

**MOREHEAD STATE UNIVERSITY**

**REPORT ON AUDIT OF INSTITUTION  
OF HIGHER EDUCATION  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
June 30, 2003 and 2002**

MOREHEAD STATE UNIVERSITY  
 REPORT ON AUDIT OF INSTITUTION  
 OF HIGHER EDUCATION  
 IN ACCORDANCE WITH OMB CIRCULAR A-133  
 June 30, 2003 and 2002

CONTENTS

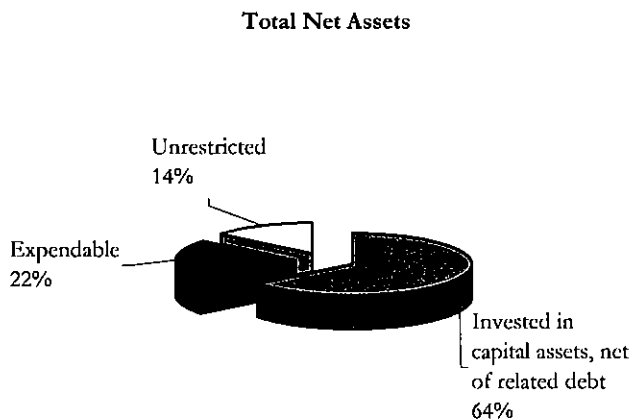
MANAGEMENT DISCUSSION AND ANALYSIS.....	1-13
REPORT OF INDEPENDENT AUDITORS .....	14-15
FINANCIAL STATEMENTS	
STATEMENTS OF NET ASSETS .....	16
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS .....	17-18
STATEMENTS OF CASH FLOWS.....	19-20
NOTES TO FINANCIAL STATEMENTS.....	21-37
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	38-48
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	49
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	50-51
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 .....	52-53
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	54-55
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS .....	56-57
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	58

## 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, 2003. 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, 2003. Financial operations were conducted in accordance with the approved budget plan.
- Total assets were \$167 million versus \$166 million at June 30, 2002. Significant components of the assets include \$ 8.8 million in cash, \$34 million in investments and \$110 million in capital assets net of depreciation.
- Total liabilities were \$44 million versus \$50 million at June 30, 2002. The significant components of the liabilities were \$5.9 million in accounts payable and accrued liabilities, and \$31.1 million in bonds, notes, and capital lease obligations.



- Total net assets were \$122 million versus \$116 million at June 30, 2002. Significant components of net assets include \$79 million invested in capital assets, net of depreciation and related debt, \$26 million in expendable restricted net assets, and \$17 million in unrestricted net assets.

- Operating revenues this year were \$62 million versus \$57 million for year ending June 30, 2002 and operating expenses were \$103 million versus \$97 million at June 30, 2002 resulting in an operating loss of \$40 million for both years. Net nonoperating revenues for both years were \$42 million. These were comprised primarily of state appropriations. The combination of the net loss from operations, the net nonoperating revenues, and capital appropriations of \$5 million, resulted in an increase in net assets of \$6 million versus \$13 million at June 30, 2002.

## 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 prior to the 2001-2002 fiscal year. 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.

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 adopted in the prior 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 was recorded last year to account for 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.

