

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

12. Schedule of Expenses by Program, continued

	<u>2012</u>					
	<u>Compensation &amp; Benefits</u>	<u>Supplies &amp; Services</u>	<u>Scholarships &amp; Fellowships</u>	<u>Depreciation</u>	<u>Operations &amp; Maintenance</u>	<u>Total</u>
Instruction	\$ 13,054,252	\$ 1,322,344	\$ 5,001	\$ 644,000	\$ 804,395	\$ 15,829,992
Research	3,480,460	4,188,530	-	681,001	447,016	8,797,007
Public service	3,552,916	2,547,744	12,585	81,150	331,617	6,526,012
Academic support	2,450,151	1,835,938	-	403,533	251,059	4,940,681
Student services	4,423,096	3,012,705	29,106	489,589	425,844	8,380,340
Institutional support	7,214,811	5,450,453	75,391	1,187,787	805,456	14,733,898
Operation & maintenance of plant	2,061,642	1,235,920	-	641,547	(3,939,109)	-
Auxiliary enterprises	1,183,966	4,663,407	17,193	343,800	332,364	6,540,730
Student financial aid	<u>573,460</u>	<u>(404,051)</u>	<u>9,929,449</u>	<u>13,372</u>	<u>541,358</u>	<u>10,653,588</u>
Total operating expense	<u>\$ 37,994,754</u>	<u>\$ 23,852,990</u>	<u>\$ 10,068,725</u>	<u>\$ 4,485,779</u>	<u>\$ -</u>	<u>\$ 76,402,248</u>

13. Kentucky State University Foundation, Inc.

a. Organization:

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

b. Summary of Significant Accounting Policies:

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

# KENTUCKY STATE UNIVERSITY

## Notes to the Financial Statements, continued

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

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

#### Basis of Presentation

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

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

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

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

#### Cash and Cash Equivalents

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

#### Investments

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

#### Property and Equipment

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

## KENTUCKY STATE UNIVERSITY

### Notes to the Financial Statements, continued

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

##### Revenue Recognition

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

##### Income Taxes

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

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

##### Subsequent Events

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

##### Reclassification

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

# KENTUCKY STATE UNIVERSITY

## Notes to the Financial Statements, continued

### c. Investments

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

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

### d. Fair Value Measurements

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

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

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

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

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

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

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

d. Fair Value Measurements, continued

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

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

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

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

**KENTUCKY STATE UNIVERSITY**

Notes to the Financial Statements, continued

**e. Temporarily Restricted Net Assets**

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

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

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

**f. Permanently Restricted Net Assets**

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

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

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

**g. Retirement Plan**

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

# KENTUCKY STATE UNIVERSITY

## Notes to the Financial Statements, continued

### **h. Endowment Composition**

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

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

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

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

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

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

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

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

**h. Endowment Composition, continued**

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

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

KENTUCKY STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grant/Contract Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Education:</b>			
<b>Direct Programs:</b>			
<b>Student Financial Aid Cluster:</b>			
Federal Supplemental Educational Opportunity Grants Program	84.007		\$ 311,952
Federal Work Study Program	84.033		291,220
Federal Perkins Loan Program	84.038		1,934,982
Federal Pell Grant Program	84.063		5,922,954
Federal Direct Student Loans Program	84.268		15,729,937
Academic Competitiveness Grant	84.375		4,876
National Science and Mathematics Access to Retain Talent Grant	84.376		(281)
Teacher Education Assistance for College and Higher Education Grants Program	84.379		<u>20,000</u>
Total Student Financial Aid Cluster			<u>24,215,640</u>
<b>TRIO Cluster:</b>			
Student Support Service	84.042A		233,209
Upward Bound	84.047A		<u>194,245</u>
Total Trio Cluster			<u>427,454</u>
Title III Strengthening All Black Colleges and University Program	84.031B		<u>3,317,616</u>
HBCU Grad	84.382G		<u>337,454</u>
<b>Passed through Commonwealth of Kentucky Education:</b>			
Educational Services Perkins Act Basic Grant	84.048A	PON2 531-1200002174-1	3,049
SPDG 2012	84.323A	PON2 540-1200000892-3	60,094
SPDG III	84.323A	PON2 540-1100001381-1	<u>(1,847)</u>
			<u>61,296</u>

