

KENTUCKY STATE UNIVERSITY

FINANCIAL STATEMENTS
June 30, 2010 and 2009

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REPORT OF INDEPENDENT AUDITORS

Board of Regents
Kentucky State University
Frankfort, Kentucky

We have audited the accompanying financial statements of the business-type activities of Kentucky State University (the "University") as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Kentucky State University Foundation, Inc. (the "Foundation") an entity included as a component unit as required by Statement No. 39 of the Governmental Accounting Standards Board, as of June 30, 2010 and 2009 and for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Kentucky State University as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Crowe Horwath LLP
Crowe Horwath LLP

Louisville, Kentucky
November 5, 2010

KENTUCKY STATE UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's Discussion and Analysis of Kentucky State University's (the "University") financial statements provide an overview of the financial position and activities of the University for the year ended June 30, 2010, with comparative information for the year ended June 30, 2009 and selected information for the year ended June 30, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

Kentucky State University is a Commonwealth of Kentucky coeducational institution for higher education. The University's mission is to build on its legacy of achievement as a historically black, liberal arts, and 1890 land-grant university, afford access to and prepare a diverse student population of traditional and non-traditional students to compete in a multifaceted, ever-changing global society by providing student-centered learning while integrating teaching, research, and service through high-quality undergraduate and select graduate programs. Kentucky State University is committed to keeping relevant its legacy of service by proactively engaging the community in partnerships on civic projects driven by the objective of positively impacting the quality of life of the citizens of the Commonwealth.

Basis of Presentation

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

Financial Highlights

- The University's financial position at June 30, 2010, reflected total assets of \$123.4 million and total liabilities of \$18.0 million. Total net assets were \$105.4 million. Financial operations were in accordance with revenue expectations and the approved budget plan.
- Total assets increased \$9.4 million or 8.3%, primarily due to increases in student accounts, grant and loans receivables, capital assets and investments. Total liabilities decreased by \$1.8 million, or 9.2% primarily due to a decrease in bond and lease obligations. Total net assets increased \$11.3 million.
- Unrestricted net assets increased \$6.2 million, which the University reserves for spending in programs and other capital-related contingencies.
- The University classifies amounts earned on endowments as spendable or non-spendable in accordance with the endowment's donor stipulations. Nonexpendable restricted net assets represent amounts, which must be maintained in perpetuity. Expendable restricted net assets include endowment earnings that are spendable, consistent with the University's spending policy.

- Operating revenues were \$45.4 million and operating expenditures were \$67.6 million, resulting in a loss from operations of \$22.3 million. Net non-operating revenues were \$31.8 million, including \$24.6 million in state appropriations, which, when combined with the loss from operations and capital appropriations, resulted in an overall increase in net assets of \$11.3 million.

Using the Financial Statements

The University's Financial Statements consist of three financial statements: a Statement of Net Assets (Balance Sheet); a Statement of Revenues, Expenses and Changes in Net Assets (Income Statement); and a Statement of Cash Flows, along with the accompanying Notes to the Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

Kentucky State University is a component unit of the Commonwealth of Kentucky.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities. Net assets, the difference between total assets and total liabilities, are an important indicator of the current financial condition, while the change in net assets is an indicator of whether the overall financial position has improved or worsened during the year.

Condensed Statement of Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
ASSETS			
Current assets	\$ 30,819,820	\$ 24,432,068	\$ 23,485,549
Noncurrent assets	<u>92,557,670</u>	<u>89,508,514</u>	<u>89,393,618</u>
Total assets	<u>123,377,490</u>	<u>113,940,582</u>	<u>112,879,167</u>
LIABILITIES			
Current liabilities	7,588,173	7,477,804	5,572,324
Non-current liabilities	<u>10,393,089</u>	<u>12,329,490</u>	<u>13,945,907</u>
Total liabilities	<u>17,981,262</u>	<u>19,807,294</u>	<u>19,518,231</u>
NET ASSETS			
Invested in capital assets, net of related debt	71,831,353	67,690,461	64,851,397
Restricted			
Nonexpendable	8,048,379	8,110,728	8,351,709
Expendable	5,063,026	4,079,665	8,517,061
Unrestricted	<u>20,453,470</u>	<u>14,252,434</u>	<u>11,640,769</u>
Total net assets	<u>\$ 105,396,228</u>	<u>\$ 94,133,288</u>	<u>\$ 93,360,936</u>

Assets. As of June 30, 2010, total assets amounted to \$123.4 million. Of this amount, investment in capital assets (net of depreciation) of \$83.0 million, or 67.3% of total assets, represented the largest asset class. Investments amounted to \$10.1 million or 8.2% of total assets. During the year, total assets increased by \$9.4 million, primarily due to increases in student accounts, grant and loans receivables, capital assets and investments.

Liabilities. As of June 30, 2010, total liabilities amounted to \$18.0 million. Long-term debt includes bonds payable for educational buildings, the housing and dining system, energy-related equipment and technology equipment purchased under a Master Lease Agreement. During the year, total liabilities decreased by \$1.8 million, primarily due to a decrease in accounts payable, bonds and capital lease obligations.

Net Assets. Net assets of the University were \$105.4 million at June 30, 2010 and were reported in four net asset categories: invested in capital assets, net of related debt \$71.8 million (68.2%), restricted nonexpendable \$8.0 million (7.6%), restricted expendable \$5.1 million (4.8%), and unrestricted \$20.5 million (19.4%).

2009 versus 2008. Total assets amounted to \$113.9 million and \$112.9 million in fiscal year 2009 and 2008 respectively. Total liabilities amount to \$19.8 million in fiscal year 2009 and \$19.5 million in fiscal year 2008. When compared to fiscal year 2008, the University's total assets for fiscal year 2009 increased \$1 million primarily in the current asset category due to a decrease in student accounts, grant and loans receivables, reduced market value of investments, and increase in cash, cash equivalents and capital assets, net.

Statement of Revenues, Expenses and Changes in Net Assets

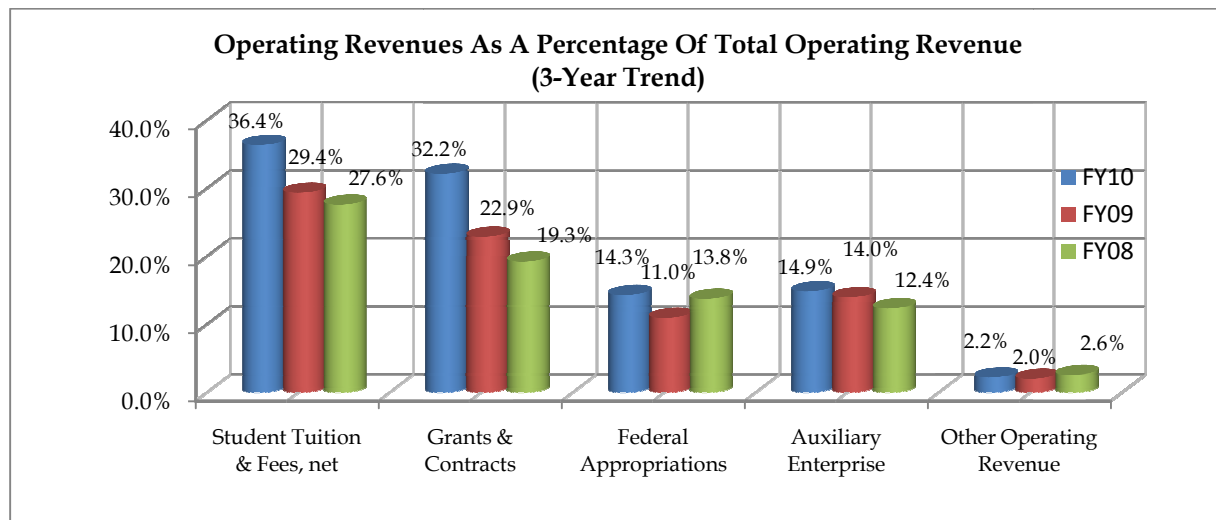
The Statement of Revenues, Expenses and Changes in Net Assets is prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. All items that increase or decrease net assets must appear on the Statement of Revenues, Expenses and Changes in Net Assets as revenues, expenses, gains or losses.

Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state appropriations, gifts, investment income and endowment income to be classified as nonoperating revenues. Accordingly, the University reports an operating loss prior to the addition of nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition revenue is reduced by gift scholarships and institutional aid, and is reported net of scholarship allowances in the financial statements. A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2010, 2009 and 2008 is as follows.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
OPERATING REVENUES			
Student tuition and fees, net	\$16,512,333	\$13,328,034	\$ 12,530,774
Grants and contracts	14,589,783	10,389,449	8,733,732
Federal appropriations	6,507,463	4,977,599	6,246,011
Auxiliary enterprises	6,745,546	6,356,430	5,616,851
Other operating revenue	<u>1,006,390</u>	<u>909,262</u>	<u>1,170,030</u>
Total operating revenues	<u>45,361,515</u>	<u>35,960,774</u>	<u>34,297,398</u>
OPERATING EXPENSES			
Educational and general	61,873,552	57,103,977	54,424,317
Auxiliary enterprises	<u>5,764,044</u>	<u>5,798,861</u>	<u>5,038,505</u>
Total operating expenses	<u>67,637,596</u>	<u>62,902,838</u>	<u>59,462,822</u>
OPERATING LOSS	<u>(22,276,081)</u>	<u>(26,942,064)</u>	<u>(25,165,424)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	24,630,377	26,435,199	27,525,700
Federal grants and contracts	6,556,989	4,300,478	3,917,011
Gifts and grants	613,057	548,970	721,085
Investment income (loss)	1,158,756	(1,068,877)	286,709
Interest on capital asset – related debt	(483,085)	(535,089)	(474,807)
Other	<u>(697,500)</u>	<u>(1,966,265)</u>	<u>(1,364,165)</u>
Total non-operating revenues	<u>31,778,594</u>	<u>27,714,416</u>	<u>30,611,533</u>
Income before other revenues, expenses, gains (losses)	9,502,513	772,352	5,446,109
Endowment Gifts	-	-	60,666
Capital appropriations	<u>1,760,427</u>	<u>-</u>	<u>8,273,393</u>
Total net increase in net assets	11,262,940	772,352	13,780,168
Net assets, beginning of year	<u>94,133,288</u>	<u>93,360,936</u>	<u>79,580,768</u>
Net assets, end of year	<u>\$105,396,228</u>	<u>\$ 94,133,288</u>	<u>\$ 93,360,936</u>

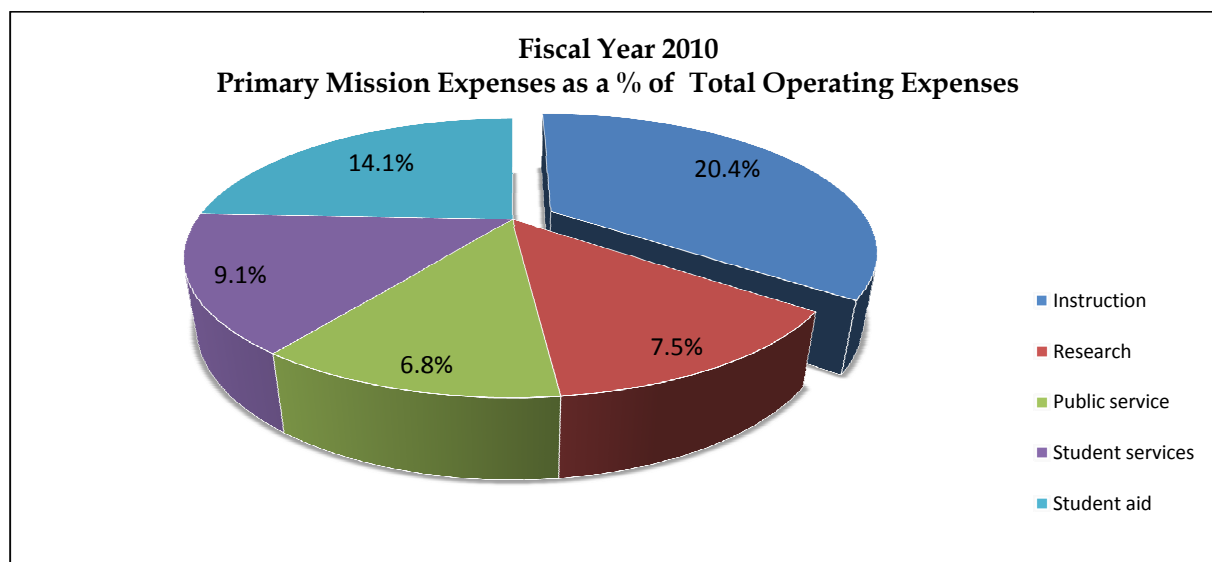
Figure 1



Total operating revenues were \$45.4 million for the year ended June 30, 2010, an increase of \$9,400,741. The primary components were federal, state and local grants and contracts of \$14.6 million (32.2%), student tuition and fees of \$16.5 million (36.4%), federal appropriations of \$6.5 million (14.3%) and auxiliary services and other revenues of \$7.8 million (17.1%). Student tuition and fees revenue increased \$3,184,299 due to increased tuition fees and enrollment. Grants and contracts revenue increased \$4,200,334 due to increased awards and spending. Federal appropriations increased \$1,529,864. Auxiliary enterprises revenue increased \$389,116. Refer to **Figure 1** for the three-year trend of the operating revenues as a percent to total operating revenues.

Operating expenses totaled \$67.6 million, an increase of \$4,734,758 over last year due to an increase in depreciation, federal grants spending and bad debt. Of this amount, \$39.2 million (57.9%) was expended directly for the primary mission of the University – instruction (20.4%), research (7.5%), student services (9.1%), student aid (14.1%), and public service (6.8%). Instruction is the main component of Primary Mission expenses amounting to \$13.8 million in fiscal year 2010 or 20.4%. Refer to **Figure 2** for the operating expenses categorized into the Primary Mission of the University.

Figure 2



The University continued to invest in student aid and support services to provide students with opportunities to be successful in fiscal year 2010. For the year ended June 30, 2010, student aid related to tuition and fees totaled \$14 million, with student aid expenses of \$9.5 million and scholarship allowances of \$4.5 million.

The University had an overall increase in institutional support of \$1.5 million, along with a slight decrease in auxiliary enterprises of \$34,817. The large expenditures in the primary areas of instruction, research and student services, in conjunction with minimal increases to fixed cost areas, confirms the University resource allocations are clearly aligned with the University's strategic priorities to support academic and student excellence.

The net loss from operations for the year amounted to \$22.2 million. Nonoperating revenues, net of expenses, amounted to \$31.8 million, resulting in an increase in income before other revenues, expenses, gains and losses of \$9.5 million for the year. After capital appropriations, the increase in net assets was \$11.3 million. Nonoperating revenues include state appropriations of \$24.6 million, federal grants and contracts of \$6.6 million, gifts and investment income, net of expenses.

2009 versus 2008

Operating revenues in fiscal year 2008 were \$34.3 million and operating expenditures were \$59.5 million, resulting in a loss from operations of \$25.2 million. Net nonoperating revenues were \$30.6 million, including \$27.5 million in state appropriations. Compared to fiscal year 2009, revenue increases are due to tuition and fee increases, grant and contracts increases, a decrease in federal appropriations and auxiliary enterprises. Operating expenses have increased due primarily to salary increases and cost of utilities.

Statement of Cash Flows

The Statement of Cash Flows presents information related to the University's cash inflows and outflows summarized by operating activities, noncapital financing activities, capital financing activities and investing activities. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the University during the year, to allow financial statement readers to assess the University's ability to generate future net cash flows, its ability to meet obligations as they become due and its possible need for external financing.