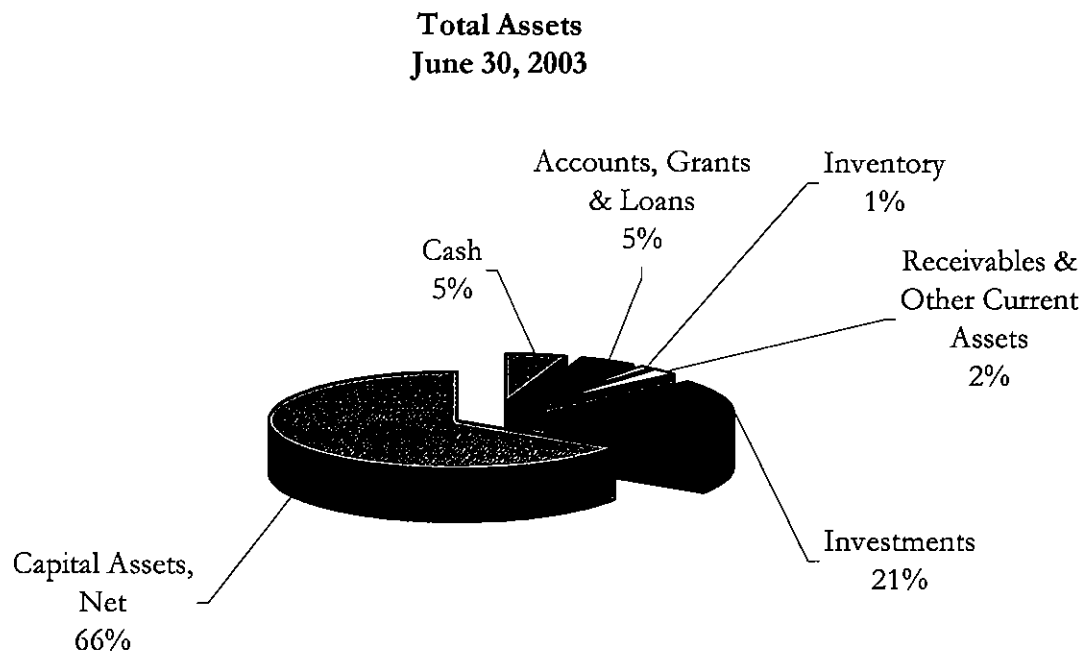
### Condensed Financial Information

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

	<u>2003</u>	<u>2002</u>
<b><u>Assets</u></b>		
Current assets	\$ 19,344	\$ 28,477
Capital assets	109,841	104,236
Other noncurrent assets	<u>37,398</u>	<u>32,952</u>
Total current assets	166,583	165,665
<b><u>Liabilities</u></b>		
Current liabilities	11,434	12,115
Noncurrent liabilities	<u>32,988</u>	<u>37,831</u>
Total liabilities	44,422	49,946
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	78,714	68,128
Restricted, expendable	26,510	30,981
Unrestricted	<u>16,937</u>	<u>16,610</u>
Total net assets	<u>\$ 122,161</u>	<u>\$ 115,719</u>

## Assets

As of June 30, 2003, the University's total assets amount to approximately \$166.5 million versus \$165.6 million at June 30, 2002. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$109.8 million compared to \$104.2 million at June 30, 2002. Cash and investments, totaling \$43.1 million versus \$50.1 million at June 30, 2002, were the University's next largest asset.



Total assets increased by \$.9 million during the year ended June 30, 2003. The principal areas of change were:

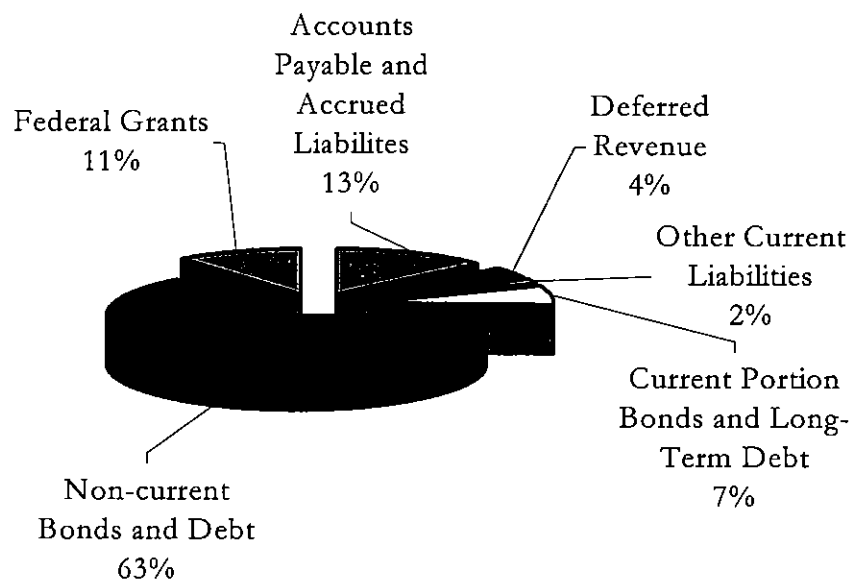
- cash and investments, excluding endowment investments, decreased approximately \$11.4 million,
- accounts, grants, and loans receivable increased approximately \$2.9 million,
- endowment investments increased approximately \$4.5 million,
- capital assets, net of accumulated depreciation, increased approximately \$5.6 million,
- inventory and other current assets decreased \$.7 million.

