

**MOREHEAD STATE UNIVERSITY
REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH OMB CIRCULAR A-133**

June 30, 2001

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CONTENTS

REPORT OF INDEPENDENT AUDITORS.....	1-2
FINANCIAL STATEMENTS AND NOTES.....	3-21
SUPPLEMENTAL INFORMATION	22-54
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	55-61
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	62-63
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	64-65
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	66
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	67
CORRECTIVE ACTION PLAN.....	68



CROWE CHIZEK

REPORT OF INDEPENDENT AUDITORS

Members of the Board of Regents and
Dr. Ronald G. Eaglin, President
Morehead State University
Morehead, Kentucky

We have audited the accompanying balance sheet of Morehead State University (an agency of the Commonwealth of Kentucky) as of June 30, 2001, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year ended June 30, 2001. 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 audit. The financial statements of Morehead State University as of June 30, 2000, were audited by other auditors whose report dated September 19, 2000, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. The scope of such tests and procedures equaled or exceeded the minimum audit scope compliance requirements of Kentucky Revised Statutes 164A.550 to 164A.630 (House Bill 622). 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morehead State University as of June 30, 2001, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 20, 2001 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Morehead State University taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Additionally, the data contained on pages 22 through 25 and 52 through 54 is also presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements.

The comparison of unrestricted expenditures to departmental budgets on pages 26 through 51 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

Louisville, Kentucky
September 20, 2001

MOREHEAD STATE UNIVERSITY
BALANCE SHEETS
June 30, 2001 and 2000

	<u>2001</u>		<u>2000</u>		<u>2001</u>		<u>2000</u>
ASSETS							
Current funds							
Unrestricted							
Cash	\$ 9,683,122		\$ 8,771,256		\$ 522,675		\$ 609,691
Investments	6,019,549		5,589,365		1,234,400		1,198,072
Accounts receivable, less allowance for doubtful accounts of \$374,477 and \$170,215, respectively	1,142,361		1,461,088		3,492,604		3,450,140
Inventories	1,993,983		1,837,329		4,374		1,838
Due from MSU Foundation, Inc.	278,766		312,333		6,189		5,259,741
Due from plant funds	1,316,297		345,105		15,176,516		13,338,160
Due from restricted current funds	1,601,713		1,416,471		1,662,187		1,136,157
Due from loan funds	1,086		1,111		16,838,703		14,474,317
Due from agency fund	2,068		-		22,038,945		19,734,058
Total unrestricted	<u>22,038,945</u>		<u>19,734,058</u>				
Restricted							
Cash	671,562		530,180		93,074		63,100
Federal and grants receivable	1,902,179		1,496,803		1,601,713		1,416,471
Due from unrestricted current funds	6,189		-		182		1,182
Total restricted	<u>2,579,930</u>		<u>2,026,983</u>		828,891		490,384
Total current funds	<u>\$ 24,618,875</u>		<u>\$ 21,761,041</u>		56,070		55,846
Total current funds					<u>2,579,930</u>		<u>2,026,983</u>
Loan funds							
Cash	\$ 217,123		\$ 148,221		\$ 3,504		\$ 4,391
Loans to students, less allowance for doubtful accounts of \$151,885 and \$157,699, respectively	3,462,711		3,504,609		1,086		1,111
Accounts receivable	75,578		110,346		4,590		5,502
Total loan funds	<u>\$ 3,755,412</u>		<u>\$ 3,763,176</u>		4,810,927		4,798,543
					540,903		536,775
					<u>(1,601,008)</u>		<u>(1,577,644)</u>
					3,750,822		3,757,674
					<u>\$ 3,755,412</u>		<u>\$ 3,763,176</u>

LIABILITIES AND FUND BALANCE

Current funds

 Unrestricted

 Accounts payable

 Accrued vacation pay

 Accrued salaries and other liabilities

 Due to agency funds

 Due to restricted current funds

Fund balance

 Allocated

 Unallocated

 Total unrestricted

Restricted

 Accounts payable

 Due to unrestricted current funds

 Due to agency funds

 Unearned revenue for Federal and state grants

 Fund balance

 Total restricted

 Total current funds

Loan funds

 Accounts payable

 Due to unrestricted current funds

Fund balance

 U. S. Government contributions

 Institutional contributions

 Deficit

 Total loan funds

See accompanying notes.

