

**KENTUCKY STATE UNIVERSITY**

**FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

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

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.

A black rectangular redaction box covering a signature.

Crowe Horwath LLP

Louisville, Kentucky  
November 5, 2010

**KENTUCKY STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Introduction**

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 -420.7(thef 1 0 )1.8(a1.8(a1..8(n6(

**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





**Figure 1**

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Total operating revenues were \$9,400,741. The primary component (32.2%), student tuition and fees and auxiliary services and other revenues increased \$3,184,299 due to increased enrollment. Auxiliary services increased \$4,200,334 due to increased enrollment. Auxiliary enterprises contributed \$1,529,864. Auxiliary enterprises trend of the operating revenues as :

Operating expenses totaled \$67.6 million. Operating expenses include depreciation, federal grants spending directly for the primary mission of the institution (9.1%), student aid (14.1%), and program expenses. Mission expenses amounting to \$1 million. Operating expenses categorized into

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## **Figure 2**

The University continued to invest in to be successful in fiscal year 2010 fees totaled \$14 million, with student million.

The University had an overall increase auxiliary enterprises of \$34,817. The student services, in conjunction with allocations are clearly aligned with excellence.

The net loss from operations for the expenses, amounted to \$31.8 million gains and losses of \$9.5 million for \$11.3 million. Nonoperating revenues contracts of \$6.6 million, gifts and in

### **2009 versus 2008**

Operating revenues in fiscal year 2009 resulting in a loss from operations of \$27.5 million in state appropriations and fee increases, grant and contract enterprises. Operating expenses have

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## 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>
<b>Cash (used) provided by:</b>			
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>
<b>Cash and cash equivalents, end of year</b>	<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.

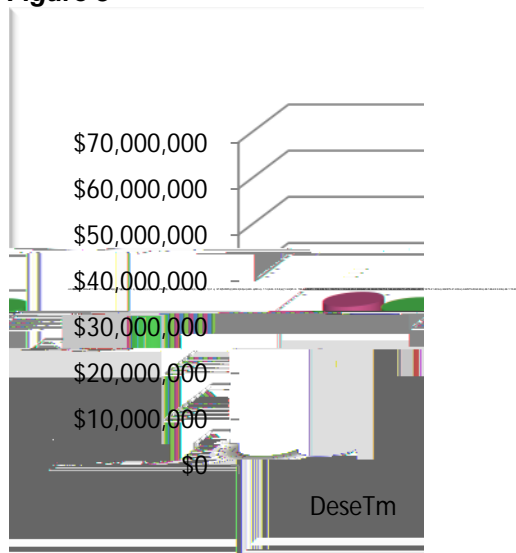
The \$200 million request for the first biennium (2010-2012) is comprised of new construction projects, maintenance projects and information technology projects. The University primarily funds its projects from four sources: state general fund appropriations, federal USDA funds, agency funds, and private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

- Instruction
- Research
- Public service
- Academic support
- Student services
- Institutional support
- Operation and plant maintenance
- Student aid
- Auxiliary
- Depreciation
- Total

The graph in **Figure 3** shows a three-year trend. Nondesignated spending is slightly increased \$5.5 million in 2009 and \$2.1 million in 2010 and increased same trend as designated spending 2010.

**Figure 3**



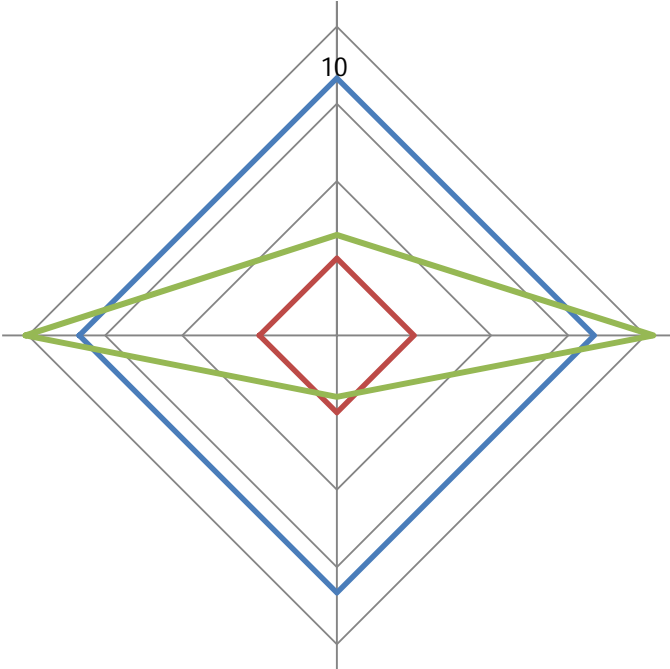


Future economic factors





Figure 4



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

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2010

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See accompanying notes.

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

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	2010			2009
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 34,809	\$ 196,104	\$ 861,074	\$ 1,091,987
Marketable securities	139,611			\$ 1,080,372

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See accompanying notes.

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

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<b>REVENUES</b>	<u>2010</u>	<u>2009</u>
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

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(Continued)

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

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	<u>2010</u>	<u>2009</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
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	(697,564)	

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See accompanying notes.

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

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	<u>2010</u>				<u>2009</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
<b>Revenue and support</b>					

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See accompanying notes.

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

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	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		

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(Continued)

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

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	<u>2010</u>	<u>2009</u>
<b>Reconciliation of net operating loss to net cash from operating activities</b>		
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>

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See accompanying notes.



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

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**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 ky State Univ:1.8(s).0(d)1.8(o)1.8(e)1.2(th)2.7(e)-2480.0(i)5.1(s)

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KENTUCKY STATE UNIVERSITY

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

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**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

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(Continued)



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

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**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>&lt; 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	<u>752,833</u>	<u>752,833</u>	<u>-</u>	<u>-</u>	<u>-</u>
	3,677,683	<u>\$ 752,833</u>	<u>\$ 397,529</u>	<u>\$ 2,166,096</u>	<u>\$ 361,225</u>
Equities and Equity Mutual Funds	5,667,083				

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(Continued)

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

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**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	

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(Continued)



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

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**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				

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(Continued)





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

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**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-

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(Continued)

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

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**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](http://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.

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(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

(Continued)

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

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**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.

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(Continued)





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

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**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.