Condensed Statement of Cash Flows

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash (used) provided by:			
Operating activities	\$ (17,461,608)	\$ (18,374,044)	\$ (23,032,029)
Non-capital financing activities	30,885,912	29,325,080	30,896,070
Capital and related financing activities	(7,777,980)	(6,781,586)	(16,818,731)
Investment activities	<u>261,222</u>	<u>466,546</u>	<u>433,346</u>
Net increase (decrease) in cash	5,907,546	4,635,996	(8,521,344)
Cash and cash equivalents, beginning year	<u>17,064,879</u>	<u>12,428,883</u>	<u>20,950,227</u>
Cash and cash equivalents, end of year	<u>\$ 22,972,425</u>	<u>\$ 17,064,879</u>	<u>\$ 12,428,883</u>

Major sources of cash received from operating activities are student tuition and fees of \$17.6 million and grants and contracts of \$19.5 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$35.3 million and to vendors and contractors of \$18.9 million.

Noncapital financing activities included state appropriations from the Commonwealth of Kentucky of \$24.6 million.

Capital and related financing activities included capital appropriations from the Commonwealth of Kentucky and other sources of \$1.8 million. Cash of \$9.5 million was expended for construction and acquisition of capital assets and for principal and interest payments on the retirement of the University's bonds and other capital related debt.

Net cash of \$261,222 was used for conducting investing activities, including purchase and sales of investments, and interest and dividends earned on investments. Investment activity was primarily related to management of the University's endowments.

2009 versus 2008

Compared to fiscal year 2008, the amount of cash used to fund operations has been reduced primarily due to operational efficiencies that have been implemented. Net cash for noncapital financing activities and investment activities remains constant. Capital and related financing has been reduced due to the completion of capital projects.

State Appropriations

State appropriations represent approximately 31.4% of all operating and non-operating revenues. The level of state support is a key factor influencing the University's overall financial condition. State appropriation is unrestricted revenue and is included as non-operating revenue. State appropriation is used to support payroll and benefits for University employees.

The following details the net Commonwealth appropriations received by the University for fiscal years ending June 30, 2010, 2009 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Commonwealth appropriations	\$ 24,630,377	\$ 26,435,199	\$ 27,525,700
Federal appropriations	<u>6,507,463</u>	<u>4,977,599</u>	<u>6,246,011</u>
Total appropriations	<u>\$ 31,137,840</u>	<u>\$ 31,412,798</u>	<u>\$ 33,771,711</u>

Capital Appropriations for the Commonwealth

The University faces financial challenges to maintain and upgrade its capital assets including its infrastructure, buildings and grounds. A combination of revenue sources funds the University's investment in capital improvements, including appropriations provided by the Commonwealth of Kentucky. In fiscal year 2010, the Commonwealth provided \$1.8 million in capital appropriations to the University. State capital appropriations plus federal sources plays an important role in the University's efforts to address deferred maintenance projects.

Grant and Contract Revenue

The following table details the University's grant and contract revenue for fiscal years ended June 30, 2010, 2009 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Federal grants and contracts	\$ 18,890,125	\$ 11,941,053	\$ 10,321,842
State grants and contracts	2,210,849	2,689,092	2,276,728
Nongovernmental grants and contracts	<u>45,798</u>	<u>59,782</u>	<u>52,173</u>
Total grants and contracts	<u>\$ 21,146,772</u>	<u>\$ 14,689,927</u>	<u>\$ 12,650,743</u>

Capital Plan

In early 2009, the University submitted its Six Year Capital Plan to the Kentucky General Assembly to be acted upon during the 2010 regular session of the General Assembly. This plan included projects separated into three biennia beginning in 2010 and ending 2016. The execution of the University's capital plan is contingent upon sufficient funding from the Commonwealth.

The \$200 million request for the first biennium (2010-2012) is comprised of new construction projects, maintenance projects and information technology projects. The University primarily funds its projects from four sources: state general fund appropriations, federal USDA funds, agency funds, and private funding. University-issued bond funding is also available.

New construction projects proposed include: \$7.8 million to expand or build a new Betty White Nursing Building, which will provide 24,000 square feet of new classroom space to accommodate enrollment into the nursing program; \$2.1 million to construct a pedestrian bridge across U.S. Highway 60 to allow students, faculty and staff safe passage across a heavily traveled highway which bisects campus; \$24.5 million to construct a centralized boiler plant, to replace the existing seventy year old plant. Maintenance projects included: \$1.5 million in a Capital Renewal & Maintenance Pool; over \$4.2 million to replace boilers and mitigate pollution control; and \$1.8 million for roof replacements. Information technology projects are the last major category in the 2010-2012 Capital Plan and include: \$5.5 million to upgrade information technology infrastructure; \$6.8 million to renovate the central computing facility; and \$1.0 million to upgrade computer hardware campus-wide.

Designated and Nondesignated Spending

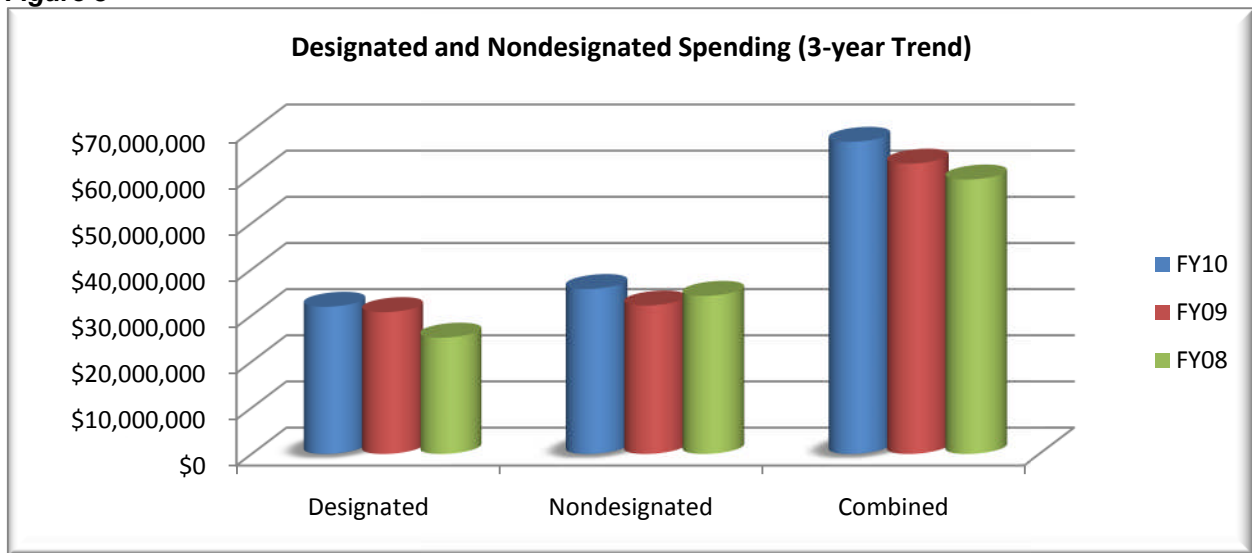
In the tables below, expenses have been categorized into designated or nondesignated spending categories. The designated spending category includes funds expended by function from contracts and grants, land grant, auxiliary and depreciation. These funds must be expended for the purposes for which the funds were received or budgeted. This category also includes funds for student aid. All other spending is categorized as nondesignated spending. Expenses for nondesignated fund categories in 2010 increased for instruction, research, public service, student services, institutional support and student aid over the prior year and decreased for academic support, and plant operations and maintenance. Total spending for all functions in the nondesignated category increased by \$3.6 million in 2010.