MOREHEAD STATE UNIVERSITY
BALANCE SHEETS
June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>	<u>LIABILITIES AND FUND BALANCE</u>	<u>2001</u>	<u>2000</u>
ASSETS			Endowment funds		
Endowment funds			Fund balance	\$ 8,116,137	\$ 3,468,565
Cash	\$ 28,969	\$ 27,971	Total endowment funds	<u>\$ 8,116,137</u>	<u>\$ 3,468,565</u>
Investments	<u>8,087,168</u>	<u>3,440,594</u>	Plant funds		
Total endowment funds	<u>\$ 8,116,137</u>	<u>\$ 3,468,565</u>	Unexpended		
Plant funds			Due to unrestricted current funds	\$ 1,316,297	\$ 345,105
Unexpended			Unexpended - restricted fund balance	<u>13,205,459</u>	<u>2,828,750</u>
Cash	\$ 1,588,628	\$ 504,046	Total unexpended	<u>14,521,756</u>	<u>3,173,855</u>
Investments	<u>12,933,128</u>	<u>2,669,809</u>	Renewals and replacements		
Total unexpended	<u>14,521,756</u>	<u>3,173,855</u>	Fund balance	225,443	141,178
Renewals and replacements			Total renewals and replacements	<u>225,443</u>	<u>141,178</u>
Cash and cash equivalents	224,752	140,476	Retirement of indebtedness		
Accrued interest receivable	<u>691</u>	<u>702</u>	Accounts payable	2,358	2,358
Total renewals and replacements	<u>225,443</u>	<u>141,178</u>	Retirement of indebtedness	<u>3,902,611</u>	<u>8,773,992</u>
Retirement of indebtedness			Total retirement of indebtedness	<u>3,904,969</u>	<u>8,776,350</u>
Cash and cash equivalents	3,726,473	8,515,067	Investment in plant		
Investments	<u>150,000</u>	<u>-</u>	Bonds and notes payable and capital		
Accrued interest receivable	<u>28,496</u>	<u>261,283</u>	lease obligations	29,858,344	36,141,882
Total retirement of indebtedness	<u>3,904,969</u>	<u>8,776,350</u>	Net investment in plant	<u>71,450,999</u>	<u>51,649,460</u>
Investment in plant			Total investment in plant	<u>101,309,343</u>	<u>87,791,342</u>
Land and improvements	8,507,603	7,801,358	Total plant funds	<u>\$ 119,961,511</u>	<u>\$ 99,882,725</u>
Buildings	<u>120,307,187</u>	<u>117,563,222</u>			
Library - books and periodicals	13,351,412	12,470,386			
Permanent collection - Kentucky Folk Art Center	66,075	66,075			
Charles M. Derrickson Agricultural Complex - livestock	3,000	3,600			
Vehicles	1,586,687	1,580,357			
Equipment	29,563,562	26,818,963			
Construction in progress	13,782,784	3,665,891			
Accumulated depreciation	<u>(85,858,967)</u>	<u>(82,178,510)</u>			
Total investment in plant	<u>101,309,343</u>	<u>87,791,342</u>			
Total plant funds	<u>\$ 119,961,511</u>	<u>\$ 99,882,725</u>			

See accompanying notes.

MOREHEAD STATE UNIVERSITY
BALANCE SHEETS
June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>		<u>2001</u>	<u>2000</u>
ASSETS			LIABILITIES AND FUND BALANCE		
Agency funds			Agency funds		
Cash	\$ 760,041	\$ 785,172	Accounts payable	\$ 1,837	\$ 226
Accounts receivable	425	425	Due to unrestricted current funds	2,068	-
Due from unrestricted current funds	4,374	1,838	Deposits held in custody for others	761,117	788,391
Due from restricted current funds	<u>182</u>	<u>1,182</u>			
Total agency funds	\$ <u>765,022</u>	\$ <u>788,617</u>	Total agency funds	\$ <u>765,022</u>	\$ <u>788,617</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY
STATEMENTS OF CHANGES IN FUND BALANCES
Years ended June 30, 2001 and 2000

