

**MOREHEAD STATE UNIVERSITY**

**REPORT ON AUDIT OF INSTITUTION  
OF HIGHER EDUCATION  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
June 30, 2002**

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CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS.....	1-9
REPORT OF INDEPENDENT AUDITORS.....	10-11
FINANCIAL STATEMENTS AND NOTES.....	12-31
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	32-38
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	39-40
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.....	41-42
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	43-44
FINDINGS - FINANCIAL STATEMENT AUDIT .....	45
FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM .....	46-48
CORRECTIVE ACTION PLAN.....	49-50
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	51

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Morehead State University's (the University) Management Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial performance of the University for the year ended June 30, 2002. Management has prepared this discussion, along with the financial statements and related footnotes, to provide summary financial information. MD&A should be read in conjunction with the accompanying financial statements and footnotes.

### Financial Highlights

- The financial statements indicate that the University's financial condition remained strong at June 30, 2002. Financial operations were conducted in accordance with the approved budget plan.
- Total assets were \$166 million. Significant components of the assets include \$20 million in cash, \$30 million in investments and \$104 million in capital assets net of depreciation.
- Total liabilities were \$50 million. The significant components of the liabilities were \$6 million in accounts payable and accrued liabilities, and \$36 million in bonds, notes and capital lease obligations.
- Total net assets were \$116 million. Significant components of the net assets include \$68 million invested in capital assets, net of depreciation and related debt, \$31 million in expendable restricted net assets, and \$17 million in unrestricted net assets.
- Operating revenues were \$57 million and operating expenses were \$97 million, resulting in an operating loss of \$40 million. Net nonoperating revenues of \$42 million were comprised primarily of state appropriations. The combination of the net loss from operations, the net nonoperating revenues, and capital appropriations of \$11 million, resulted in an increase in net assets of \$13 million.

### Using the Annual Report

This annual report consists of a series of financial statements, 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*. These financial statements differ significantly in both the form and the accounting principles utilized from financial statements presented in prior reports. The financial statements presented in prior years focused on accountability of funds, while these statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

One of the most important questions asked about University finances is whether the University is better off as a result of the year's activities. The information needed to answer this question is in the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements present financial information of the University in a format similar to that used by corporations, and present a long-term view of the University's finances.

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The Statement of Net Assets includes all assets and liabilities. It is prepared under 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. The University's net assets (the difference between assets and liabilities) are one indicator of the University's financial health. Over time, increases or decreases in net assets can indicate improvement or erosion of the University's financial health. Changes in net assets should be considered in conjunction with non-financial factors such as enrollment levels and conditions of facilities.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB 35 requires State appropriations and gifts to be classified as nonoperating revenues. Accordingly, the University will generate a net operating loss prior to the addition of nonoperating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. New accounting standards implemented this year require Universities to record and report depreciation on all of their capital assets. The University as a matter of policy has accounted for and reported depreciation for the previous 13 years with the exception of library books. An adjustment of \$10.2 million has been recorded this year to account for current and prior depreciation on Library books.

Another important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they mature. The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, non-capital financing, capital financing and investing activities.

### Reporting Entity

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

### Condensed Financial Information

#### Statement of Net Assets (in thousands)

#### Assets

Current assets	\$ 28,477
Capital assets	104,236
Other noncurrent assets	<u>32,952</u>
Total Assets	<u>165,665</u>

#### Liabilities

Current liabilities	12,115
Noncurrent liabilities	<u>37,831</u>
Total Liabilities	<u>49,946</u>

Net Assets

Invested in capital assets, net of related debt	68,128
Expendable	30,981
Unrestricted	<u>16,610</u>
Total net assets	<u>\$ 115,719</u>

Assets

As of June 30, 2002, the University's total assets amount to approximately \$165.7 million. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$104.2 million or 63 % of total assets. Cash and investments, totaling \$50 million or 30 % of total assets, were the University's next largest asset.

Total assets increased by \$21.6 million during the year ended June 30, 2002. The principal areas of increase were:

- cash and investments of approximately \$5.9 million,
- endowment investments of \$.75 million,
- capital assets, net of accumulated depreciation, of \$13.2 million.