KENTUCKY STATE UNIVERSITY

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grant/Contract Number</u>	<u>Federal Expenditures</u>
<b>Passed through Council for Opportunity in Education:</b>			
ARRA College Access Prog Svc Agreement Year 1	84.396	N/A	<u>210,945</u>
<b>Total U.S. Department of Education</b>			<u>28,570,405</u>
<b>U.S. Department of Agriculture:</b>			
<b>Direct Programs:</b>			
1890 National Scholars Program	10.N/A		43,765
Ag Discovery Summer Enrichment Program	10.025		47,009
McIntire-Stennis Coop Forestry	10.202		28,827
Community Research Service Program	10.205		1,057,683
1890 Institution Capacity Building Grant	10.216		687,978
Farming for Cash: Apprenticeship Program	10.311		48,091
Food Safety in Changing Economy	10.443		281,764
Farm Production Marketing Farm Energy	10.443		271,387
2501 Vegetables	10.443		10,512
RMA - Farm & Food Safety	10.455		1,689
Farm Risk Management	10.459		10,756
Cooperative Extension Program	10.500		3,328,644
Expanded Food and Nutrition Education Program	10.500		163,694
RREA	10.500		3,914
Small Limited Resource Farmer	10.924		10,083
Mobile Media Center 2011-2012	10.924		<u>2,065</u>
			<u>5,997,861</u>
<b>Passed through University of Arkansas:</b>			
Freshwater Aquaculture Community	10.500	4-98-2-23	<u>681</u>

KENTUCKY STATE UNIVERSITY

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grant/Contract Number</u>	<u>Federal Expenditures</u>
<b>Passed through University of Kentucky:</b>			
Seafood Marketing Grant	10.156	PON2 035 1200001045-1	5,147
Specialty Crop Education Outreach	10.170	PON2 035 1100000660-1	2,396
Farm Mgt Ed - Beg Farm	10.311	3048106618-10-26 1	19,203
Natural Antimicro for Bio Threat	10.500	3048105947-06-45 6	<u>65,740</u>
			<u>92,486</u>
<b>Passed through University of Georgia:</b>			
Managed Bees	10.206	RC293-502/38436 38	(3,414)
Managed Bees II	10.310	RC293-365/46920 48	21,851
SARE PDP	10.500	RE675-116/48923 06	1,579
SARE State Plan	10.500	RE675-161/47864 56	(60)
SARE State Plan	10.500	RE675-155/46904 68	<u>6,019</u>
			<u>25,975</u>
<b>Passed through Kcard:</b>			
Kcard Socially Disadvantaged Produce Grant (SSPDG)	10.771	N/A	<u>3,351</u>
<b>Passed through Mississippi State University:</b>			
SRAC - Catfish	10.200	N/A	<u>10,615</u>
<b>Total U.S. Department of Agriculture</b>			<u>6,130,969</u>

KENTUCKY STATE UNIVERSITY

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grant/Contract Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Health and Human Services:</b>			
<b>Direct Programs:</b>			
Youth Center for Excellence	93.910		131,628
Nursing Workforce	93.178		<u>409,862</u>
			<u>541,490</u>
<b>Passed through Eastern Kentucky University:</b>			
EKU Diversity	93.658	12-270	4,041
EKU Training Resource Center	93.658	452314-12-127	129
EKU Training Resource Center	93.658	452502-13-101	101,619
Public Child Welfare Certification	93.658	452505-13-100	<u>5,943</u>
			<u>111,732</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>653,222</u>
<b>Research and Development Cluster:</b>			
<b>National Science Foundation:</b>			
<b>Direct Programs:</b>			
McIntire-Stennis Coop Forestry	10.202		50,237
CRS Evans-Allen FY2013	10.205		1,983,769
Capiscum Germplasm Collection	10.216		30,722
Integrated Approach for Sustainable Aquaculture and agriculture production	10.216		176,057
<b>Passed through Virginia State University:</b>			
Establishing 1890s Lg Univ Water Center	10.216	N/A	17,163
<b>Passed through Texas A&amp;M University:</b>			
Southern Regional Water Resource Project	10.216	07-S120003	35,165

