

KENTUCKY STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2013

Section III - Federal Award Findings and Questioned Costs (under Section .505(d)(3) of OMB Circular A-133):

Finding 2013-003:

Federal Program: U.S. Department of Education
Federal Pell Grant Program, CFDA 84.063
Federal Direct Student Loans Program, CFDA 84.268

Condition:

During the audit, we noted one student who withdrew from all classes at the beginning of the semester but the financial aid office was not notified and funds were not returned in a timely manner. Also during our testing of Return of Title IV Funds, we noted the University did not return unearned Title IV Funds within 45 days for three out of the forty students tested.

Criteria:

Per the provisions of CFR 34 §668.173 an institution must return unearned Title IV Funds timely, which is no later than 45 days after the date the University becomes aware of the student's withdrawal.

Cause:

There was one oversight by the Registrar's office in notifying the Financial Aid office that a student withdrawing from all classes and lack of management oversight and internal controls in place to ensure that unearned Title IV Funds are returned in a timely manner. The internal controls related to communication between the Financial Aid office and the Registrar's offices are not adequate to ensure that all student withdrawals are communicated timely.

Effect:

The provisions of CFR 34 §668.173 were not followed, therefore unearned Title IV Funds were not returned in a timely manner.

Recommendation:

We recommend that the University review its current procedures related to the timely return of unearned Title IV Funds and make the necessary changes to ensure that these calculations are being completed in a timely manner.

Management Response:

We concur. We have reviewed and redesigned our processes to efficiently facilitate the processing of returns to Title IV aid programs. Internal practices have been updated to ensure that R2T4 processing is properly monitored and managed at all times by following the established schedule for R2T4 processing.

KENTUCKY STATE UNIVERSITY

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2013

Finding 2013-004:

**Federal Program: U.S. Department of Education
Federal Pell Grant Program, CFDA 84.063**

Condition:

During the audit, we noted one student who was selected for verification had an education tax credit of \$4,500 improperly excluded from their parent's calculation of adjusted gross income.

Criteria:

Per the provisions of CFR 34 §668.59 for the Federal Pell Grant Program, if an applicant's FAFSA information changes as a result of verification, an institution must recalculate the application's Federal Pell Grant on the basis of the EFC on the corrected valid ISIR and disburse any additional funds under that award.

Cause:

The cause of the finding is due to a lack of management oversight and internal controls in place to ensure that files verified are completed accurately.

Effect:

A student did not receive the full amount of Pell they were eligible for at the beginning of the school year.

Recommendation:

We recommend the University review its current procedures related to the verification process and make the necessary changes to ensure that each student file verified is accurate.

Management Response:

We have updated current procedures for Verification Correction close-out to included receipt of appropriate new ISIR transaction and all expected verified field have been accurately updated prior to closing out the Correction.

Finding 2013-005:

**Federal Program: U.S. Department of Education
Federal Pell Grant Program, CFDA 84.063**

Condition:

During the testing of Return of Title IV Funds, we noted one student for which the incorrect withdrawal date was used in the calculation.

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Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2013

Finding 2013-005, continued:

Criteria:

Per the provisions of CFR 34 §668.22, the withdrawal date that should be used in the calculation of Return of Title IV Funds is the date, as determined by the institution, that the student otherwise provided official notification to the institution, in writing or orally, of his or her intent to withdraw.

Cause:

There is not a procedure in place to verify that the appropriate withdrawal date per the withdrawal form has been entered into the system.

Effect:

The provisions of CFR 34 §668.22 were not followed which caused a student's date of withdrawal to be incorrect when completing the Return of Title IV Funds calculation and an additional \$67 needed to be returned by the University.

Recommendation:

We recommend the University review its current procedures in regards to reviewing the withdrawal date in order to ensure funds are being returned in the proper amount to the federal government.

Management Response:

We concur. We have updated our current processes to ensure that all personnel are properly trained on determining withdrawal dates to be entered into the system

Finding 2013-006:

Federal Program: U.S. Department of Education

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

Condition:

During our testing of 40 students that withdrew from the University and received some type of Title IV funds during the 2012-13 academic year, we noted that 20 calculations resulted in funds not returned in accordance with federal regulations due to the use of an inaccurate number of days in the spring term. The University's

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Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2013

Finding 2013-006, continued:

calculation did not include the full spring break which was eight consecutive days in length resulting in excess funds returned.