Liabilities

At June 30, 2002, the University's liabilities totaled approximately \$50 million. Bonds, notes payable, and capital lease obligations for capital assets represented \$36.1 million or 72 % of total liabilities.

Total liabilities increased by \$8.3 million during the year ended June 30, 2002. This increase was due to a \$6.2 million increase in bonds payable, notes payable, and capital lease obligations used to fund construction of new educational buildings and renovation and improvements to existing educational and housing and dining structures. In addition, liability for deferred revenue increased \$1.6 million.

Net Assets

Net assets at June 30, 2002 totaled approximately \$115.7 million or 70 % of total assets. Net assets invested in capital assets, net of related debt, totaled \$ 68.1 million or 59 % of total net assets. Restricted net assets totaled \$ 31 million or 27 % of total net assets. Unrestricted net assets accounted for \$ 16.6 million or 14 % of total net assets. Total net assets increased by \$13.3 million during the year ended June 30, 2002.

Net assets invested in capital, net of related debt, increased by \$6.9 million. Increases in net assets invested in capital assets were primarily due to \$18.6 million in capital appropriations for capital construction and \$4.6 million in payments of principal on debt. Decrease in net assets invested in capital assets were from current year depreciation of \$5.2 million, new debt issued of \$10.9 million as well as disposals and sales of \$.8 million.

Restricted net assets are subject to stipulations made by entities external to the University that govern the use of these funds. Restricted net assets increased by \$6.5 million from the previous year. Major components of the increase include a \$ 4.2 million increase in bond sinking funds for escrowed bond funds targeted to retire the University's Consolidated Education Building Revenue Series "I" Bonds in November 2002, \$1.5 million increase in unexpended restricted net assets (primarily in the plant fund), and a \$.75 million increase in endowment funds.

Unrestricted net assets decreased by \$.22 million from the previous year. Unrestricted net assets are not subject to externally imposed restrictions. However, substantially all of the unrestricted net asset balance has been allocated for the support of academic programs and other initiatives, the completion of capital projects, or working capital requirements. The allocation of unrestricted net assets as of June 30, 2002 is as follows:

*Allocation of Unrestricted Net Assets (in thousands)*

Working Capital	\$ 7,476
Allocated Project Funds	607
Technology and Capital Construction	4,195
Operating Budgets	3,320
Accreditations	24
Internal Reserves	988
Unrestricted Net Assets	<u>\$16,610</u>

*Statement of Revenues, Expenses and Changes in Net Assets (in thousands)*

**Operating Revenues**

Student tuition and fees, net	\$ 15,839
Federal grants and contracts	19,445
State and local grants and contracts	5,868
Non governmental grants & contracts	552
Sales and services of educational activities	1,215
Auxiliary enterprises	11,660
Other operating revenue	<u>2,706</u>
Total operating revenue	<u>57,285</u>

**Operating Expenses**

Educational and general	82,851
Auxiliary enterprises, including depreciation	9,432
Depreciation	4,609
Other operating expenses	<u>362</u>
Total operating expenses	<u>97,254</u>