	-----2010-----		
	<u>Designated Spending</u>	<u>Nondesignated Spending</u>	<u>Combined Spending</u>
Instruction	\$ 508,407	\$ 13,279,394	\$ 13,787,801
Research	3,853,012	1,241,526	5,094,538
Public service	4,065,303	553,742	4,619,045
Academic support	1,625,724	1,720,385	3,346,109
Student services	651,616	5,492,757	6,144,373
Institutional support	1,823,777	8,536,204	10,359,981
Operation and plant maintenance	283,344	4,457,261	4,740,605
Student aid	9,055,800	463,463	9,519,263
Auxiliary	5,111,449	-	5,111,449
Depreciation	<u>4,914,432</u>	<u>-</u>	<u>4,914,432</u>
Total	<u>\$ 31,892,864</u>	<u>\$ 35,744,732</u>	<u>\$ 67,637,596</u>

	-----2009-----		
	Designated Spending	Nondesignated Spending	Combined Spending
Instruction	\$ 2,279,132	\$ 12,145,344	\$ 14,424,476
Research	5,060,516	329,521	5,390,037
Public service	4,221,511	324,975	4,546,486
Academic support	1,117,615	1,811,237	2,928,852
Student services	618,867	5,208,665	5,827,532
Institutional support	1,398,537	7,421,396	8,819,933
Operation and plant maintenance	392,735	4,866,923	5,259,658
Student aid	7,010,686	-	7,010,686
Auxiliary	5,224,154	63,592	5,287,746
Depreciation	<u>3,407,432</u>	<u>-</u>	<u>3,407,432</u>
Total	<u>\$ 30,731,185</u>	<u>\$ 32,171,653</u>	<u>\$ 62,902,838</u>

The graph in **Figure 3** shows a three year trend of designated, nondesignated, and combined spending. Nondesignated spending is slightly greater than designated spending. However, designated spending increased \$5.5 million in 2009 and increased \$1.1 million in 2010. Nondesignated spending decreased \$2.1 million in 2009 and increased \$3.6 million in 2010. Overall, the combined spending followed the same trend as designated spending with an increase each year by \$3.4 million in 2009 and \$4.7 million in 2010.

Figure 3



Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$83 million at June 30, 2010, an increase of \$2.4 million. Capital assets as of June 30, 2010 and significant changes in capital assets during the year are as follows (in millions):

	<u>June 30,</u> <u>2008</u>	<u>Net</u> <u>Additions</u> <u>(Reductions)</u> <u>FY 08-09</u>	<u>June 30,</u> <u>2009</u>	<u>Net</u> <u>Additions</u> <u>(Reductions)</u> <u>FY 09-10</u>	<u>June 30,</u> <u>2010</u>
Land and land improvements	\$ 5.5	\$ 0.1	\$ 5.6	\$ -	\$ 5.6
Buildings, fixed equipment and infrastructure	114.4	0.1	114.5	27.5	142.0
Equipment, vehicles and capitalized software	25.5	0.1	25.6	2.4	28.0
Library materials and art	9.2	0.2	9.4	0.4	9.8
Construction in progress	22.2	4.0	26.2	(22.9)	3.3
Accumulated depreciation	<u>(97.3)</u>	<u>(3.4)</u>	<u>(100.7)</u>	<u>(5.0)</u>	<u>(105.7)</u>
Total	<u>\$ 79.5</u>	<u>\$ 1.1</u>	<u>\$ 80.6</u>	<u>\$ 2.4</u>	<u>\$ 83.0</u>

At June 30, 2010, the University has capital construction projects in progress totaling \$3.3 million in scope.

Long Term Debt

At June 30, 2010, bonds and lease payable amounted to \$11.1 million, as summarized below:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Lease Obligations	\$ 5,402,329	\$ 5,927,415	\$ 6,457,068
Consolidated Educational Buildings Revenue			
Bonds	935,000	1,825,000	2,690,000
General Receipts Bonds	4,875,000	5,215,000	5,535,000
Bond discount and issue costs	<u>(70,720)</u>	<u>(70,720)</u>	<u>(70,720)</u>
Total	<u>\$ 11,141,609</u>	<u>\$ 12,896,695</u>	<u>\$ 14,611,348</u>

Economic Factors Impacting Future Periods

University management continues its strategic mission to uniquely position Kentucky State University as an institution of excellence for the citizens of the Commonwealth and for advancing higher education in Kentucky by inspiring innovation, growing leaders and advancing Kentucky. Executive management continues to work with the Council on Postsecondary Education to address the needs of the Commonwealth and believes that it has well-positioned the University for becoming a strong, financially viable and efficient institution of higher learning as funding issues continue to be decided.

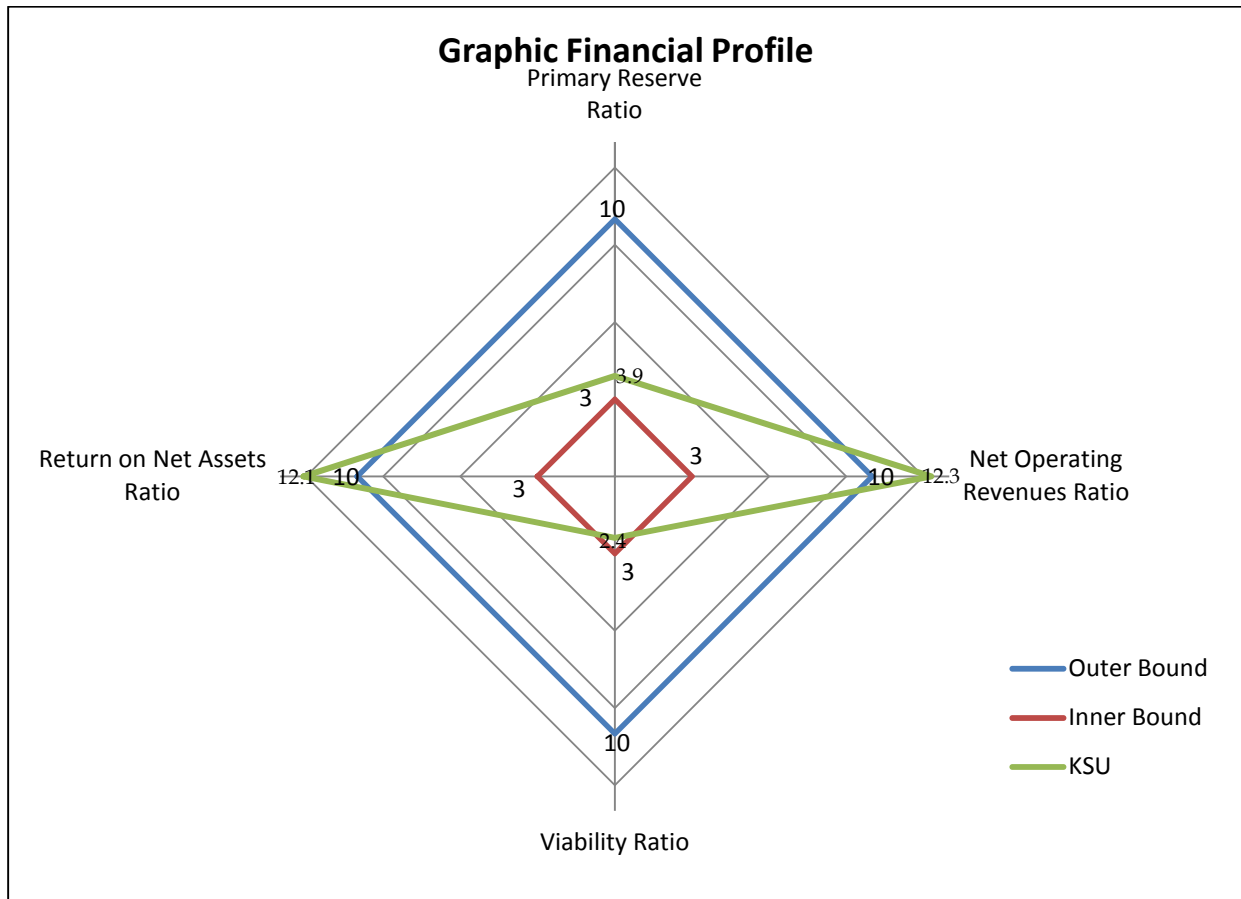
Future economic factors impacting Kentucky State University include the following known facts:

- Tuition and costs of attendance—Kentucky State University continues to weigh its costs of attendance with the funding provided by the General Assembly to successfully deliver its programs and remain one of the most affordable public institutions in the Commonwealth. Funding levels and methodologies used for institutions of higher education in the Commonwealth are developed and approved by the Council on Postsecondary Education.
- Quality Enhancement Plan—*Academics with Attitude*—in 2009, the University developed a plan to address student success. This initiative was part of the University's accreditation reaffirmation process as required by the Southern Association of Colleges and Schools. The plan focuses on student readiness for college level courses. A pilot phase was successfully conducted in Summer 2009 with full implementation planned for Fall 2010.
- Enrollment growth and student retention—Kentucky State University recruits a diverse student body of traditional, nontraditional and transfer students seeking baccalaureate and advanced degrees. Enrollment growth and retention continues to be a priority of University management.
- Program expansion—the University is well positioned to meet the needs of Kentuckians by its programs and educational activities. The University offers the following programs: Bachelors in Mass Communications and Journalism, a Masters of Art in Special Education, and a Masters in Business Administration, a Masters in Public Administration, a Masters in Computer Science, and a Masters in Environmental Studies
- Regional Stewardship—Kentucky State University began the initiative to meet the economic and community needs of its area of geographic responsibility through collaborative initiatives with businesses, community-based organizations, schools and other educational agencies, citizens and local and state officials.