## Liabilities

At June 30, 2003, the University's liabilities totaled approximately \$44.3 million versus \$49.9 the previous year. Bonds, notes payable, and capital lease obligations for capital assets represented \$31.1 million versus \$36.1 million at June 30, 2002.

Total liabilities decreased by \$5.5 million during the year ended June 30, 2003. This decrease was due to a \$5.0 million decrease in bonds payable, notes payable, and capital lease related to a bond refunding. In addition, liability for deferred revenue and other liabilities decreased \$.5 million.

### Total Liabilities June 30, 2003

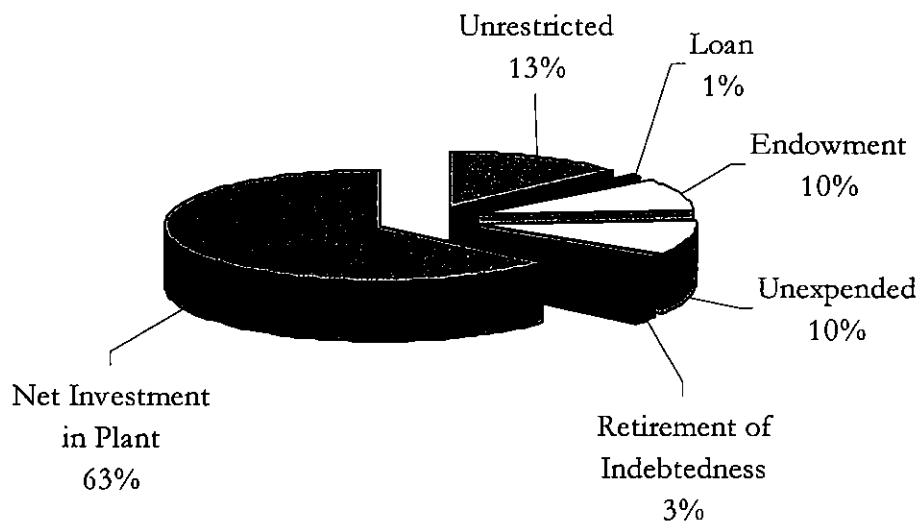


## Net Assets

Net assets at June 30, 2003 totaled approximately \$122.1 million compared to \$115.7 million at June 30, 2002. Net assets invested in capital assets, net of related debt, totaled \$78.7 million versus \$68.1 million at June 30, 2002. Restricted net assets totaled \$26.5 million compared to \$31 million at June 30, 2002. Unrestricted net assets accounted for \$16.9 million versus \$16.6 million at June 30, 2002. Total net assets increased by \$6 million during the year ended June 30, 2003.

Net assets invested in capital, net of related debt, increased by \$10.6 million. Increases in net assets invested in capital assets were primarily due to \$7.5 million in capital appropriations for capital construction versus \$18.6 million last year, and \$6 million in payments of principal on debt (exclusive of bond refunding) compared to \$4.6 million during fiscal year 2002. Decrease in net assets invested in capital assets (net) were from current year depreciation of \$5.6 million compared to \$5.2 million last year, new debt issued of \$6.0 million versus \$10.9 last year, as well as disposals and sales of \$.5 million compared to \$.8 million during fiscal year 2002.