**Operating Loss** (39,969)

**Nonoperating Revenues (Expenses)**

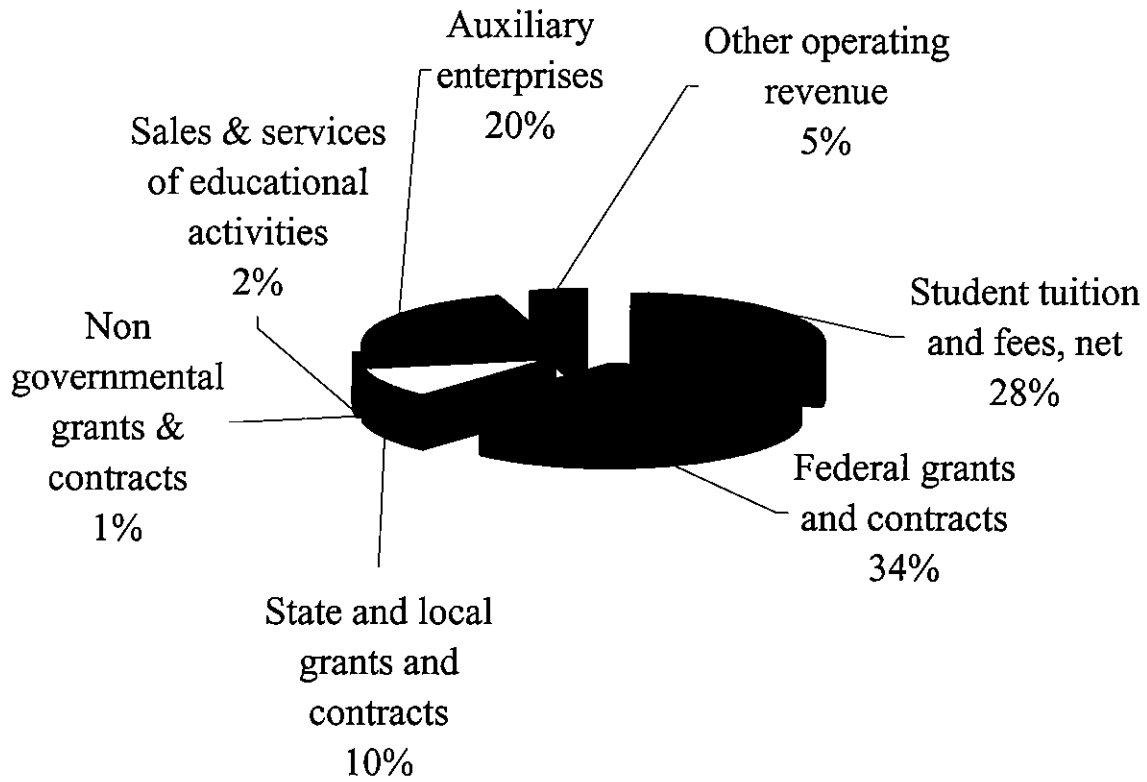
State appropriations	43,034
Gifts	661
Investment Income	657
Interest on capital asset- related debt	<u>(1,929)</u>
Total nonoperating revenues (expenses)	<u>42,423</u>

Income before other revenues, expenses, gains, or losses	2,454
Capital appropriations	<u>10,867</u>
Increase in net assets	13,321
Net assets beginning of year, as restated	<u>102,398</u>
Net assets end of year	<u><u>\$ 115,719</u></u>

**Revenues**

Total operating revenues were approximately \$57 million for the year ended June 30, 2002. The most significant sources of operating revenue for the University are grants and contracts (45%) and net student fees (28%).

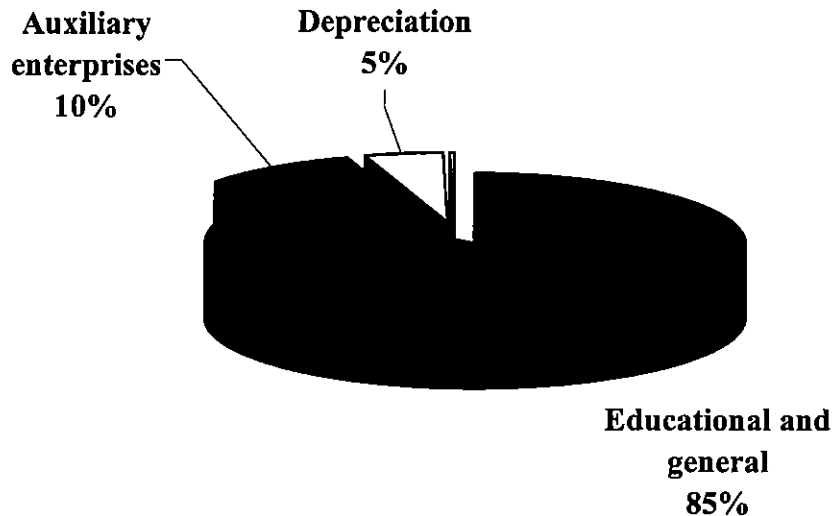
**TOTAL OPERATING REVENUE**



## Expenses

Operating expenses totaled approximately \$97 million. Of this amount, approximately \$87 million or 90% (including \$4.6 million of depreciation), was used for educational and general expenses related to functions such as instruction, research and public service.