The overall financial position of the University strengthened during fiscal year 2010. Revenue streams remain secure and steady. As the University adapts to present economic environments, new opportunities for funding will be explored to compliment state support. Executive management's goal is to deliver exceptional programs and services to students and constituents while maintaining financial integrity. Management believes Kentucky State University is able to sustain its sound financial position and solidify its progress toward becoming a regional university of excellence.

Figure 4 illustrates the ratios comprising the composite financial index. The graph depicts a graphic view of Kentucky State University's financial profile that identifies the financial strengths and weaknesses that may exist. Based on the illustration, Kentucky State University has relatively strong operating results. The primary reserve ratio is reduced primarily resulting in a reduction in state funding for capital expansion. The viability ratio is plotted slightly within the inner bounds, but shows that Kentucky State University has significant net assets to satisfy its debt obligations.

Figure 4



KENTUCKY STATE UNIVERSITY
STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 22,972,425	\$ 17,064,879
Accounts, grants and loans receivable, net	6,200,663	5,771,341
Investments	1,297,194	1,297,212
Inventory and other current assets	<u>349,538</u>	<u>298,636</u>
Total current assets	<u>30,819,820</u>	<u>24,432,068</u>
Noncurrent assets		
Accounts, grants and loans receivable, net	756,703	873,803
Investments	8,828,005	8,047,554
Capital assets, net	<u>82,972,962</u>	<u>80,587,157</u>
Total noncurrent assets	<u>92,557,670</u>	<u>89,508,514</u>
Total assets	<u>123,377,490</u>	<u>113,940,582</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,635,787	2,068,863
Accrued compensated absences	1,770,396	1,513,381
Deferred revenue	2,136,064	1,733,309
Deposits	35,883	30,960
Other current liabilities	295,575	376,205
Bonds and capital lease obligations, current portion	<u>1,714,468</u>	<u>1,755,086</u>
Total current liabilities	<u>7,588,173</u>	<u>7,477,804</u>
Noncurrent liabilities		
Bonds and capital lease obligations, noncurrent portion	9,427,142	11,141,609
Federal grants refundable	<u>965,947</u>	<u>1,187,881</u>
Total noncurrent liabilities	<u>10,393,089</u>	<u>12,329,490</u>
Total liabilities	<u>17,981,262</u>	<u>19,807,294</u>
NET ASSETS		
Invested in capital assets, net of related debt	71,831,353	67,690,461
Restricted		
Nonexpendable	8,048,379	8,110,728
Expendable	5,063,026	4,079,665
Unrestricted	<u>20,453,470</u>	<u>14,252,434</u>
Total net assets	<u>\$ 105,396,228</u>	<u>\$ 94,133,288</u>

See accompanying notes.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2010
(With comparative totals for June 30, 2009)

	2010			2009	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 34,809	\$ 196,104	\$ 861,074	\$ 1,091,987	\$ 1,080,372
Marketable securities	139,611	786,686	4,490,326	5,416,623	4,843,605
Property and equipment, net of accumulated depreciation	116,801	-	-	116,801	134,519
Other assets	<u>857</u>	<u>4,829</u>	<u>28,062</u>	<u>33,748</u>	<u>33,276</u>
Total assets	<u>\$ 292,078</u>	<u>\$ 987,619</u>	<u>\$ 5,379,462</u>	<u>\$ 6,659,159</u>	<u>\$ 6,091,772</u>
LIABILITIES AND NET ASSETS					
Accounts payable	\$ 1,996	\$ 42,071	\$ -	\$ 44,067	\$ 8,162
Notes payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,146</u>
Total liabilities	1,996	42,071	-	44,067	20,308
Net assets	<u>290,082</u>	<u>945,548</u>	<u>5,379,462</u>	<u>6,615,092</u>	<u>6,071,464</u>
Total liabilities and net assets	<u>\$ 292,078</u>	<u>\$ 987,619</u>	<u>\$ 5,379,462</u>	<u>\$ 6,659,159</u>	<u>\$ 6,091,772</u>

See accompanying notes.

KENTUCKY STATE UNIVERSITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$4,471,761 and \$4,531,169)	\$ 16,512,333	\$ 13,328,034
Federal grants and contracts	12,333,136	7,640,575
Federal appropriations	6,507,463	4,977,599
State and local grants and contracts	2,210,849	2,689,092
Nongovernmental grants and contracts	45,798	59,782
Auxiliary enterprises		
Residence halls	3,369,793	3,232,299
Dining	3,147,196	2,870,132
Bookstore	172,205	188,201
Other auxiliaries	56,352	65,798
Other operating revenues	<u>1,006,390</u>	<u>909,262</u>
Total operating revenues	<u>45,361,515</u>	<u>35,960,774</u>
EXPENSES		
Operating expenses		
Educational and general		
Instruction	13,787,801	14,424,476
Research	5,094,538	5,390,037
Public service	4,619,045	4,546,486
Academic support	3,346,109	2,928,852
Student services	6,144,373	5,827,532
Institutional support	10,359,981	8,819,933
Operations and maintenance of plant	4,740,605	5,259,658
Student aid	9,519,263	7,010,686
Depreciation	4,261,837	2,896,317
Auxiliary enterprises		
Residence halls	1,886,543	2,110,419
Dining	2,981,547	2,601,449
Other auxiliaries	243,359	575,878
Depreciation	<u>652,595</u>	<u>511,115</u>
Total operating expenses	<u>67,637,596</u>	<u>62,902,838</u>
Operating loss	<u>(22,276,081)</u>	<u>(26,942,064)</u>

(Continued)

KENTUCKY STATE UNIVERSITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 24,630,377	\$ 26,435,199
Federal grants and contracts	6,556,989	4,300,478
Gifts	613,057	548,970
Investment income (loss) (net of investment expense)	1,158,756	(1,068,877)
Interest on capital asset-related debt	(483,085)	(535,089)
Other nonoperating expenses	<u>(697,500)</u>	<u>(1,966,265)</u>
Net nonoperating revenues	<u>31,778,594</u>	<u>27,714,416</u>
Income before capital appropriations	9,502,513	772,352
Capital appropriations	<u>1,760,427</u>	<u>-</u>
Increase in net assets	11,262,940	772,352
Net assets, beginning of year	<u>94,133,288</u>	<u>93,360,936</u>
Net assets, end of year	<u>\$ 105,396,228</u>	<u>\$ 94,133,288</u>

See accompanying notes.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2010
(With comparative totals for June 30, 2009)