KENTUCKY STATE UNIVERSITY

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grant/Contract Number</u>	<u>Federal Expenditures</u>
<b>Passed through University of Kentucky:</b>			
Profitable Sustainability Poultry Production	10.310	3048109449-13-00 3	1,197
Epscor 2011-2012	47.070	3048108525-12-41 1	72,060
Building Kentucky's New Economy with Epscor	47.070	3048032200-07-24 4	7,780
KY WV LSAMP	47.076	3048105113 09 185	100
ARRA - VOEIS	47.082	3048106819-12-53 3	<u>12,049</u>
			<u>93,186</u>
<b>Passed through Case Western University:</b>			
Center for Layered Polymeric System	47.049	N/A	<u>13,606</u>
<b>Total Research and Development Cluster</b>			<u>2,399,905</u>
<b>National Aeronautics and Space Administration:</b>			
<b>Direct Programs:</b>			
NASA Studies Project	43.001		<u>32,913</u>
<b>Total National Aeronautics and Space Administration</b>			<u>32,913</u>
<b>U.S. Department of Transportation:</b>			
<b>Direct Programs:</b>			
NSTI FHWA FY12	20.215		45,303
Eisenhower Fellowships	20.200		<u>27,491</u>
<b>Total U.S. Department of Transportation</b>			<u>72,794</u>

KENTUCKY STATE UNIVERSITY

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grant/Contract Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Homeland Security:</b>			
<b>Passed through Commonwealth of Kentucky:</b>			
FEMA Pre-Disaster Preparedness/Emergency Planning Services	97.047	PON2 095 1100001897-1	<u>1,131</u>
<b>Total U.S. Department of Homeland Security</b>			<u>1,131</u>
<b>U.S. Department of the Interior:</b>			
<b>Direct Programs:</b>			
ARRA NPS Fed Building	15.932		<u>104,938</u>
<b>Total U.S. Department of the Interior</b>			<u>104,938</u>
<b>U.S. Department of Justice:</b>			
<b>Direct Programs:</b>			
NIJ FY10 Fundamental Research	16.560		198,273
<b>Passed through 4H Council:</b>			
4H National Mentoring Program	16.726	N/A	<u>4,218</u>
<b>Total U.S. Department of Justice</b>			<u>202,491</u>
<b>U.S. Department of Defense:</b>			
<b>Passed through Eastern Kentucky University:</b>			
Cellulosic Derived Biodiesel Program	12.N/A	453024-12-190	21,588
Biofuel Production 2011-2012	12.N/A	453024-12-189	<u>32,922</u>
			<u>54,510</u>
<b>Passed through University of Kentucky:</b>			
Environmental Training & Survey	12.401	PO2 095 1300000578-1	<u>53,559</u>
<b>Total U.S. Department of Defense</b>			<u>108,069</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 38,276,837</u>

# KENTUCKY STATE UNIVERSITY

## Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Kentucky State University (the University) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Catalog of Federal Domestic Assistance (CFDA) numbers were presented for those programs for which such numbers were available.

### 2. Federal Student Loan Programs

Loans made by the University to eligible students under the Federal Perkins Loan Program and federal student loans issued by the Federal Direct Loan Program during the year ended June 30, 2013 are summarized as follows:

Federal Perkins Loan Program:	
Loans disbursed	\$ -
Federal Direct Loan Program:	
Federal Unsubsidized Stafford Loans	\$ 8,562,595
Federal Subsidized Stafford Loans	5,606,840
Federal Plus Loans	1,560,502

As of June 30, 2013, the University had loans outstanding, in the amount of \$1,934,982 with an allowance for doubtful accounts of \$1,624,777 under the Federal Perkins Loan Program. During the year ended June 30, 2013 the University did not issue any loans under the Federal Perkins Loan Program.