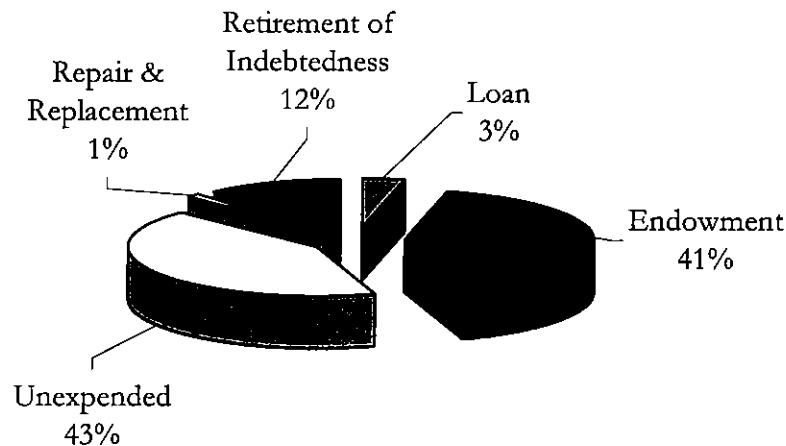
**Net Assets  
June 30, 2003**



## Restricted Net Assets

Restricted net assets are subject to stipulations made by entities external to the University that govern the use of these funds. Restricted net assets decreased by \$4.4 million from the previous year to \$26.5 million. Major components of the decrease include a \$4.7 million decrease in bond sinking funds primarily from the refunding the University's Consolidated Education Building Revenue Series "I" Bonds in November 2002, \$2.6 million decrease in unexpended restricted net assets (primarily in the plant fund). In addition, the University experienced a \$2.9 million increase in endowment funds to \$11.8 million at June 30, 2003.

### Restricted Net Assets June 30, 2003



Unrestricted net assets increased by \$.3 million from the previous year to \$16.9 million. 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, 2003 is as follows:

#### Allocation of Unrestricted Net Assets (in thousands)

Working capital	\$ 7,040
Allocated project funds	905
Capital construction	2,434
Operating budgets	3,808
Accreditations	42
Internal reserves	<u>2,708</u>
Unrestricted net assets	<u>\$ 16,937</u>

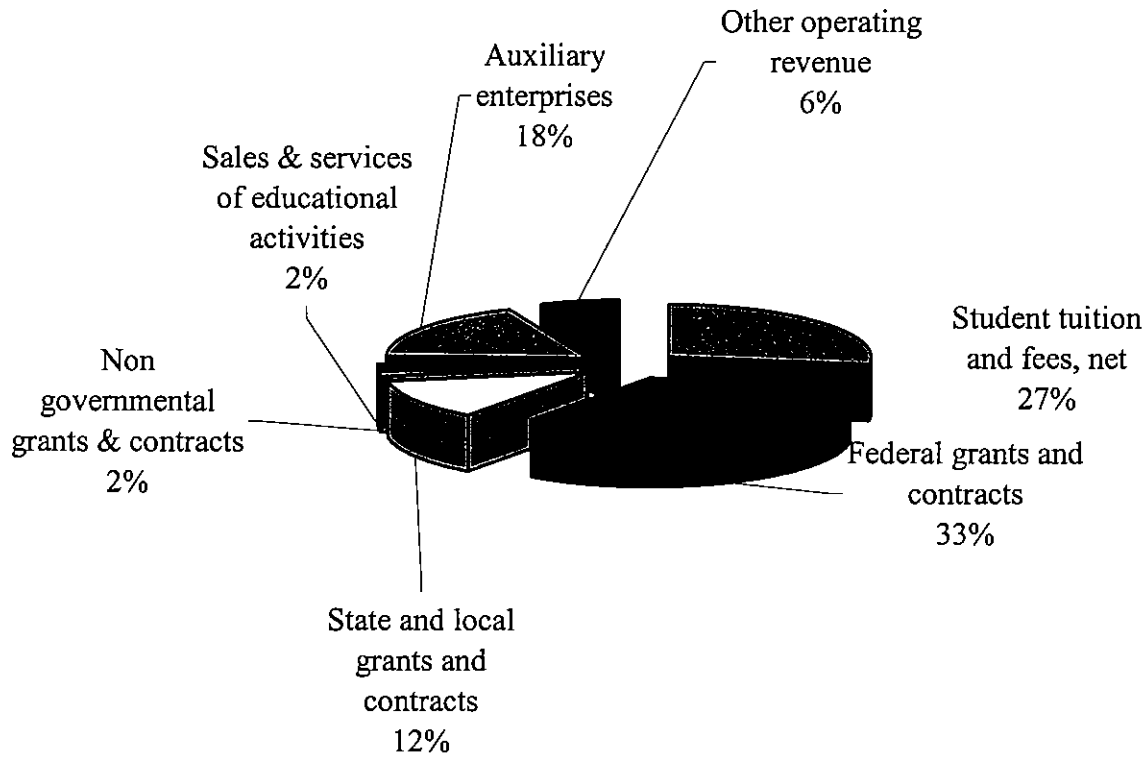
*Statement of Revenues, Expenses and Changes in Net Assets (in thousands)*