	2010			Total	2009
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
Revenue and support					
Contributions	\$ 8,000	\$ 420,713	\$ 164,159	\$ 592,872	\$ 939,545
Interest and dividends	6,130	20,540	152,128	178,798	176,917
Net realized and unrealized gains on marketable securities	8,722	32,956	262,163	303,841	(463,114)
Interfund management fees and other income	127,542	-	-	127,542	174,170
Net assets released from restrictions	<u>522,723</u>	<u>(365,109)</u>	<u>(157,614)</u>	<u>-</u>	<u>-</u>
Total revenue and support	673,117	109,100	420,836	1,203,053	827,518
Expenses:					
Scholarships	91,760	-	-	91,760	94,634
Operating expenses	116,697	-	-	116,697	126,749
Personal services	41,611	-	-	41,611	35,764
Interfund management fees	115,846	-	-	115,846	111,670
University support	166,843	-	-	166,843	116,032
Student support	81,020	-	-	81,020	138,491
Travel and promotion	<u>45,648</u>	<u>-</u>	<u>-</u>	<u>45,648</u>	<u>23,536</u>
Total expenses	<u>659,425</u>	<u>-</u>	<u>-</u>	<u>659,425</u>	<u>646,876</u>
Increase in net assets	13,692	109,100	420,836	543,628	180,642
Transfers	(2,351)	9,851	(7,500)	-	-
Net assets, at beginning of year	<u>278,741</u>	<u>826,597</u>	<u>4,966,126</u>	<u>6,071,464</u>	<u>5,890,822</u>
Net assets, at end of year	<u>\$ 290,082</u>	<u>\$ 945,548</u>	<u>\$ 5,379,462</u>	<u>\$ 6,615,092</u>	<u>\$ 6,071,464</u>

See accompanying notes.

KENTUCKY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Tuition and fees	\$ 17,597,145	\$ 13,011,853
Grants and contracts	19,511,851	14,820,742
Payments to suppliers	(18,949,245)	(14,712,708)
Payments to employees	(35,268,268)	(36,147,757)
Student financial aid	(8,813,245)	(6,672,904)
Loans issued to students	-	(221,149)
Collection of loans issued to students	117,100	94,524
Auxiliary enterprises:		
Residence halls and dining	6,516,989	6,102,431
Bookstore	172,205	188,201
Other auxiliaries	56,352	65,798
Other receipts	<u>1,597,507</u>	<u>5,096,925</u>
Net cash from operating activities	(17,461,609)	(18,374,044)
Cash flows from noncapital financing activities		
State appropriations	24,630,377	26,435,199
Federal grants and contracts	6,556,989	4,300,478
Gifts for other than capital purposes	613,057	548,970
Student organization agency receipts	7,884	93,418
Student organization agency disbursements	(2,961)	(86,720)
Other receipts (payments)	<u>(919,433)</u>	<u>(1,966,265)</u>
Net cash from noncapital financing activities	30,885,913	29,325,080
Cash flows from capital financing activities		
Capital appropriations	1,760,427	-
Purchases of capital assets	(7,300,237)	(4,531,844)
Principal paid on capital debt	(1,755,085)	(1,714,653)
Interest paid on capital debt	<u>(483,085)</u>	<u>(535,089)</u>
Net cash flows from capital financing activities	(7,777,980)	(6,781,586)
Cash flows from investing activities		
Investment income	628,029	188,535
Investment expenses	(47,544)	(29,891)
Proceeds from sale of investments	2,254,713	2,420,998
Purchases of investments	<u>(2,573,976)</u>	<u>(2,113,096)</u>
Net cash flows from investing activities	<u>261,222</u>	<u>466,546</u>
Net increase in cash and cash equivalents	5,907,546	4,635,996
Cash and cash equivalents at beginning of year	<u>17,064,879</u>	<u>12,428,883</u>
Cash and cash equivalents at end of year	<u>\$ 22,972,425</u>	<u>\$ 17,064,879</u>

(Continued)

KENTUCKY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of net operating loss to net cash from operating activities		
Operating loss	\$ (22,276,081)	\$ (26,942,064)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	4,914,432	3,407,432
Changes in assets and liabilities:		
Receivables, net	(195,122)	3,288,223
Inventory and other current assets	(50,902)	2,504
Accounts payable and accrued liabilities	(433,076)	1,428,436
Accrued compensated absences	257,015	29,772
Other current liabilities	(80,630)	12,399
Deferred revenue	<u>402,755</u>	<u>399,254</u>
Net cash from operating activities	<u>\$ (17,461,609)</u>	<u>\$ (18,374,044)</u>

See accompanying notes.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Kentucky State University (the “University”) is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statements of the Commonwealth. The Kentucky State University Foundation, Inc. (the “Foundation”) is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation’s Board of Directors is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted by the donors to the activities of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University’s financial statements.

Basis of Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments, and Statement No. 35, Basic Financial Statements and Management’s Discussion and Analysis of Public College and Universities, issued in June and November, 1999, respectively. The University reports as a Business Type Activity (BTA), as defined by GASB Statement No. 35. BTA’s are those activities that are financed in whole or in part by fees charged to external parties for goods and services. The University’s reports are based on all applicable Government Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The College has elected to not apply FASB pronouncements issued after the applicable date.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted:**
 - **Nonexpendable** – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University’s permanent endowment funds.

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expendable – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted:** Net assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation required by GASB Statement No. 35 is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Cash Equivalents: For the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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.

Accounts Receivable, Net: Accounts receivables consist of tuition and fee charges, loans to students and amounts due from federal and state governments, non-governmental sources, in connection with reimbursements of allowable expenses made pursuant to grants and contracts. Accounts receivables are recorded net of allowance for doubtful accounts.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. The allowance represents an amount, which, in management's judgment, will be adequate to absorb probable losses on existing accounts that may become uncollectible.

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or market and consist of physical plant items. Inventories consist of physical plant, postage and printing supplies.

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.

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

<u>Classification</u>	<u>Estimated Life</u>
Improvements	20 years
Buildings	40 years
Transportation equipment	5-15 years
Equipment	5-20 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 statement of net assets and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

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

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.

Operating Activities: The University defines operating activities, as reported on the statement of revenues, expenses and changes in net assets, 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.

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 nonexchange transactions and are recorded as nonoperating 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.

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, 2010 and 2009, the Foundation made distributions of \$166,843 and \$116,032, respectively, or 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.

New Pronouncements: In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. The provisions of this statement are effective for financial statements for fiscal periods beginning after June 15, 2009. The adoption of this statement resulted in the capitalization of new software purchased in the current year, which is reflected on the University's financial statements.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by governments. The provisions of this statement are effective for fiscal periods beginning after June 15, 2009. The adoption of this statement had no impact on the University's financial statements.

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple employer OPEB plan in which it participates. This Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible. In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers. The provisions related to the use and reporting of the alternative method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plans financial statements for financial periods beginning after June 15, 2011. Management has not determined the impact these statements will have on the financial statements of the University.

In June 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 59, *Financial Instruments Omnibus*. The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. Statement No. 59 emphasizes the applicability of U.S. Securities and Exchange Commission requirements to certain external investment pools—known as 2a7-like pools—to provide users more consistent information on qualifying pools; addresses the applicability of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to certain financial instruments to clarify which financial instruments are within the scope of that pronouncement and to provide greater consistency in financial reporting; and applies the reporting provisions for interest-earning investment contracts of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to unallocated insurance contracts to improve the consistency of reporting by pension and OPEB plans. Statement No. 59 is effective for fiscal years beginning after June 15, 2010, with earlier application encouraged. Management has not determined the impact these statements will have on the financial statements of the University.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The statement of net assets 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.

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

At June 30, 2010 and 2009, the University had petty cash funds totaling zero, and deposits as reflected by bank balances as follows:

	<u>2010</u>	<u>2009</u>
Insured, commercial banks	\$ 100,000	\$ 100,000
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	7,255,846	2,754,500
Maintained by Commonwealth of Kentucky	<u>16,699,628</u>	<u>14,858,960</u>
	<u>\$ 24,055,474</u>	<u>\$ 17,713,460</u>

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

At June 30, 2010 and 2009, the University had no cash and cash equivalents that are restricted for capital expenditures.