### 3. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, Kentucky State University provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Sub recipients
16.560	NIJ FY10 Fundamental Research	\$ 26,805
10.216	1890 Institution Capacity Building Grant - Mobile Kitchen	30,647
10.443	Food Safety in a Changing Economy	50,000



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

**Report of Independent Auditors**

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

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

**Internal Control Over Financial Reporting**

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

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

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

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

### Compliance and Other Matters

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

### The University's Response to Findings

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

### Purpose of this Report

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

*Dean Dotson Allen Ford, PLLC*

December 2, 2013  
Lexington, Kentucky



## **Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133**

### **Report of Independent Auditors**

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

#### **Report on Compliance for Each Major Federal Program**

We have audited Kentucky State University (the University) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal program for the year ended June 30, 2013. The University's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

#### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

#### **Opinion on Each Major Federal Program**

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-003, 2013-004, 2013-005, 2013-006, 2013-007, and 2013-008. Our opinion on each major federal program is not modified with respect to these matters. The University's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

We did not audit the University's compliance with requirements governing the maintaining contact with and billing borrowers and processing deferment and cancellation request and payments for the Perkins Loan Program. Those requirements govern functions that are performed by Educational Computer Systems, Inc. (ECS). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ECS's compliance with the requirements governing the functions that it performs for the University was examined by other accountants who report has been furnished to us. The report of the other accountants' indicates that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization accountant's report, we have determined that all of the compliance requirements included in the Compliance Supplement that are applicable to the major program in which the University participates are addressed in either our report or the report of the service organizations accountants. Further, based on our review of the service organization accountant's report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on the University's major program.

### Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material

Members of the Board of Regents  
Kentucky State University  
Report of Independent Auditors, continued

weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-003, 2013-006, and 2013-007 that we consider to be significant deficiencies.

The University's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Dean Dorton Allen Ford, PLLC*

December 2, 2013  
Lexington, Kentucky

KENTUCKY STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2013

**Section I - Summary of Auditors' Results (under Section .505(d)(1) of OMB Circular A-133):**

**Financial Statements:**

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

**Federal Award:**

- d. Internal control over financial reporting:  
Material weaknesses in internal control over major programs: **No**  
Significant deficiencies identified that are not considered to be material weaknesses: **Yes**
- e. The type of report issued on compliance for major programs: **Unmodified opinion**
- f. Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes**
- g. Major programs:  
**Student Financial Aid - Cluster**  
**Federal Supplemental Educational Opportunity Grants Program, CFDA 84.007**  
**Federal Work-Study Program, CFDA 84.033**  
**Federal Perkins Loan Program, CFDA 84.038**  
**Federal Pell Grant Program, CFDA 84.063**  
**Federal Direct Student Loans Program, CFDA 84.268**  
**Academic Competitiveness Grant, CFDA 84.375**  
**National Science and Mathematics Access to Retain Talent Grant, CFDA 84.376**  
**Teacher Education Assistance for College and Higher Education Grant, CFDA 84.379**  
**HBCU – Grad, CFDA 84.382G**  
**Title III Strengthening All Black Colleges and University Program, CFDA 84.031B**  
**Food Safety in Changing Economy, CFDA 10.443**  
**Farm Production Marketing Farm Energy, CFDA 10.443**  
**2501 Vegetables, CFDA 10.443**

**Section I - Summary of Auditors' Results (under Section .505(d)(1) of OMB Circular A-133), continued:**

- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$421,836**
- i. Auditee qualified as a low-risk auditee: **Yes**

KENTUCKY STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2013

**Section II - Financial Statement Findings (under Section .505(d)(2) of OMB Circular A-133):**

Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: 2013-001 and 2013-002

**Finding 2013-001:**

**Condition:**

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

**Effect:**

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

**Recommendation:**

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

**Management's Response:**

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

KENTUCKY STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2013

**Finding 2013-002:**

**Condition:**

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

**Effect:**

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

**Recommendation:**

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

The following formal collection procedures should be established:

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

**Management's Response:**

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