	<u>2003</u>	<u>2002</u>
<b><u>Operating Revenues</u></b>		
Student tuition and fees, net	\$ 16,901	\$ 15,839
Federal grants and contracts	20,351	19,445
State and local grants and contracts	7,592	5,868
Nongovernmental grants and contracts	891	552
Sales and services of educational activities	1,238	1,215
Auxiliary enterprises	11,287	11,660
Other operating revenue	<u>3,925</u>	<u>2,706</u>
Total operating revenue	62,185	57,285
<b><u>Operating Expenses</u></b>		
Educational and general	87,603	82,852
Auxiliary enterprises	9,027	8,758
Depreciation	5,695	5,283
Other operating expenses	<u>239</u>	<u>361</u>
Total operating expenses	<u>102,564</u>	<u>97,254</u>
<b>Operating loss</b>	<b>(40,379)</b>	<b>(39,969)</b>
<b><u>Nonoperating Revenues (Expenses)</u></b>		
State appropriations	43,116	43,034
Gifts	-	662
Investment income	651	657
Interest on capital assets - debt related	<u>(1,926)</u>	<u>(1,930)</u>
Net nonoperating revenues (expenses)	<u>41,841</u>	<u>42,423</u>
Income before other revenues, expenses, gains or losses	1,462	2,454
Capital appropriations	<u>4,980</u>	<u>10,867</u>
Increase in net assets	6,442	13,321
Net assets, beginning of year	<u>115,719</u>	<u>102,398</u>
Net assets, end of year	<u>\$ 122,161</u>	<u>\$ 115,719</u>

## Revenues

Total operating revenues were approximately \$62.1 million for the year ended June 30, 2003 compared to \$57.3 million the previous year. The most significant sources of operating revenue for the University are grants and contracts and net student fees.

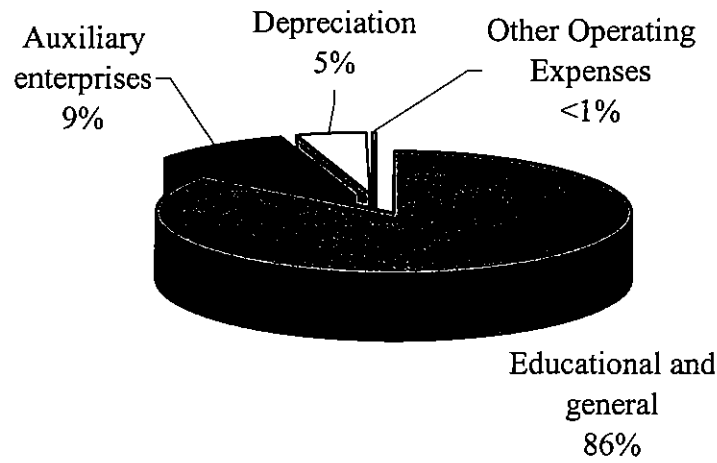
### TOTAL OPERATING REVENUE June 30, 2003



## Expenses

Operating expenses totaled approximately \$103 million compared to \$97 million at June 30, 2002. Of this amount, approximately \$87.6 million was used for educational and general expenses related to functions such as instruction, research, and public service.