### TOTAL OPERATING EXPENSE



## Cash Flows

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. 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 period. The Statement of Cash Flows also helps financial statement readers assess:

- the University's ability to generate future net cash flows
- the University's ability to meet obligations as they become due, and
- the University's need for external financing.

*Statement of Cash Flows (in thousands)*

Cash Provided / (used) by:

Operating Activities	\$ (34,208)
Non-capital Financing Activities	43,747
Capital and Related Financing Activities	(3,380)
Investing Activities	<u>(3,155)</u>
Net Increase in Cash	3,004
Cash- Beginning of the Year	<u>16,901</u>
Cash - End of the Year	<u>\$ 19,905</u>

Major sources of funds included in operating activities are student tuition and fees (\$15 million) and grants and contracts (\$27 million). The largest cash payments for operating activities were made to employees (\$58 million) and suppliers (\$24 million) .

The largest cash receipt in the noncapital financing activities group is the operating appropriation from the Commonwealth of Kentucky of \$43 million. Cash used by capital and related financing activities is primarily expended on the construction and acquisition of capital assets. Cash provided by investing activities reflects the market return on endowment investments.

**Capital Asset and Debt Administration**

**Capital Assets**

Capital assets, net of accumulated depreciation (but not of related debt), totaled approximately \$104 million at June 30, 2002, a net increase of \$13 million over the prior year-end. Significant changes to capital assets during fiscal 2001 - 2002 included:

• Buildings and structures	\$ 22.0	million
• Equipment and library books	3.0	million
• Transfers from Construction in progress to other University units	(7.5)	million
• Increase in accumulated depreciation, net	\$ (4.5)	million

Significant new projects brought on-line or completed during the year included the West Liberty Facility and the renovation of Breckinridge Hall.

At June 30, 2002, the University has capital construction projects underway encompassing total cost of over \$6.2 million.

## Debt

At year-end, the University had some \$36.1 million in outstanding debt. \$33.5 million in bonds payable, \$1.9 million in capital lease obligations, and .68 million in notes payable, summarized by type of debt instrument as follows (in thousands):

Housing and Dining System Revenue Bonds	\$ 19,615
Consolidated Educational Buildings Revenue Bonds	13,925
Capital Lease obligations	1,888
Notes Payable	680
	<u>\$ 36,108</u>

Debt outstanding increased approximately \$6.2 million from the end of the prior year.

The University issued its Consolidated Educational Buildings Revenue Bonds, Series L during the fiscal year. The bonds were dated July 1, 2001 and were issued in the principal amount of approximately \$4.9 million. The proceeds of the Series L issue were used to refund portions of the University's previously issued Consolidated Educational Buildings Revenue Bonds Series H (\$1.4 million) and will be utilized in the 2002-2003 fiscal year to refund Series I (\$3.1 million) bonds.

Housing and Dining System revenue Bonds were sold totaling \$5.1 million for the purpose of financing the installation of fire safety equipment at West Mignon Hall and East Mignon Hall. The bonds will also finance the construction of a new 28-unit Lakewood Terrace Family Housing Complex. These increases in bond issues were offset by the payment of current year bond principal of approximately \$3.74 million.

### **FACTORS IMPACTING FUTURE PERIODS**

The following are known facts and circumstances that could affect future financial results:

- Tuition rates for FY 2002-03 will increase approximately 8 % for resident and nonresident undergraduate and graduate students. Based on budgeted enrollment this should provide additional operating revenues of approximately \$2.9 million.
- State appropriations were decreased by approximately (\$769,000) or (2%) during the 2001-2002 fiscal year. This reduction will carry forward into the state appropriation for 2002-2003
- At June 30, 2002, grants and contracts of approximately \$35 million had been awarded to the University, but not expended. These contracts will provide grant revenue to future periods.
- The Commonwealth of Kentucky's General Assembly has not adopted a budget for the 2002-03 biennium. Governor Paul Patton has implemented, by executive order, an emergency-spending plan for the fiscal year 2003. The University's Board of Regents has approved an operating budget for the fiscal year ending June 30, 2003.



