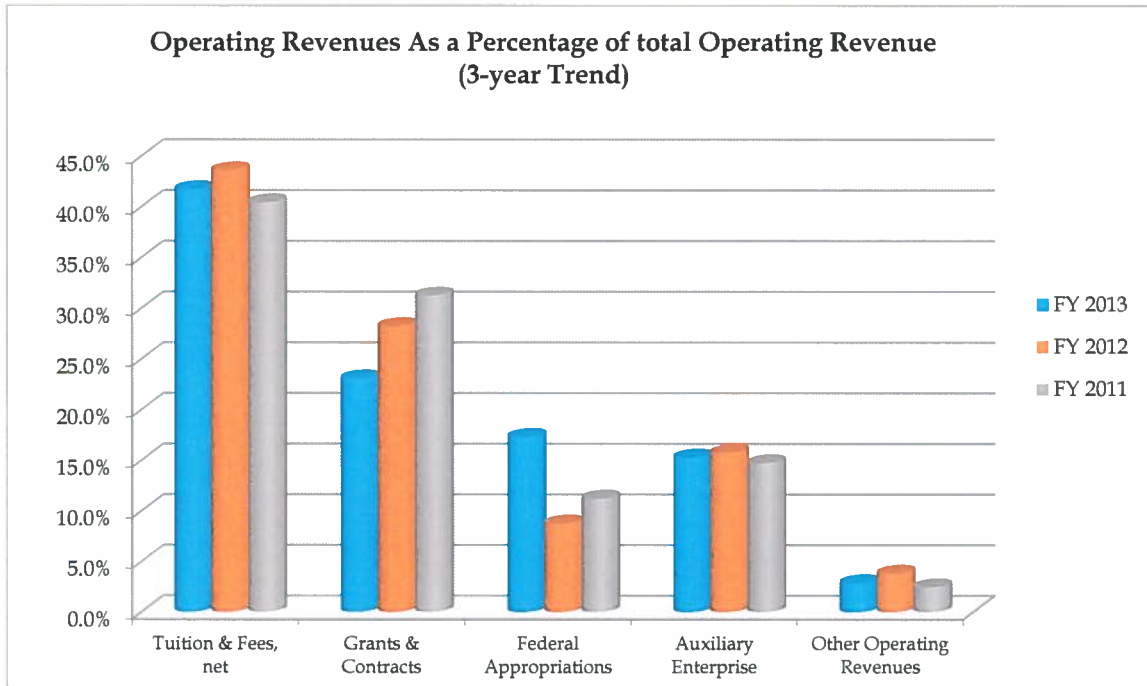
	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Student tuition and fees, net	\$ 16,595,920	\$ 18,943,062
Grants and contracts	9,172,968	12,267,993
Federal appropriations	6,873,169	3,796,394
Auxiliary enterprises	6,065,393	6,838,829
Other operating revenue	<u>1,131,620</u>	<u>1,653,909</u>
Total operating 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