	2001		2000	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
CURRENT FUNDS				
Balance, beginning of year	\$ 14,474,317	\$ 55,846	\$ 11,636,289	\$ 43,078
REVENUES AND OTHER ADDITIONS				
Current funds revenues	82,145,660	-	74,811,122	12,768
Federal and state grants and contracts	-	33,215,732	-	29,916,583
Net increase in fair value of investments	<u>36,847</u>	<u>-</u>	<u>8,089</u>	<u>-</u>
	82,182,507	33,215,732	74,819,211	29,929,351
EXPENDITURES AND OTHER DEDUCTIONS				
Educational and general expenditures	60,791,038	33,389,765	57,819,500	30,098,627
Auxiliary enterprises expenditures	<u>7,760,280</u>	<u>139,307</u>	<u>7,418,025</u>	<u>178,344</u>
	68,551,318	33,529,072	65,237,525	30,276,971
TRANSFERS - ADDITIONS (DEDUCTIONS)				
Mandatory				
Transfers to plant funds - retirement of indebtedness and renewals and replacements	(5,863,819)	-	(4,896,478)	-
Transfers (to) from loan funds and restricted current funds	(317,692)	313,564	(360,918)	360,388
Other				
Transfer to endowment funds	-	-	(458,000)	-
Transfers to plant funds	<u>(5,085,292)</u>	<u>-</u>	<u>(1,028,262)</u>	<u>-</u>
	<u>(11,266,803)</u>	<u>313,564</u>	<u>(6,743,658)</u>	<u>360,388</u>
Net increase for the year	<u>2,364,386</u>	<u>224</u>	<u>2,838,028</u>	<u>12,768</u>
Balance, end of year	<u>\$ 16,838,703</u>	<u>\$ 56,070</u>	<u>\$ 14,474,317</u>	<u>\$ 55,846</u>

(Continued)

MOREHEAD STATE UNIVERSITY
 STATEMENTS OF CHANGES IN FUND BALANCES
 Years ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
LOAN FUNDS		
Balance, beginning of year	\$ 3,757,674	\$ 3,691,367
REVENUES AND OTHER ADDITIONS		
Interest on loans receivable	65,820	67,083
Cancellation reimbursement	84,283	83,417
Miscellaneous interest income	9,161	12,290
Federal contribution	12,384	1,589
Other	-	176
	<u>171,648</u>	<u>164,555</u>
EXPENDITURES AND OTHER DEDUCTIONS		
Loan principal and interest cancelled	105,973	88,075
Administrative and collection expense	14,347	782
Bad debt expense	<u>62,308</u>	<u>9,921</u>
	182,628	98,778
TRANSFER AMONG FUNDS		
Transfer from unrestricted current funds	<u>4,128</u>	<u>530</u>
Net (decrease) increase for the year	<u>(6,852)</u>	<u>66,307</u>
Balance, end of year	<u>\$ 3,750,822</u>	<u>\$ 3,757,674</u>
ENDOWMENT FUNDS		
Balance, beginning of year	\$ 3,468,565	\$ 2,932,065
REVENUES AND OTHER ADDITIONS		
Gifts and state matching	4,819,810	-
Net increase in the fair value of investments	-	439
Investment income	<u>304,142</u>	<u>82,856</u>
	5,123,952	83,295
EXPENDITURES AND OTHER DEDUCTIONS		
Administrative expense	67,556	4,795
Net decrease in the fair value of investments	<u>408,824</u>	<u>-</u>
	476,380	4,795
TRANSFER AMONG FUNDS		
Transfer from unrestricted current funds	<u>-</u>	<u>458,000</u>
Net increase for the year	<u>4,647,572</u>	<u>536,500</u>
Balance, end of year	<u>\$ 8,116,137</u>	<u>\$ 3,468,565</u>

(Continued)

MOREHEAD STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
Years ended June 30, 2001 and 2000