Criteria:

Per the provision of CFR 34 §668.22, the total number of calendar days in a payment period or period of enrollment includes all days within the period that the student was scheduled to complete, except that scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment.

Cause:

The University currently does not have adequate controls in place to ensure the Return of Title IV Funds calculations are being completed properly.

Effect:

The provisions of CFR 34 §668.22 were not followed which caused excess funds to be returned. The number of days related to spring break was calculated incorrectly on the spring Return of Title IV Funds calculations. By not having adequate controls over this area, incorrect Return of Title IV Funds calculation could also be produced in the future as well.

Recommendation:

We recommend the University review its current procedures for Return on Title IV calculations and implement a control that will ensure the proper number of break days is being used in the calculation of the Return of Title IV Funds. We also recommend that the University implement a control where they do a periodic check of a sample of Return of Title IV Funds calculations to ensure correct calculations are being complete.

Management Response:

We concur. We have updated our current processes to ensure that Scheduled Breaks are entered into the system correctly.

Finding 2013-007:

Federal Program: All Federal Programs

Condition:

During our testing of equipment management, we noted the University does not reconcile physical inventory taken with equipment records at least once every two years.

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Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2013

Finding 2013-007, continued:

Criteria:

Per the provision of CFR 2 §215.34, a physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

Cause:

The University currently does not have adequate controls in place to ensure the inventory is taken and reconciled with the equipment records at least once every two years.

Effect:

The provisions of CFR 2 §215.34 were not followed.

Recommendation:

We recommend the University review its current procedures for their inventory process and implement a control that will ensure equipment records are reconciled to the physical inventory taken at least once every two years.

Management Response:

We concur. The University is updating the procedures for inventory process to include a control that will ensure equipment records are reconciled to the physical inventory at least once every two years.

Finding 2013-008:

Federal Program: U.S. Department of Education
HBCU – Grad, CFDA 84.382G
Food Safety in Changing Economy, CFDA 10.443
Farm Production Marketing Farm Energy, CFDA 10.443

Condition:

During our review of the time and effort reports, we noted nine reports not being approved in a timely manner, two not signed by the employee, and two not originally completed for all personnel charged to the grant.

Criteria:

Per the OMB Circular A-21 compensation for personal services is allowed when payroll is distributed using an acceptable method such as after the fact activity records. Under this system the distribution of salaries and

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Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2013

Finding 2013-008, continued:

wages by the institution will be supported by activity reports as prescribed below. Reports will reasonably reflect the activities for which employees are compensated by the institution. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed.

Cause:

The incomplete time and effort reports is due to a lack of management oversight and lack of internal controls in place to ensure that all the time and effort reports are completed correctly and signed and dated by the appropriate personnel and submitted to the sponsoring agent in a timely manner.

Effect:

The University does not have appropriate time and effort records for the time charged to the grant to ensure the distribution of activity represents the reasonable estimate of work performed during the period. The University expended funds related to payroll without time and effort reports being completed correctly in a timely manner and without the appropriate timely levels of review.

Recommendation:

We recommend the University review their policies and procedures to ensure that all time and effort reports are completed correctly and signed and dated by the appropriate personnel and submitted to the sponsoring agent in a timely manner.

Management Response:

We agree with your recommendation that the University review policies and procedures to insure that all time and effort reports are completed correctly and submitted to the Office of Research, Grants and Sponsored Programs (OSP) in a timely manner. Although OSP has implemented a process for informing the university community of federal requirements and conducting periodic checks, not all problems have been resolved relative to T&E reporting. Therefore, OSP will meet with key administrators to design compliance implementation strategies that should lead to accuracy and timeliness in T&E reporting.

KENTUCKY STATE UNIVERSITY

Schedule of Prior Year Audit Findings

Year ended June 30, 2013

Finding 12-01:

Condition:

The year-end accounts receivable aged trial balance that was presented to us for audit purposes indicated that a large percentage of receivables were over 365 days old, and several accounts were as much as two years old. We believe that some of these accounts are not collectable at this point in time and the University should review the adequacy of the allowance during the year and appropriately adjust the allowance.

Recommendation:

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.

We recommend the University conduct an overall evaluation of the allowance for doubtful accounts at year end and base the allowance on the aging of the balance, instead of the last semester the student attended to ensure a more accurate balance in the allowance for doubtful accounts.

Current Status:

This finding was resolved in the current year.