Figure 1

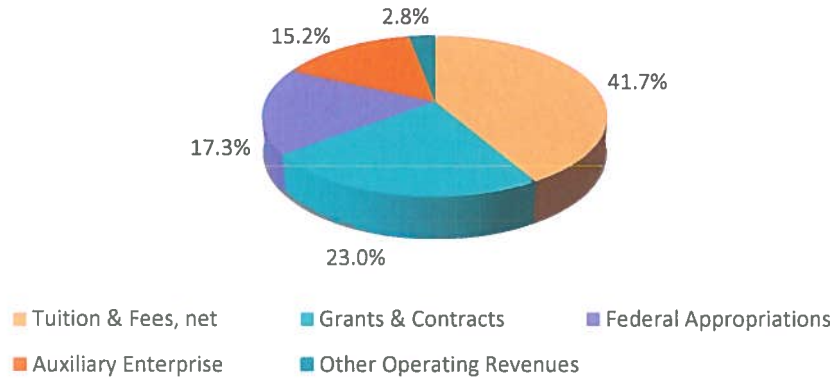


KENTUCKY STATE UNIVERSITY

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

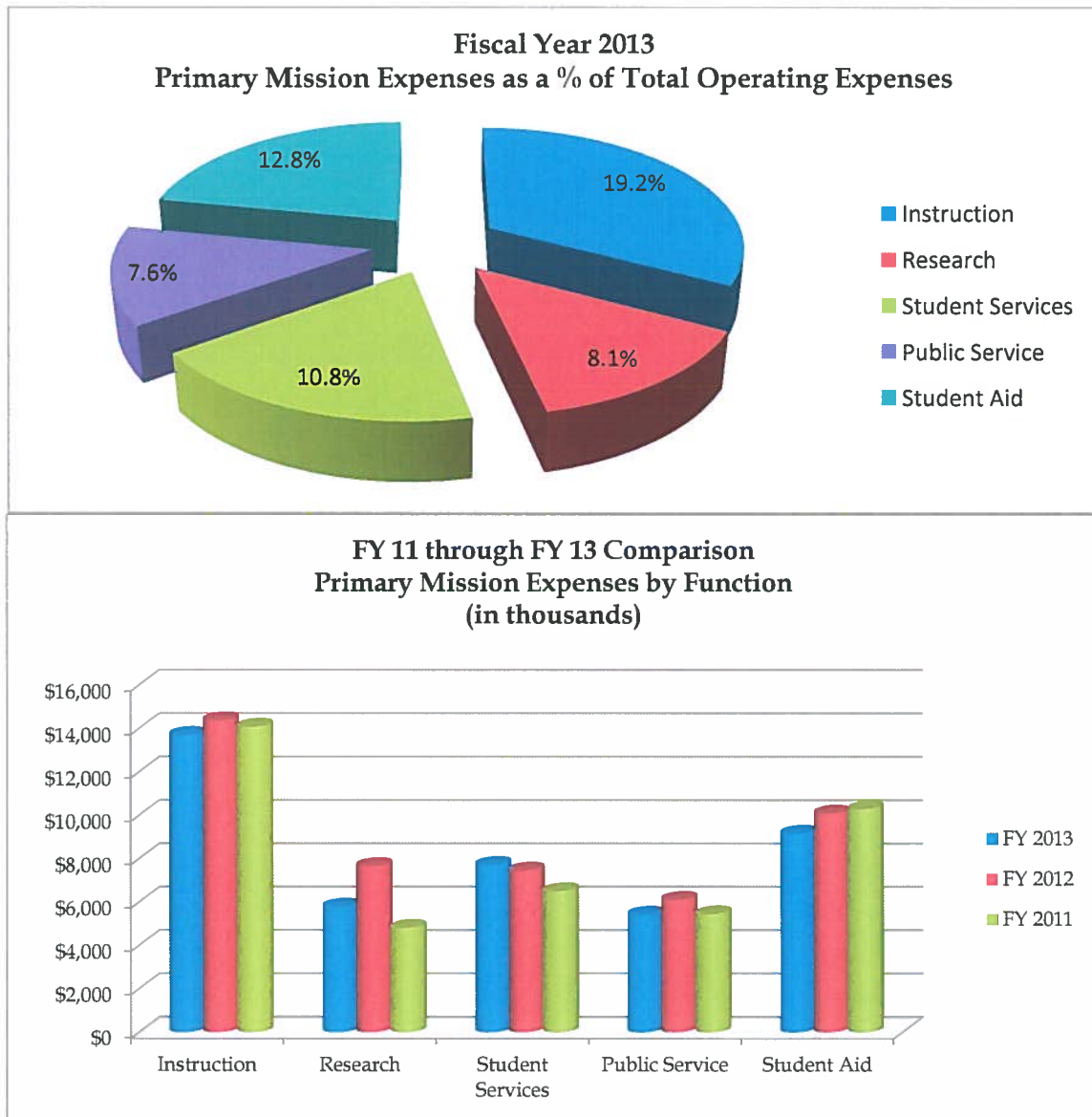
June 30, 2013

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

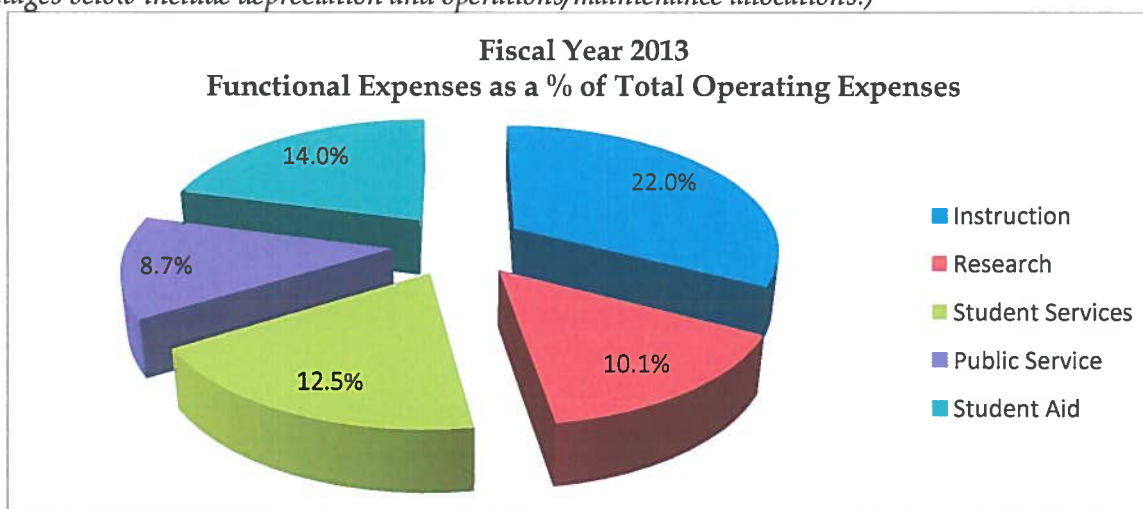


KENTUCKY STATE UNIVERSITY

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	-	-	-
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>

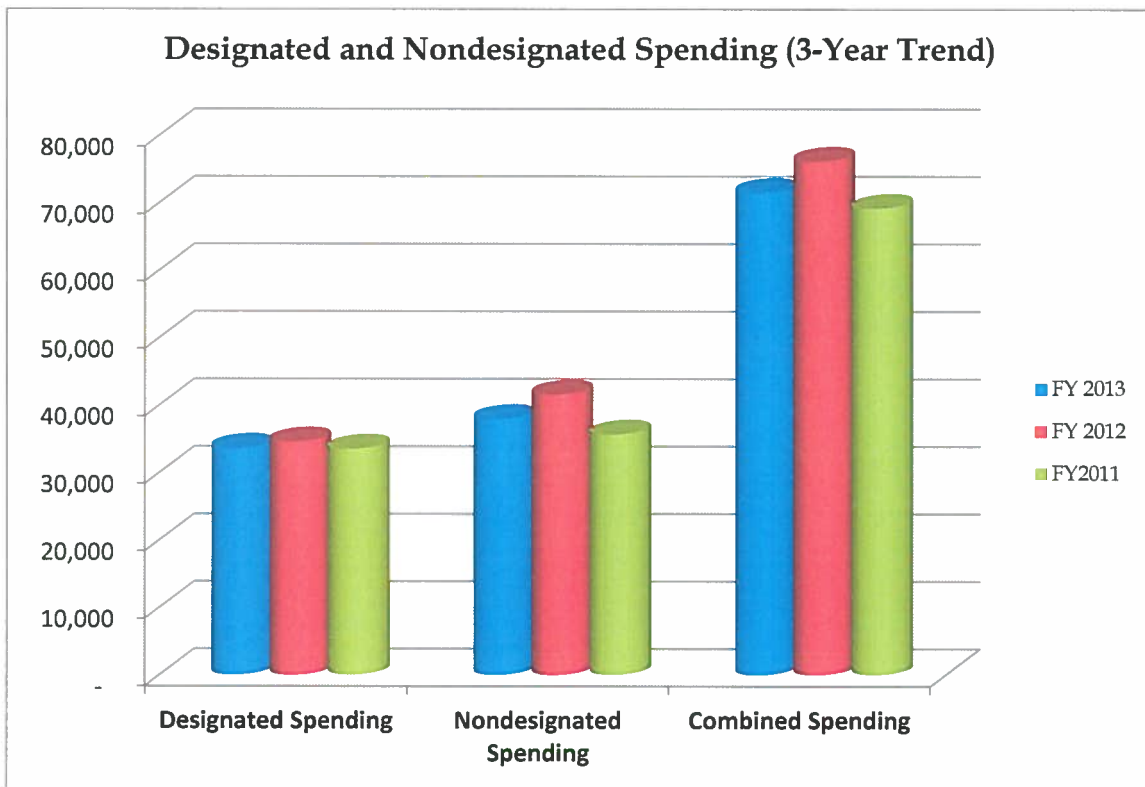
The graph in *Figure 3* shows a three year trend of designated, non-designated, and combined spending. Non-designated spending is higher than designated spending in FY13. However, designated spending increased \$1.0 million in 2012 and decreased \$1.0 million in 2013. Non-designated spending increased \$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>	Net Additions (Reductions) <u>FY 12-13</u>	<u>June 30,</u> <u>2012</u>	Net Additions (Reductions) <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 Thoroughbred 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>
Accumulated depreciation	205,926	205,926
	<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>	<u>Temporarily Restricted</u>	<u>Permanently 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	<u>(1,180,915)</u>	<u>261,488</u>
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.