# 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 statement of net assets of Morehead State University as of June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year 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 audit.

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, 2002, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 35, "*Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*", as of July 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2002 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 and notes are 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. 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 taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 1 through 9 is not a required part of the 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, Chizek and Company LLP*

Crowe, Chizek and Company LLP

Louisville, Kentucky  
September 12, 2002

MOREHEAD STATE UNIVERSITY  
STATEMENT OF NET ASSETS  
June 30, 2002

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**ASSETS**

Current assets

Cash and cash equivalents	\$ 19,904,545
Accounts, grants and loans receivable, net	5,225,717
Investments	479,450
Inventory	1,830,468
Other current assets	<u>1,037,301</u>
Total current assets	<u>28,477,481</u>

Noncurrent assets

Accounts, grants and loans receivable, net	3,280,380
Investments	29,671,127
Capital assets, net	<u>104,235,933</u>
Total noncurrent assets	<u>137,187,440</u>
Total assets	<u>165,664,921</u>

**LIABILITIES**

Current liabilities

Accounts payable and accrued liabilities	5,990,896
Deferred revenue	2,406,773
Other current liabilities	613,661
Bonds, notes and capital lease obligations, current portion	<u>3,103,651</u>
Total current liabilities	<u>12,114,981</u>

Noncurrent liabilities

Bond, notes and capital lease obligations, noncurrent portion	33,004,681
Federal refundable grants	<u>4,826,374</u>
Total noncurrent liabilities	<u>37,831,055</u>
Total liabilities	<u>49,946,036</u>

**NET ASSETS**

Invested in capital assets, net of related debt	68,127,601
Restricted	
Nonexpendable	-
Expendable	30,980,923
Unrestricted	<u>16,610,361</u>
Total net assets	<u>\$ 115,718,885</u>

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See accompanying notes.

MOREHEAD STATE UNIVERSITY  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 Year ended June 30, 2002

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**REVENUES**

Operating revenues	
Student tuition and fees (net of scholarship allowances of \$11,475,117)	\$ 15,838,505
Federal grants and contracts	19,445,248
State and local grants and contracts	5,868,272
Nongovernmental grants and contracts	551,634
Sales and services of educational activities	1,215,260
Auxiliary enterprises	
Residence halls (net of scholarship allowances of \$115,315)	6,942,151
Bookstore	3,920,544
Other auxiliaries	797,597
Other operating revenues	<u>2,706,247</u>
Total operating revenues	<u>57,285,458</u>

**EXPENSES**

Operating expenses	
Education and general	
Instruction	33,057,372
Research	443,931
Public service	9,350,617
Library	2,653,574
Academic support	6,170,341
Student services	7,605,556
Institutional support	9,492,194
Operation and maintenance of plant	5,633,831
Depreciation	4,609,142
Student aid	8,444,691
Auxiliary enterprises	
Residence Halls	4,293,991
Bookstore	3,580,014
Other auxiliaries	883,776
Depreciation	673,984
Other operating expenses	<u>361,562</u>
Total operating expenses	<u>97,254,576</u>

Operating loss	(39,969,118)
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MOREHEAD STATE UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Year ended June 30, 2002

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**NONOPERATING REVENUES (EXPENSES)**

State appropriations	\$ 43,034,427
Gifts	661,473
Investment income (net of investment expense of \$125,056)	656,663
Interest on capital asset - related debt	<u>(1,929,722)</u>
Net nonoperating revenues	<u>42,422,841</u>
Income before other revenues, expenses, gains or losses	2,453,723
Capital appropriations	<u>10,867,209</u>
<b>Increase in net assets</b>	13,320,932
Net assets, beginning of year	117,546,244
Cumulative effect of changes in accounting principle, adoption of GASB Statement No. 35	<u>(15,148,291)</u>
Net assets, beginning of year, as restated	<u>102,397,953</u>
<b>Net assets, end of year</b>	<u>\$ 115,718,885</u>

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See accompanying notes.