Finding 12-02:

**Federal Program: U.S. Department of Education
Federal Direct Student Loan Program, CFDA 84.268**

Condition:

During the audit, we noted that the status change for students identified as 'unofficial withdrawals' in the spring semester were not being reported to lenders or guaranty agencies in a timely manner. These students were not being reported as withdrawn to the lenders and guaranty agencies until the next roster file was submitted at the start of the fall semester. Per our review of 20 students who were unofficial withdrawals, 7 students who unofficially withdrew were not reported to lenders or guaranty agencies in a timely manner.

KENTUCKY STATE UNIVERSITY

Schedule of Prior Year Audit Findings, continued

Year ended June 30, 2013

Finding 12-02, continued:

Recommendation:

We recommend that the University review its current procedures in regards to reporting to lenders or guarantor agencies the students who 'unofficially withdrew' in the spring semester in order to ensure these students are being reported in a timely manner.

Current Status:

This finding was resolved in the current year.

Finding 12-03:

**Federal Program: U.S. Department of Education
Federal Perkins Loan Program, CFDA 84.038**

Condition:

During the audit, we noted that one student did not sign their promissory note in a timely manner.

Recommendation:

We recommend that the University review its current procedures related to the disbursement of federal funds and make the necessary changes to ensure that each student file has the appropriate documentation, such as a signed promissory note, before funds are disbursed.

Current Status:

This finding was resolved in the current year.

Finding 12-04:

**Federal Program: U.S. Department of Education
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
National Science and Mathematics Access to Retain Talent Grant, CFDA 84.376
Teacher Education Assistance for College and Higher Education Grant, CFDA 84.379
Scholarship for Disadvantaged Students, CFDA 93.925**

KENTUCKY STATE UNIVERSITY

Schedule of Prior Year Audit Findings, continued

Year ended June 30, 2013

Finding 12-04, continued:

Condition:

During our testing of Return of Title IV Funds, we noted the University did not return unearned Title IV Funds within 45 days, because calculations for Return of Title IV Funds for the fiscal year ended June 30, 2012 were not being completed until April 2012.

Recommendation:

We recommend the University train several personnel to complete the Return of Title IV Funds calculation. We recommend that the University review its current procedures related to the timely return of unearned Title IV Funds and make the necessary changes to ensure that these calculations are being completed in a timely manner.

Current Status:

See finding 2013-002.

Finding 12-05:

**Federal Program: U.S. Department of Education
Trio Cluster: Talent Search, CFDA 84.044A**

Condition:

During our testing, we were not able to verify that two-thirds of the individuals in the talent search program were low-income individuals who were potential first-generation college students and we were not able to verify that the minimum number of participants that the Secretary identifies in the Federal Register notice was served.

Recommendation:

We recommend that the University review its current procedures related to determining eligibility of students in the talent search program to ensure that at least two thirds of individuals participating in the talent search program are low-income individuals who are potential first-generation college students and that the minimum number of participants that the Secretary identifies in the Federal Register notice are served.

Current Status:

This finding was resolved in the current year.

KENTUCKY STATE UNIVERSITY

Schedule of Prior Year Audit Findings, continued

Year ended June 30, 2013

Finding 12-06:

**Federal Program: U.S. Department of Agriculture and U.S. Department of the Interior
Community Research Service Program, CFDA 10.205
1890 Institution Capacity Building Grant, CFDA 10.216
AARA NPS Fed Building, CFDA 15.932**

Condition:

During our review of the reports required to be submitted by the University, we noted that Financial and Staff Support Reports AD-419 were filed late for Community Research Service Program, one Accomplishments Report AD-421 was filed late for 1890 Institution Capacity Building Grant, and the Section 1512 Quarterly ARRA reports were filed late for ARRA NPS Fed Building.

Recommendation:

We recommend that the University review its current procedures for preparing all reports and make the necessary changes to ensure all reports are reviewed for accuracy and submitted in accordance with the federal regulations in a timely manner.

Current Status:

This finding was resolved in the current year.

KENTUCKY STATE UNIVERSITY

Schedule of Prior Year Audit Findings, continued

Year ended June 30, 2013

Finding 12-07:

Federal Program: U.S. Department of Education and U.S. Department of Agriculture

Trio Cluster:

Student Support Service, CFDA 84.042A

Talent Search, CFDA 84.044A

Upward Bound, CFDA 84.047A

HBCU - Grad, CFDA 84.382G

Community Research Service Program, CFDA 10.205

1890 Institution Capacity Building Grant, CFDA 10.216

Condition:

During our review of the time and effort reports, we noted instances of reports not being approved in a timely manner, not signed by the employee, not dated by the employee and approver, not updated for percentage of time to be charged to the grant, and not completed for all personnel charged to the grant.