	2001			
	<u>Unexpended</u>	<u>Renewals and Replacements</u>	<u>Retirement of Indebtedness</u>	<u>Investment in Plant</u>
PLANT FUNDS				
Balance, beginning of year	\$ 2,828,750	\$ 141,178	\$ 8,773,992	\$ 51,649,460
REVENUES AND OTHER ADDITIONS				
Interest income	36,325	8,378	121,133	-
Retirement of indebtedness	-	-	-	7,569,032
Bond proceeds and other financing sources	1,285,494	-	-	-
State appropriations	13,699,051	-	-	-
Expended for plant facilities	-	-	-	17,833,883
Net increase in the fair value of investments	<u>198,584</u>	<u>-</u>	<u>-</u>	<u>-</u>
	15,219,454	8,378	121,133	25,402,915
EXPENDITURES AND OTHER DEDUCTIONS				
Retirement of indebtedness	-	-	7,569,032	-
Interest on indebtedness	-	-	1,898,308	-
Expenditures for plant additions	11,239,246	-	-	-
Bond issuance and notes payable	-	-	-	1,285,494
Administrative costs	-	-	1,897	-
Depreciation	-	-	-	4,261,349
Deletions from plant facilities, net of depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,533</u>
	11,239,246	-	9,469,237	5,601,376
TRANSFERS - ADDITIONS (DELETIONS)				
Transfers from unrestricted current funds for debt service and renewals and replacements	-	75,887	5,787,932	-
Transfer to unexpended from retirement of indebtedness	1,311,209	-	(1,311,209)	-
Transfer from unrestricted current funds, net	<u>5,085,292</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>6,396,501</u>	<u>75,887</u>	<u>4,476,723</u>	<u>-</u>
Net increase (decrease) for the year	<u>10,376,709</u>	<u>84,265</u>	<u>(4,871,381)</u>	<u>19,801,539</u>
Balance, end of year	<u>\$ 13,205,459</u>	<u>\$ 225,443</u>	<u>\$ 3,902,611</u>	<u>\$ 71,450,999</u>

(Continued)

MOREHEAD STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
Years ended June 30, 2001 and 2000

	2000			
	<u>Unexpended</u>	<u>Renewals and Replacements</u>	<u>Retirement of Indebtedness</u>	<u>Investment in Plant</u>
PLANT FUNDS				
Balance, beginning of year	\$ 5,860,254	\$ 72,342	\$ 3,712,299	\$ 53,339,276
REVENUES AND OTHER ADDITIONS				
Interest income	48,580	3,659	370,573	-
Retirement of indebtedness	-	-	-	6,361,602
Bond proceeds and other financing sources	753,600	-	9,415,000	-
Grant revenue	338,120	-	-	-
Expended for plant fund facilities	-	-	-	6,571,826
	<u>1,140,300</u>	<u>3,659</u>	<u>9,785,573</u>	<u>12,933,428</u>
EXPENDITURES AND OTHER DEDUCTIONS				
Retirement of indebtedness	-	-	6,361,602	-
Interest on indebtedness	-	-	1,700,427	-
Expenditures for plant additions	6,304,938	-	-	-
Bond issuance and notes payable	-	-	-	10,168,600
Administrative costs	-	-	293,152	-
Depreciation	-	-	-	4,106,490
Net decrease in the fair value of investments	95,128	-	-	-
Deletions from plant facilities, net of depreciation	-	-	-	348,154
	<u>6,400,066</u>	<u>-</u>	<u>8,355,181</u>	<u>14,623,244</u>
TRANSFERS - ADDITIONS (DELETIONS)				
Transfers from unrestricted current funds for debt service and renewals and replacements	-	65,177	4,831,301	-
Transfer to unexpended from retirement of indebtedness	1,200,000	-	(1,200,000)	-
Transfer from unrestricted current funds, net	<u>1,028,262</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,228,262</u>	<u>65,177</u>	<u>3,631,301</u>	<u>-</u>
Net increase (decrease) for the year	<u>(3,031,504)</u>	<u>68,836</u>	<u>5,061,693</u>	<u>(1,689,816)</u>
Balance, end of year	<u>\$ 2,828,750</u>	<u>\$ 141,178</u>	<u>\$ 8,773,992</u>	<u>\$ 51,649,460</u>

(Continued)

MOREHEAD STATE UNIVERSITY
STATEMENTS OF CURRENT FUNDS REVENUES,
EXPENDITURES AND OTHER CHANGES
Years ended June 30, 2001 and 2000