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the University's investments at June 30, 2010:

Investment Type	Fair Value	Investment Maturities (in years)			
		<u>< 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 11</u>
Bonds	\$ 3,260,944	\$ 228,949	\$ 1,180,402	\$ 1,519,511	\$ 332,082
Bond Mutual Funds	910,273	-	910,273	-	-
Money Market Funds	708,992	708,992	-	-	-
Real Estate Investments	<u>104,663</u>	<u>-</u>	<u>104,663</u>	<u>-</u>	<u>-</u>
	4,984,872	<u>\$ 937,941</u>	<u>\$ 2,195,338</u>	<u>\$ 1,519,511</u>	<u>\$ 332,082</u>
Equities and Equity Mutual Funds	<u>5,140,327</u>				
	<u>\$ 10,125,199</u>				

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the University's investments at June 30, 2009:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>< 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 11</u>
Bonds	\$ 2,133,131	\$ -	\$ 397,529	\$ 1,374,377	\$ 361,225
Bond Mutual Funds	791,719	-	-	791,719	-
Money Market Funds	752,833	752,833	-	-	-
	<u>3,677,683</u>	<u>\$ 752,833</u>	<u>\$ 397,529</u>	<u>\$ 2,166,096</u>	<u>\$ 361,225</u>
Equities and Equity Mutual Funds	<u>5,667,083</u>				
	<u>\$ 9,344,766</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 AA2.

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.

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 3 – ACCOUNTS, GRANTS AND LOANS RECEIVABLE

Accounts, grants and loans receivable consist of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Student tuition and fees	\$ 4,570,026	\$ 4,218,329
Student loans	2,381,480	2,498,579
Grants and contracts	2,958,855	1,373,460
Other	<u>341,396</u>	<u>930,043</u>
	10,251,757	9,020,411
Less: allowance for doubtful accounts	<u>(3,294,391)</u>	<u>(2,375,267)</u>
	6,957,366	6,645,144
Non-current portion	<u>756,703</u>	<u>873,803</u>
Current portion	<u>\$ 6,200,663</u>	<u>\$ 5,771,341</u>

NOTE 4 – CAPITAL ASSETS, NET

Capital assets as of June 30, 2010, are summarized as follows:

<u>Cost</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 5,648,990	\$ -	\$ -	\$ 5,648,990
Buildings	114,476,880	27,515,471	-	141,992,351
Equipment	21,635,019	916,670	7,367	22,544,322
Computer software	-	1,428,493	-	1,428,493
Library holdings	9,369,482	372,028	44,580	9,696,930
Transportation equipment	4,005,837	25,021	-	4,030,858
Construction in progress	<u>26,249,387</u>	<u>-</u>	<u>22,905,499</u>	<u>3,343,888</u>
	181,385,595	30,257,683	22,957,446	188,685,832
<u>Accumulated depreciation</u>				
Buildings	79,473,958	2,691,826	-	82,165,784
Equipment	10,619,304	1,468,177	-	12,087,481
Library holdings	7,690,176	438,989	-	8,129,165
Transportation equipment	<u>3,015,000</u>	<u>315,440</u>	<u>-</u>	<u>3,330,440</u>
	<u>100,798,438</u>	<u>4,914,432</u>	<u>-</u>	<u>105,712,870</u>
Capital assets, net	<u>\$ 80,587,157</u>	<u>\$ 25,343,251</u>	<u>\$ 22,957,446</u>	<u>\$ 82,972,962</u>

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 4 – CAPITAL ASSETS, NET (Continued)

Capital assets as of June 30, 2009, are summarized as follows:

<u>Cost</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 5,546,528	\$ 102,462	\$ -	\$ 5,648,990
Buildings	114,398,675	78,205	-	114,476,880
Equipment	21,608,555	208,907	182,443	21,635,019
Library holdings	9,157,320	289,822	77,660	9,369,482
Transportation equipment	3,904,536	101,301	-	4,005,837
Construction in progress	<u>22,238,137</u>	<u>4,011,250</u>	-	<u>26,249,387</u>
	176,853,751	4,791,947	260,103	181,385,595
<u>Accumulated depreciation</u>				
Buildings	78,014,526	1,459,432	-	79,473,958
Equipment	9,730,954	888,350	-	10,619,304
Library holdings	7,318,269	371,907	-	7,690,176
Transportation equipment	<u>2,327,257</u>	<u>687,743</u>	-	<u>3,015,000</u>
	<u>97,391,006</u>	<u>3,407,432</u>	-	<u>100,798,438</u>
Capital assets, net	<u>\$ 79,462,745</u>	<u>\$ 1,384,515</u>	<u>\$ 260,103</u>	<u>\$ 80,587,157</u>

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Payable to vendors and contractors	\$ 27,653	\$ 262,433
Accrued salaries and other liabilities	<u>1,608,134</u>	<u>1,806,430</u>
	<u>\$ 1,635,787</u>	<u>\$ 2,068,863</u>

NOTE 6 – DEFERRED REVENUE

Deferred revenue consists of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Unearned summer school tuition and fees	\$ 899,992	\$ 421,583
Unearned grants and contracts	<u>1,236,072</u>	<u>1,311,726</u>
	<u>\$ 2,136,064</u>	<u>\$ 1,733,309</u>

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 7 – LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2010, 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>
Consolidated Educational Building Revenue Bonds	\$ 1,825,000	\$ -	\$ 890,000	\$ 935,000	\$ 935,000	\$ -
General receipts bonds	5,215,000	-	340,000	4,875,000	350,000	4,525,000
Capital lease obligations						
master leases	189,123	-	150,492	38,631	38,631	-
Energy savings	5,738,293	-	374,594	5,363,699	390,837	4,972,862
Bond discount and issuance costs	<u>(70,720)</u>	<u>-</u>	<u>-</u>	<u>(70,720)</u>	<u>-</u>	<u>(70,720)</u>
Total bonds and capital lease obligations	12,896,696	-	1,755,086	11,141,610	1,714,468	9,427,142
Federal grants refundable	<u>1,187,881</u>	<u>-</u>	<u>221,934</u>	<u>965,947</u>	<u>-</u>	<u>965,947</u>
Total long-term liabilities	<u>\$ 14,084,577</u>	<u>\$ -</u>	<u>\$ 1,977,020</u>	<u>\$ 12,107,557</u>	<u>\$ 1,714,468</u>	<u>\$ 10,393,089</u>

Long-term liabilities as of June 30, 2009, 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>
Consolidated Educational Building Revenue Bonds	\$ 2,690,000	\$ -	\$ 865,000	\$ 1,825,000	\$ 890,000	\$ 935,000
General receipts bonds	5,535,000	-	320,000	5,215,000	340,000	4,875,000
Capital lease obligations						
master leases	359,749	-	170,626	189,123	150,492	38,631
Energy savings	6,097,319	-	359,027	5,738,292	374,594	5,363,698
Bond discount and issuance costs	<u>(70,720)</u>	<u>-</u>	<u>-</u>	<u>(70,720)</u>	<u>-</u>	<u>(70,720)</u>
Total bonds and capital lease obligations	14,611,348	-	1,714,653	12,896,695	1,755,086	11,141,609
Federal grants refundable	<u>1,049,212</u>	<u>138,669</u>	<u>-</u>	<u>1,187,881</u>	<u>-</u>	<u>1,187,881</u>
Total long-term liabilities	<u>\$ 15,660,560</u>	<u>\$ 138,669</u>	<u>\$ 1,714,653</u>	<u>\$ 14,084,576</u>	<u>\$ 1,755,086</u>	<u>\$ 12,329,490</u>

The outstanding Consolidated Educational Buildings Revenue Bonds Series are Series I and have interest rates ranging from 2.0 percent to 3.2 percent. The bonds mature in 2011. The reserve requirement for this issue has been fully funded as of June 30, 2006.

The outstanding General Receipts Bonds Series A Bonds have an interest rate of 3.625%. The bonds mature in 2027. The reserve requirements for these issues have been fully funded as of June 30, 2006.