Recommendation:

We recommend the University review their policies and procedures to ensure that all time and effort reports are completed correctly and signed and dated by the appropriate personnel and submitted to the sponsoring agent in a timely manner.

Current Status:

See finding 2013-007.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Endowment Funds

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

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

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

Investments

Investments are valued at fair value based on quoted market prices. Short-term investments are investments that are not cash equivalents but mature within the next fiscal year and are classified as current assets.

Capital Assets

Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of gift. Equipment with a unit cost of \$2,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets. The University capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research and public service. Estimated lives used for depreciation purposes are as follows:

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Capital Assets, continued

| <u>Classification</u> | <u>Estimated Life</u> |
|------------------------------|-----------------------|
| Improvements | 20 years |
| Buildings | 40 years |
| Transportation equipment | 5-15 years |
| Equipment | 5-20 years |
| Enterprise Resource Software | 7 years |
| Library holdings | 10 years |

Compensated Absences

The liability and expense incurred for employee vacation and sick pay are recorded as accrued compensated absences in the statements of net position and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net position.

Unearned Revenue

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

Income Taxes

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

Restricted Asset Spending Policy

The University's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Operating Activities

The University defines operating activities, as reported on the statement of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state and certain federal appropriations, gifts and investment income, are recorded as non-operating revenues, in accordance with GASB Statement No. 35.

Scholarship Discounts and Allowances

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans and funds provided to students awarded by third parties, is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Federal Grants and Contracts

Per GASB Statement No. 24, pass-through grants should be reported as revenues and expenses in the financial statements if that entity has any administrative or direct financial involvement in the program. An entity has administrative involvement if it determines eligible secondary recipients or projects, even if using grantor-established criteria. Therefore, Pell Grants are considered non-exchange transactions and are recorded as non-operating revenues in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Component Unit Disclosure

The accompanying financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the FASB. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

During the year ended June 30, 2013 and 2012, the Foundation made distributions of approximately \$255,508 and \$261,016 respectively, on behalf of the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Kentucky State University Foundation, Inc. at P.O. Box 4210, Frankfort, KY 40604.

Restatements

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

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

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

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Restatements, continued

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

Recent Pronouncements

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

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

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

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

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

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Recent Pronouncements, continued

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The requirements of this statement were implemented as of June 30, 2013. The implementation of this statement affected the financial statement titles and renamed net assets to net position. The University did not have any amounts that were required to be reclassified and reported as deferred inflows or deferred outflows.

2. Cash, Cash Equivalents, and Investments

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

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

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

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

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

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

2. Cash, Cash Equivalents, and Investments, continued

As of June 30, 2013, the University had the following investments and maturities:

Investment Maturities (in years)

| <u>Investment Type</u> | <u>Fair Value</u> | <u><1</u> | <u>1-5</u> | <u>6-10</u> | <u>11-20</u> |
|-------------------------------------|---------------------|--------------|----------------|-------------|--------------|
| Bonds | \$ 2,471,417 | \$ 160,000 | \$1,122,984 | \$ 533,278 | \$ 655,155 |
| Bond Mutual Funds | 2,868,982 | - | 2,868,982 | - | - |
| Money Market Funds | 801,131 | 801,131 | - | - | - |
| Real Estate Funds | <u>611,011</u> | <u>-</u> | <u>611,011</u> | <u>-</u> | <u>-</u> |
| | \$ 6,752,541 | \$ 961,131 | \$4,602,977 | \$ 533,278 | \$ 655,155 |
| Equities and Equity Mutual Funds | <u>6,748,856</u> | | | | |
| | <u>\$13,501,397</u> | | | | |

As of June 30, 2012, the University had the following investments and maturities:

Investment Maturities (in years)

| <u>Investment Type</u> | <u>Fair Value</u> | <u><1</u> | <u>1-5</u> | <u>6-10</u> | <u>11-20</u> |
|-------------------------------------|----------------------|--------------|----------------|-------------|--------------|
| Bonds | \$ 1,982,885 | \$ 405,000 | \$ 770,000 | \$ 387,885 | \$ 420,000 |
| Bond Mutual Funds | 1,397,341 | - | 1,397,341 | - | - |
| Money Market Funds | 736,937 | 736,937 | - | - | - |
| Real Estate Funds | <u>391,442</u> | <u>-</u> | <u>391,442</u> | <u>-</u> | <u>-</u> |
| | \$ 4,508,605 | \$ 1,141,937 | \$ 2,558,783 | \$ 387,885 | \$ 420,000 |
| Equities and Equity Mutual Funds | <u>6,661,044</u> | | | | |
| | <u>\$ 11,169,649</u> | | | | |

The University has an investment management agreement with Fifth Third Bank (Fifth Third). Fifth Third serves individual and institutional clients.