MOREHEAD STATE UNIVERSITY  
STATEMENT OF CASH FLOWS  
Year ended June 30, 2002

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<b>Cash flows from operating activities</b>	
Tuition and fees	\$ 15,216,558
Grants and contracts	26,751,717
Payments to suppliers	(24,437,685)
Payments to employees	(58,231,727)
Loans issued to students	(505,752)
Collection of loans issued to students	475,624
Auxiliary enterprises:	
Residence halls	2,642,446
Bookstore	393,619
Other auxiliaries	(433,925)
Sales and services of educational activities	1,215,260
Other receipts	<u>2,706,248</u>
Net cash from operating activities	(34,207,617)
<b>Cash flows from noncapital financing activities</b>	
State appropriations	43,034,427
Gifts and grants for other than capital purposes:	
Private gifts for endowment purposes	661,473
Student organization agency receipts	1,915,217
Student organization agency disbursements	<u>(1,864,435)</u>
Net cash from noncapital financing activities	43,746,682
<b>Cash flows from capital financing activities</b>	
Proceeds from capital debt and leases	10,923,875
Capital appropriations	10,867,209
Purchase of capital assets	(18,567,060)
Principal paid on capital debt and leases	(4,673,887)
Interest paid on capital debt and leases	<u>(1,929,722)</u>
Net cash flows from capital financing activities	(3,379,585)
<b>Cash flows from investing activities</b>	
Proceeds from sales and maturities of investments	659,718
Interest received on investments	815,672
Purchase of investments	<u>(4,630,995)</u>
Net cash flows from investing activities	<u>(3,155,605)</u>
Net increase in cash and cash equivalents	3,003,875
Cash and cash equivalents at beginning of year	<u>16,900,670</u>
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 19,904,545</u></b>

(Continued)

MOREHEAD STATE UNIVERSITY  
STATEMENT OF CASH FLOWS  
Year ended June 30, 2002

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<b>Reconciliation of net operating income (loss)</b>	
<b>to net cash from operating activities</b>	
Operating income (loss)	\$ (39,969,118)
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation	5,283,126
Changes in assets and liabilities:	
Receivables, net	(1,922,843)
Inventory	163,515
Accounts payable and accrued liabilities	700,444
Deferred revenue	1,521,812
Federal grants refundable	<u>15,447</u>
Net cash from operating activities	<u>\$ (34,207,617)</u>

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See accompanying notes.

MOREHEAD STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002

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**NOTE 1 - ORGANIZATION AND SUMMARY OF  
SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity: Morehead State University (the University) is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statements of Commonwealth.

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). 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. The University reports as a Business Type Activity (BTA). BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

Effective July 1, 2001, the University adopted GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statement No. 37. The University also adopted GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, on July 1, 2001. 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 asset 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.
  - 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.

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(Continued)

MOREHEAD STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002

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

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. It replaces the fund group perspective previously required.

Beginning of the year fund balances have been restated to reflect the applications of the provisions of GASB Statement No. 35, as follows:

Combined fund balances, as previously reported	\$ 117,546,244
GASB Statement No. 35 adjustments:	
Accumulated depreciation on library books, beginning of year	(10,281,294)
Loan fund balances required to be reported as other liabilities by GASB No. 35	(4,810,927)
Grants and contracts restricted fund balances required to be reported as deferred revenue by GASB No. 35	<u>(56,070)</u>
Total GASB Statement No. 35 adjustments	<u>(15,148,291)</u>
Combined fund balances, restated as net assets	<u>\$ 102,397,953</u>

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 representing approximately 69% of total inventories at June 30, 2002, 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.

Investments: The University values investments at fair value based on quoted market prices.

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(Continued)

MOREHEAD STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002

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

Capital Assets: Capital assets are 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. 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>
Land improvements	20 years
Buildings	50 years
Vehicles	5-9 years
Equipment	5-15 years
Library books	10 years

Accrued Vacation Pay: Accrued vacation pay is included in accounts payable and accrued liabilities in the statement of net assets and represents earned vacation available to employees at current compensation rates.

Deferred Revenue: Deferred revenues include 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 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 appropriations, gifts and investment income, are recorded as nonoperating revenues, in accordance with GASB Statement No. 35.

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