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

(Continued)

KENTUCKY STATE UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010 and 2009

NOTE 7 – LONG-TERM LIABILITIES (Continued)

The principal and interest repayment requirements relating to the outstanding bonds payable at June 30, 2010, are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,285,000	\$ 212,909	\$ 1,497,909
2012	360,000	170,302	530,302
2013	375,000	157,251	532,251
2014	385,000	143,658	528,658
2015	210,000	129,701	339,701
2016 - 2020	1,160,000	527,821	1,687,821
2021 - 2025	1,400,000	289,591	1,689,591
Thereafter	<u>635,000</u>	<u>37,208</u>	<u>672,208</u>
Total	<u>\$ 5,810,000</u>	<u>\$ 1,668,441</u>	<u>\$ 7,478,441</u>

During 2005, the University entered into a capital lease for an energy management project. The lease obligations have an interest rate of 4.29% and require 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, 2010:

Year ending June 30,	
2011	\$ 655,697
2012	616,792
2013	616,792
2014	616,792
2015	616,792
Thereafter	<u>3,700,753</u>
Total minimum lease payments	6,823,618
Less: amounts representing interest	<u>1,421,289</u>
Present value of minimum lease payment	<u>\$ 5,402,329</u>

NOTE 8 – 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.

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 8 – EMPLOYEE BENEFITS (Continued)

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 hired on or before June 30, 2008 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 year ending June 30, 2010, 2009 and 2008 were \$2,009,627, \$1,988,376 and \$1,896,953, respectively, and equaled the required contribution for that year.

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 has 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 11.61% 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 11.61% to the KERS through appropriations to the University. 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 year ending June 30, 2010, 2009 and 2008 were \$ 647,378, \$552,332, and \$468,947, 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.

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 8 – EMPLOYEE BENEFITS (Continued)

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 about VALIC's variable annuities, including financial statements, fees, charges, expenses and contract limitations, can be obtained by visiting the website 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 8.7% of current eligible employees' salaries to the ORP through appropriations to the University. The University's contributions to ORP for the years ending June 30, 2010, 2009 and 2008 were \$ 393,650, \$237,031, and \$298,002, 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.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The University is a party to various litigations 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 under 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 audits 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, 2010.

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 10 – 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.

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.

NOTE 11– SCHEDULE OF EXPENSES BY PROGRAM

In the Statement of Revenues, Expenses and Changes in Net Assets, 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 2010. The graphs and tables below summarize operating expenses by functional purpose for the years ended June 30, 2010 and 2009:

	2010					
	<u>Compensation and Benefits</u>	<u>Supplies and Services</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Operations and Maintenance</u>	<u>Total</u>
Instruction	\$ 12,221,671	\$ 1,042,606	\$ 37,645	\$ 1,021,609	\$ 1,071,077	\$ 15,394,608
Research	3,201,475	1,621,140	87,356	531,004	419,012	5,859,987
Public service	3,048,670	1,390,655	22,480	173,590	350,887	4,986,282
Academic support	2,786,332	432,383	-	536,820	280,926	4,036,461
Student services	3,831,263	1,852,672	242,091	510,766	477,828	6,914,620
Institutional support	6,835,680	5,169,701	-	1,362,310	1,003,439	14,371,130
Operation and maintenance of plant	2,041,268	2,539,678	-	125,738	(4,706,684)	-
Auxiliary enterprises	944,572	4,166,877	-	652,595	431,019	6,195,063
Student aid	<u>614,351</u>	<u>168,925</u>	<u>8,423,673</u>	<u>-</u>	<u>672,496</u>	<u>9,879,445</u>
Total operating expenses	<u>\$ 35,525,282</u>	<u>\$ 18,384,637</u>	<u>\$ 8,813,245</u>	<u>\$ 4,914,432</u>	<u>\$ -</u>	<u>\$ 67,637,596</u>

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 11– SCHEDULE OF EXPENSES BY PROGRAM (Continued)

	2009					
	<u>Compensation and Benefits</u>	<u>Supplies and Services</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Operations and Maintenance</u>	<u>Total</u>
Instruction	\$ 12,630,177	\$ 1,712,780	\$ 81,519	\$ 826,121	\$ 1,459,574	\$ 16,710,171
Research	3,466,960	1,881,900	41,177	308,699	545,404	6,244,140
Public service	3,321,885	1,172,417	52,184	260,387	484,968	5,291,841
Academic support	2,471,081	457,771	-	167,742	312,417	3,409,011
Student services	3,589,374	1,959,959	278,199	333,756	621,615	6,782,903
Institutional support	6,676,081	2,143,852	-	505,137	892,466	10,217,536
Operation and maintenance of plant	2,181,487	3,078,171	-	301,232	(5,560,890)	-
Auxiliary enterprises	1,083,674	4,204,072	-	302,841	535,053	6,125,640
Student aid	<u>742,506</u>	<u>48,354</u>	<u>6,219,826</u>	<u>401,517</u>	<u>709,393</u>	<u>8,121,596</u>
Total operating expenses	<u>\$ 36,163,225</u>	<u>\$ 16,659,276</u>	<u>\$ 6,672,905</u>	<u>\$ 3,407,432</u>	<u>\$ -</u>	<u>\$ 62,902,838</u>

NOTE 12 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC.

1. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Foundation have been prepared on the accrual basis of accounting and include the assets, liabilities and results of operations of the Foundation.

(a) Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

(b) Depreciation:

Depreciation is computed by the straight-line method over the estimated useful life of the respective asset. Accumulated depreciation at June 30, 2010 and 2009 was \$89,125 and \$71,407, respectively.

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 12 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

(c) 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.

(d) Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(e) Marketable Securities:

Marketable securities are composed of publically traded U.S. Government obligations, corporate bonds and notes, and equity securities and are carried at fair value.

3. MARKETABLE SECURITIES

Marketable securities as of June 30, 2010 and 2009 are as follows:

	-----2010-----		-----2009-----	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U. S. Government obligations	\$ 1,331,187	\$ 1,438,732	\$ 1,281,210	\$ 1,359,576
Common and convertible securities	2,430,896	3,031,237	1,993,657	2,640,901
Bonds and notes	<u>894,010</u>	<u>946,654</u>	<u>814,162</u>	<u>843,128</u>
	<u>\$ 4,656,093</u>	<u>\$ 5,416,623</u>	<u>\$ 4,089,029</u>	<u>\$ 4,843,605</u>

4. NOTES PAYABLE

Notes payable as of June 30, 2009 consisted of a mortgage note payable. The mortgage was paid off in the year ended 2010.

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 12 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

5. FEDERAL INCOME TAXES

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

6. SUMMARIZED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2009 from which the summarized information was derived.

7. TEMPORARILY RESTRICTED NET ASSETS

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

For the years ended June 30, 2010 and 2009, net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restrictions specified by donors as follows:

	<u>2010</u>	<u>2009</u>
Scholarships	\$ 53,885	\$ 50,830
University support	157,197	106,635
Operating and other expenses	15,015	17,122
Interfund management fees	16,523	16,714
Student support	77,020	138,241
Travel and other expenses	<u>45,469</u>	<u>19,655</u>
Total restrictions released	<u>\$ 365,109</u>	<u>\$ 349,197</u>

8. PERMANENTLY RESTRICTED NET ASSETS

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

For the years ended June 30, 2010 and 2009, net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restrictions by donors as follows:

	<u>2010</u>	<u>2009</u>
Scholarships	\$ 37,875	\$ 43,804
Operating and other expenses	20,416	46,146
Interfund management fees	<u>99,323</u>	<u>94,956</u>
Total restrictions released	<u>\$ 157,614</u>	<u>\$ 184,906</u>

(Continued)

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 12 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

9. RETIREMENT PLAN

The Foundation has a defined contribution profit sharing plan, which covers all employees who meet certain requirements. Foundation contributions are discretionary. No contribution was made for the year ended June 30, 2010.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest was \$125 and \$2,519, respectively, for the years ended June 30, 2010 and 2009.

11. FAIR VALUE MEASUREMENT

The fair value of the Foundation's marketable securities is based on quoted market prices for those specific or identical instruments. On a recurring basis, all assets were classified as Level 1 in the fair value hierarchy for financial assets measured at fair value.

12. SUBSEQUENT EVENTS

The Company has evaluated events through September 10, 2010, the date management's review of the financial statements was completed. There were no events that would impact the results of operations or financial position as of that date.