Credit Risk

The University's average credit quality rating according to Moody's is Aa3.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

2. Cash, Cash Equivalents, and Investments, continued

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal policy to specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University does not have a formal policy for concentration of credit risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.

3. Accounts, Grants and Loan Receivable

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

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

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

4. Capital Assets, Net

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

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

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

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

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

5. Accounts Payable and Accrued Liabilities

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

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

6. Unearned Revenue

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

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

7. Long-Term Liabilities

Long-term liabilities as of June 30, 2013, are summarized as follows:

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

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Long-Term Liabilities, continued

Long-term liabilities as of June 30, 2012, are summarized as follows:

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

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

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

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

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

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

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

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

7. Long-Term Liabilities, continued

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

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

During 2005, the University entered into a capital lease for an energy management project. The lease obligation has an interest rate of 4.29% and requires annual payments of principal and interest through 2021. The lease obligation will be paid with guaranteed energy savings.

The following is a schedule of future minimum payments required for the capital lease obligation at June 30, 2013:

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

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

8. Operating Lease

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

Minimum future lease payments under all leases are as follows:

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

9. Employee Benefits

Kentucky Teachers Retirement System

All faculty and exempt employees required to hold a degree and occupying full-time positions, defined as seven-tenths (7/10) of normal full-time service on a daily or weekly basis, are required by state law to participate either in the Kentucky Teachers Retirement System (KTRS) or the Optional Retirement Plan (ORP). KTRS, a cost sharing, multiple-employer, public employee retirement system, provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age sixty, unless the employee has twenty-seven or more years of participation in the plan. The plan also provides for disability retirement, death and survivor benefits, and medical insurance.

The Kentucky Teachers Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868 or by calling (502) 848-8500.

Funding for the plan is provided from eligible employees who contribute 6.16% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 13.84% of current eligible employees' salaries to the KTRS through appropriations to the University. Employees hired on or after July 1, 2008 contribute 7.16% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 14.84% to the KTRS through appropriations to the University. Contribution requirements of the plan members and the University are established by Kentucky Revised Statute and the KTRS Board of Trustees. The University's contributions to KTRS for the years ended June 30, 2013, 2012 and 2011 were \$2,037,331, \$2,155,711 and \$2,128,980, respectively, and equaled the required contribution for that year.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

9. Employee Benefits, continued

Kentucky Employees Retirement System

Substantially all other full-time University employees are required by law to participate in the Kentucky Employees Retirement System (KERS), a cost sharing multiple-employer, public employee retirement system. KERS provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age sixty-five, or less than twenty-seven years of service. The plan also provides for disability retirement, death and survivor benefits and medical insurance.

The Kentucky Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Employees Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601 or by calling (502) 564-4646.

Funding for the plan is provided from eligible employees who contribute 5.00% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 16.98% of current eligible employees' salaries to the KERS through appropriations to the University. Employees hired on or after July 1, 2008 contribute 6.0% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 16.98% to the KERS through appropriations to the University. The University contribution rates are determined by the Kentucky Revised Statute and the Board of Trustees of the Kentucky Retirement System each biennium. The University's contributions to KERS for the years ended June 30, 2013, 2012 and 2011 were \$1,218,234, \$1,041,753 and \$929,940, respectively, and equaled the required contribution for that year.

Optional Retirement Plan

All faculty and exempt employees who are eligible to participate in the KTRS retirement plan may elect to participate in the Optional Retirement Plan (ORP) instead of KTRS. In doing so, the employee may choose both Teachers Insurance and Annuity Association of America, (TIAA-CREF) or The Variable Annuity Life Insurance Company (VALIC). Both offer a defined contribution, 403b plan.

Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF), is one of the largest and most respected financial service providers in the world. TIAA-CREF Individual & Institutional Services, Inc. distributes CREF and TIAA Real Estate Account variable annuities. Teachers Personal Investors Services, Inc. distributes Personal Annuity variable annuities, TIAA-CREF Mutual Funds, TIAA-CREF Institutional Mutual Funds, and TIAA-CREF Tuition Financing, Inc. products. TIAA-CREF Trust Company, FSB, provides trust services. Located in New York, NY, Teachers Insurance and Annuity Association of America (TIAA) and TIAA-CREF Life Insurance Company issue insurance and annuities. Financial statements are available on the website, www.tiaa-cref.com.

AIG VALIC is the marketing name for the family of companies comprising VALIC Financial Advisors, Inc.; VALIC Retirement Services Company; VALIC Trust Company; and The Variable Annuity Life Insurance Company (VALIC); all members of American International Group, Inc. complete information.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

9. Employee Benefits, continued

Optional Retirement Plan, continued

Information about VALIC's variable annuities, including financial statements, fees, charges, expenses and contract limitations, can be obtained by visiting the website www.aigvalic.com or by calling 1-800-428-2542.

Funding for the plan is provided from eligible employees who contribute 6.16% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 8.74% of current eligible employees' salaries to the ORP through appropriations to the University. The University's contributions to ORP for the years ended June 30, 2013, 2012 and 2011 were \$485,224, \$434,586 and \$412,711, respectively, and equaled the required contribution for the year.

Health care and life insurance benefits are provided for eligible retired employees through the above pension plans. Expenditures for all employee benefits are included as expenditures within the appropriate functional areas.

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

10. Commitments and Contingencies

The University is a party to various law suits and other claims in the ordinary course of business. University officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material effect on the financial statements of the University.

The University receives financial assistance from federal and state agencies in the form of grants and awards. The expenditure of funds received from these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audit could become a liability of the applicable fund. In the opinion of management, such potential disallowed claims, if any, would not have a material adverse effect on the overall financial position of the University at June 30, 2013.

11. Risk Management

The University is exposed to various risks of loss from torts; theft of, damage to, destruction of assets; business interruption; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from these risks. Settled claims have not exceeded this commercial coverage in any of the three preceding years. As a sovereign entity of the Commonwealth of Kentucky, the Kentucky Board of Claims handles tort claims on behalf of the University.

KENTUCKY STATE UNIVERSITY

Notes to the Financial Statements, continued

11. Risk Management, continued

The Commonwealth of Kentucky operates a public entity risk pool operating as a common risk management and insurance program for its members. The University pays an annual premium to the pool for its workers' compensation insurance coverage. The pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts.

12. Schedule of Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are presented by functional expense purpose. Functional expense purpose is classified below by natural classification, such as salaries, benefits, and goods and services.

Depreciation is allocated below based on functional classification as required by IPEDS for Fiscal Year 2013. The tables below summarize operating expenses by functional purpose for the years ended June 30, 2013 and 2012:

| | <u>2013</u> | | | | | |
|----------------------------------|--|--|---|---------------------|---|---------------------|
| | <u>Compensation & Benefits</u> | <u>Supplies & Services</u> | <u>Scholarships & Fellowships</u> | <u>Depreciation</u> | <u>Operations & Maintenance</u> | <u>Total</u> |
| Instruction | \$ 12,400,132 | \$ 1,261,665 | \$ 39,442 | \$ 648,012 | \$ 1,345,441 | \$15,694,692 |
| Research | 3,698,586 | 2,085,005 | - | 797,270 | 617,047 | 7,197,908 |
| Public service | 4,002,827 | 1,416,702 | - | 287,160 | 535,081 | 6,241,770 |
| Academic support | 2,001,154 | 1,366,739 | - | 279,201 | 341,966 | 3,989,060 |
| Student services | 5,368,188 | 2,314,885 | 29,089 | 477,347 | 767,880 | 8,957,389 |
| Institutional support | 6,832,234 | 2,915,953 | (75,391) | 984,830 | 1,197,048 | 11,854,674 |
| Operation & maintenance of plant | 2,029,743 | 3,572,257 | - | 683,049 | (6,285,049) | - |
| Auxiliary enterprises | 1,192,313 | 5,081,378 | - | 336,961 | 619,841 | 7,230,493 |
| Student financial aid | <u>556,159</u> | <u>344,814</u> | <u>8,261,704</u> | <u>17,238</u> | <u>860,745</u> | <u>10,040,660</u> |
| Total operating expense | <u>\$ 38,081,336</u> | <u>\$20,359,398</u> | <u>\$ 8,254,844</u> | <u>\$ 4,511,068</u> | <u>\$ -</u> | <u>\$71,206,646</u> |