	2001			2000		
	Unrestricted	Restricted	Totals	Unrestricted	Restricted	Totals
REVENUES						
Tuition and fees	\$ 23,512,679	\$ -	\$ 23,512,679	\$ 21,783,409	\$ -	\$ 21,783,409
State appropriations	43,334,500	-	43,334,500	38,879,676	-	38,879,676
Governmental grants and contracts	-	33,215,732	33,215,732	-	29,916,583	29,916,583
Indirect cost reimbursement	440,067	-	440,067	401,343	-	401,343
Sales and services of educational activities	1,405,005	-	1,405,005	1,265,832	-	1,265,832
Sales and services of auxiliary enterprises	10,761,767	-	10,761,767	9,865,526	-	9,865,526
Other sources	2,691,642	-	2,691,642	2,615,336	12,768	2,628,104
Net increase in fair value of investments	36,847	-	36,847	8,089	-	8,089
	<u>82,182,507</u>	<u>33,215,732</u>	<u>115,398,239</u>	<u>74,819,211</u>	<u>29,929,351</u>	<u>104,748,562</u>
EXPENDITURES AND MANADATORY TRANSFERS						
Educational and general -						
Instruction	27,881,794	1,564,472	29,446,266	26,512,114	1,403,098	27,915,212
Research	167,075	171,108	338,183	223,152	286,043	509,195
Public service	1,418,200	4,958,314	6,376,514	1,250,160	4,591,747	5,841,907
Library	2,371,488	78,925	2,450,413	2,400,521	76,410	2,476,931
Academic support	4,349,629	491,819	4,841,448	4,441,690	464,432	4,906,122
Student services	6,204,841	454,714	6,659,555	6,044,039	561,459	6,605,498
Institutional support	8,680,900	334,227	9,015,127	8,050,624	625,681	8,676,305
Operation and maintenance of plant	5,033,812	-	5,033,812	4,989,303	27,967	5,017,270
Student financial aid	4,683,299	25,336,186	30,019,485	3,907,897	22,061,790	25,969,687
Educational and general expenditures	<u>60,791,038</u>	<u>33,389,765</u>	<u>94,180,803</u>	<u>57,819,500</u>	<u>30,098,627</u>	<u>87,918,127</u>

(Continued)

MOREHEAD STATE UNIVERSITY
 STATEMENTS OF CURRENT FUNDS REVENUES,
 EXPENDITURES AND OTHER CHANGES
 Years ended June 30, 2001 and 2000

	2001			2000		
	Unrestricted	Restricted	Totals	Unrestricted	Restricted	Totals
Mandatory transfers for -						
Principal and interest - bonds	\$ 2,102,875	\$ -	\$ 2,102,875	\$ 2,110,331	\$ -	\$ 2,110,331
Principal and interest - other	774,713	-	774,713	780,331	-	780,331
College Work Study, SEOG, Loan, and Endowment Fund matching funds	<u>317,692</u>	<u>(313,564)</u>	<u>4,128</u>	<u>360,918</u>	<u>(360,388)</u>	<u>530</u>
	<u>3,195,280</u>	<u>(313,564)</u>	<u>2,881,716</u>	<u>3,251,580</u>	<u>(360,388)</u>	<u>2,891,192</u>
Total educational and general	<u>63,986,318</u>	<u>33,076,201</u>	<u>97,062,519</u>	<u>61,071,080</u>	<u>29,738,239</u>	<u>90,809,319</u>
Auxiliary enterprises -						
Expenditures	7,760,280	139,307	7,899,587	7,418,025	178,344	7,596,369
Mandatory transfers for principal and interest and renewal and replacement	<u>2,986,231</u>	<u>-</u>	<u>2,986,231</u>	<u>2,005,816</u>	<u>-</u>	<u>2,005,816</u>
Total auxiliary enterprises	<u>10,746,511</u>	<u>139,307</u>	<u>10,885,818</u>	<u>9,423,841</u>	<u>178,344</u>	<u>9,602,185</u>
Total expenditures and mandatory transfers	<u>74,732,829</u>	<u>33,215,508</u>	<u>107,948,337</u>	<u>70,494,921</u>	<u>29,916,583</u>	<u>100,411,504</u>
OTHER TRANSFERS AND DEDUCTIONS						
Net transfers to endowment funds	-	-	-	458,000	-	458,000
Net transfers to plant funds	<u>5,085,292</u>	<u>-</u>	<u>5,085,292</u>	<u>1,028,262</u>	<u>-</u>	<u>1,028,262</u>
Total other transfers and deductions	<u>5,085,292</u>	<u>-</u>	<u>5,085,292</u>	<u>1,486,262</u>	<u>-</u>	<u>1,486,262</u>
Net increase in fund balances	<u>\$ 2,364,386</u>	<u>\$ 224</u>	<u>\$ 2,364,610</u>	<u>\$ 2,838,028</u>	<u>\$ 12,768</u>	<u>\$ 2,850,796</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting principles followed by Morehead State University and the methods of applying those principles which materially affect the University's financial statements are summarized below.