### TOTAL OPERATING EXPENSE June 30, 2003



## 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)

	<u>2003</u>	<u>2002</u>
<b>Cash Provided/Used By:</b>		
Operating activities	\$ (38,135)	\$ (34,208)
Noncapital financing activities	43,215	43,747
Capital and related financing activities	(13,263)	(3,380)
Investing activities	<u>(2,867)</u>	<u>(3,156)</u>
Net (decrease) increase in cash	(11,050)	3,003
Cash, beginning of the year	<u>19,904</u>	<u>16,901</u>
Cash, end of the year	<u>\$ 8,854</u>	<u>\$ 19,904</u>

Major sources of funds included in operating activities are student tuition and fees (\$16.5 million versus \$15.2 million the previous year) and grants and contracts (\$27.1 million compared to \$26.7 million at June 30, 2002). The largest cash payments for operating activities were made to employees (\$61.6 million versus \$58.2 million the previous year) and suppliers (\$36.5 million compared to \$33.1 million June 30, 2002).

The largest cash receipt in the noncapital financing activities group is the operating appropriation from the Commonwealth of Kentucky of \$43.1 million versus \$43.0 million the previous year. 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 \$110 million at June 30, 2003, a net increase of \$5.6 million over the prior year-end. Significant changes to capital assets during fiscal 2002 - 2003 included:

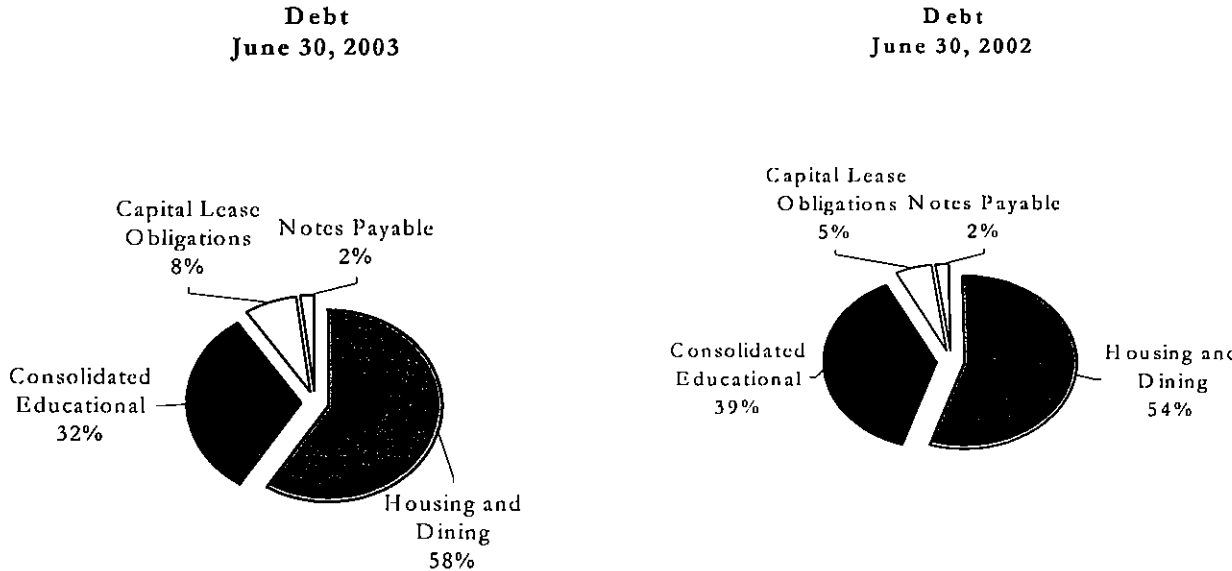
• Buildings and structures	\$9.8	million	
• Land and Improvements	2.1	million	
• Library additions, equipment and vehicles	1.7	million	
• Net change in construction in progress	(2.9)	million	
• Increase in accumulated depreciation, net	(5.1)	million	

Significant new projects brought on-line included the dam repair, the acquisition of the Hogge building, the Life Safety Auxiliary Facility project, the renovation of family housing, and the acquisition of the Martindale property.

At June 30, 2003, the University has capital construction projects underway including the renovation of the Adron Doran Student Center, the Satellite Tracking Station, and the renovation of the Theater in the Combs building.