Basis of Presentation: The financial statements of Morehead State University (a component unit of the Commonwealth of Kentucky (state)) have been prepared on the accrual basis of accounting in accordance with standards set forth in *Audits of Colleges and Universities*, an industry audit guide of the American Institute of Certified Public Accountants. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) transfers of a non-mandatory nature for all other cases.

Fund Accounting: In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, funds that have similar characteristics have been combined into fund groups in the accompanying financial statements. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the University's Board of Regents. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the University retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other non-cash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds, which income is accounted for in the fund to which it is restricted, or if unrestricted, as revenues in unrestricted current funds.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Non-current funds of the University include:

Loan Funds: Such funds include monies available for loans to students. Additions to these funds are from governmental appropriations, interest on loans outstanding, and transfers from other University funds. Loans are normally made to students on an unsecured basis.

Endowment Funds: Endowment funds include funds subject to the restrictions of the gift instruments which require the principal to be permanently invested and only the income be expended.

Plant Funds: Included in this group are funds to be used for the acquisition of physical properties for institutional purposes; funds expended for, and thus invested in, institutional properties; and funds set aside for debt service charges and for the retirement of indebtedness on institutional properties.

Sources of funds include appropriations of governmental bodies, proceeds from bond issues, income from investments, and transfers from other University funds.

Agency Funds: Included are funds received by the University as custodian or fiscal agent for others, and funds used for certain organized activities. Generally, these funds are disbursed on instructions and in behalf of those from whom received.

Investments: All investments are reported at fair value in the balance sheet. Unrealized gains and losses are included in the statements of current funds revenues, expenditures, and other changes.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Plant: Investment in plant is stated at cost for purchased assets and at fair value at date of donation in the case of gifts. Expenditures which increase values or extend useful lives of the respective assets are capitalized, whereas expenditures for maintenance and repairs are charged to expense as incurred. Depreciation of assets is computed using the straight-line method over the assets estimated useful lives. Estimated lives used for depreciation purposes are as follows:

<u>Classification</u>	<u>Estimated Life</u>
Improvements	20 years
Buildings	50 years
Vehicles	5-9 years
Equipment	5-15 years

Inventories: Inventories representing approximately 70% and 69% of total inventories at June 30, 2001 and 2000, respectively, are stated at the lower of cost (first-in, first-out basis) or market. The remainder of the inventories is stated at the lower of moving-average-cost or market.

Accrued Vacation Pay: Accrued vacation pay is included in the unrestricted current funds balance sheet and represents earned vacation available to employees at current compensation rates.

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.

Deferred Revenues: Deferred revenues largely consist of amounts received for 2001 summer school and are included in other accrued liabilities in the 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for doubtful accounts and the establishment of estimated useful lives for depreciable assets. Actual results could differ from the estimated amounts.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE 2 - BONDS AND NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

The following is a summary of bonds and notes payable and capital lease obligations at June 30, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
3.00 - 7.15% Housing and Dining System Bonds, Series D through O, repayable in annual installments with the final installment due June 1, 2021	\$ 15,970,000	\$ 21,340,000
4.20 - 6.875% Consolidated Educational Building Revenue Bonds, Series H, I, J, and K, repayable in annual installments with the final installment due May 1, 2014	11,310,000	12,770,000
5.05% Capital lease obligation with MSU Foundation, repayable in quarterly installments, with the final installment due June, 2002	33,637	61,283
5.00% Capital lease obligation with MSU Foundation, repayable in quarterly installments, paid off in current year	-	50,263
5.20% Capital lease obligation with a finance corporation, repayable in semi-annual installments with the final installment due April, 2004	484,834	662,003
6.05% Capital lease obligation with MSU Foundation, repayable in monthly installments, paid off in current year	-	41,162
5.00% Capital lease obligation with MSU Foundation, repayable in monthly installments with the final installment due February, 2019	221,773	229,404
4.55% Capital lease obligation with a finance corporation, repayable in semi-annual installments with the final installment due October, 2003	313,857	429,843

(Continued)

MOREHEAD STATE UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001 and 2000

NOTE 2 - BONDS AND NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS
 (Continued)

	<u>2001</u>	<u>2000</u>
4.3531% Capital lease obligation with a finance corporation, repayable in semi-annual installments with the final installment due July, 2002	238,749	557,924
5.07% Capital lease obligation with a finance corporation, repayable in semi-annual installments with the final installment due January, 2005	828,494	-
5.04% Capital lease obligation with a finance corporation, repayable in semi-annual installments with the final installment due January, 2006	<u>457,000</u>	<u>-</u>
	<u>\$ 29,858,344</u>	<u>\$ 36,141,882</u>

In order to retire the revenue bonds, the University is required to make deposits to sinking funds in annual amounts sufficient to meet the principal and interest payments due within the next twelve months. During 2001 and 2000, the University transferred \$2,910,344 and \$1,940,639, respectively to the Housing and Dining System Revenue Bonds Sinking Fund; \$2,102,875 and \$2,110,331, respectively, to the Consolidated Educational Building Revenue Bonds Sinking Fund for payment of current year principal and interest; and \$75,887 and \$65,177, respectively, to the Housing and Dining System Repair Fund. In addition, during 2001 and 2000 the University transferred \$774,713 and \$780,331, respectively, in unrestricted current funds for the payment of principal and interest on the capital lease obligations and the notes payable.

The revenue bonds are collateralized by various buildings carried in the financial statements at \$91,816,442. The revenues derived from student registration fees and residence hall rental fees are pledged as collateral on the revenue bond issues.

The following is property held under capital lease obligations at June 30, 2001:

Equipment	\$ 3,888,720
Accumulated depreciation	<u>2,252,396</u>
	<u>\$ 1,636,324</u>

(Continued)

MOREHEAD STATE UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001 and 2000

NOTE 2 - BONDS AND NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS
 (Continued)

The principal and interest repayment requirements relating to the outstanding bonds, capital lease obligations, and notes payable at June 30, 2001, are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 2,909,949	\$ 1,774,124	\$ 4,684,073
2003	2,728,845	1,475,383	4,204,228
2004	2,569,254	1,333,199	3,902,453
2005	2,537,590	1,178,555	3,716,145
2006	2,360,359	1,043,274	3,403,633
2007-2021	<u>16,752,347</u>	<u>4,735,341</u>	<u>21,487,688</u>
	<u>\$ 29,858,344</u>	<u>\$ 11,539,876</u>	<u>\$ 41,398,220</u>

NOTE 3 - PENSION PLAN

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 in the Kentucky Teachers Retirement System (KTRS). 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 service. Benefits are subject to certain reductions if the employee retires before reaching age sixty, unless the employee has twenty-seven or more years of participation in the plan. The plan also provides for disability retirement, death and survivor benefits, and medical insurance.

The Kentucky Teachers Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868 or by calling (502) 573-5120.

Funding for the plan is provided from eligible employees who contribute 6.16% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 13.84% of current eligible employees' salaries to the KTRS through appropriations to the University. 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 fiscal years ending June 30, 2001 and 2000 were \$3,043,873 and \$3,043,267, respectively, equal to the required contributions for each year.

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MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE 3 - PENSION PLAN (Continued)

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

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

Funding for the plan is provided from eligible employees who contribute 5.00% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 5.89% of current eligible employees' salaries 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 Systems each biennium. The University's contributions to KERS for the years ending June 30, 2001 and 2000 were \$580,052 and \$694,562, respectively, equal to the required contributions for each year.

Optional Retirement Plans: Optional retirement plans (ORP's) are available to employees hired on or after January 1, 1997, who would otherwise be participants in the Kentucky Teachers' Retirement System. The ORP is established as a 403(b) defined contribution plan under, the Internal Revenue Code guidelines. The providers of the University's ORP's are the Teachers Insurance and Annuity Association-College Retirement Equities Fund, Variable Annuity Life Insurance Company and Aetna Life Insurance and Annuity Company: Under these plans the employee's contribution is 6.16% of their gross salary and the University's contribution is 10.76% to the retirement company and 4.08% to Kentucky Teachers Retirement System. The University's contributions under these plans for the year ended June 30, 2001 and 2000 were \$134,616 and \$163,691, respectively, equal to the required contributions for the year.

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