**Debt**

At year-end, the University had some \$31.1 million in outstanding debt verses \$36.1 the previous year with \$28.2 million in bonds payable compared to 33.5 million at June 30, 2002. In addition, the University had capital lease obligations of \$2.3 million compared to \$1.9 million the previous year-end. The University had \$.6 million in notes payable at June 30, 2003.



The University’s debt is summarized by type of debt instrument as follows (in thousands):

Housing and Dining System revenue bonds	\$ 18,355
Consolidated educational buildings revenue bonds	9,840
Capital lease obligations	2,362
Notes payable	<u>570</u>
	<u>\$ 31,127</u>

Debt outstanding decreased approximately \$5 million from the end of the prior year.

The University issued its Housing & Dining System Revenue Bonds, Series Q during the fiscal year. The bonds were dated April 16, 2003 and were issued in the principal amount of approximately \$4.8 million. The proceeds of the Series Q issue were used to refund portions of the University’s previously issued Housing & Dining System Revenue Bonds Series M.

## FACTORS IMPACTING FUTURE PERIODS

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

- Tuition rates for FY 2003-04 will increase approximately 15% for resident and nonresident undergraduate and graduate students. Based on actual results from the 2002-2003 fiscal year and budgeted enrollment for 2003-2004 fiscal year this should provide additional operating revenues of approximately \$2 million.
- State appropriations (less debt service) were decreased by approximately \$1 million or 2.47 % during the 2002-2003 fiscal year. The Commonwealth of Kentucky has advised the University that due to anticipated shortfalls in revenue at the state level budget cuts are imminent. In order to be proactive, the University's administration has asked all departments to submit action plans for budget cuts of 2.6% to 5.0% that can be implemented if such cuts are enacted. Due to the uncertain nature of the revenue shortfalls and budget cuts, the effect on future operations is not known at this time.
- At June 30, 2003, grants and contracts of approximately \$33 million had been awarded to the University, but not expended. These contracts will provide grant revenue to future periods.
- The University's Board of Regents has approved an operating budget for the fiscal year ending June 30, 2004 totaling \$96 million.
- The University's Board of Regents has approved an operating budget for the fiscal year ending June 30, 2004 totaling \$96 million.



Crowe Chizek and Company LLC  
Member Horwath International

## 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 statements of net assets of Morehead State University as of June 30, 2003 and 2002, 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 conducted our audits 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 audits provide 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, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2003 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 audits were 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. In addition, the data contained on pages 38 through 41 is 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 taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 1 through 13 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 LLC*

Crowe Chizek and Company LLC

Louisville, Kentucky  
September 5, 2003

MOREHEAD STATE UNIVERSITY  
 STATEMENTS OF NET ASSETS  
 June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 8,854,349	\$ 19,904,545
Accounts, grants and loans receivable, net	8,317,343	5,225,717
Investments	-	479,450
Inventory	1,675,081	1,830,468
Other current assets	496,830	1,037,301
Total current assets	<u>19,343,603</u>	<u>28,477,481</u>
Noncurrent assets		
Accounts, grants and loans receivable, net	3,181,118	3,280,380
Investments	34,216,779	29,671,127
Capital assets, net	<u>109,840,928</u>	<u>104,235,933</u>
Total noncurrent assets	<u>147,238,825</u>	<u>137,187,440</u>
Total assets	<u>166,582,428</u>	<u>165,664,921</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	5,890,848	5,990,896
Deferred revenue	1,840,576	2,406,773
Other current liabilities	720,272	613,661
Bonds, notes and capital lease obligations, current portion	<u>2,981,985</u>	<u>3,103,651</u>
Total current liabilities	<u>11,433,681</u>	<u>12,114,981</u>
Noncurrent liabilities		
Bond, notes and capital lease obligations, noncurrent portion	28,144,775	33,004,681
Federal refundable grants	<u>4,843,063</u>	<u>4,826,374</u>
Total noncurrent liabilities	<u>32,987,838</u>	<u>37,831,055</u>
Total liabilities	<u>44,421,519</u>	<u>49,946,036</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	78,714,168	68,127,601
Restricted		
Nonexpendable	-	-
Expendable	26,509,386	30,980,923
Unrestricted	<u>16,937,355</u>	<u>16,610,361</u>
Total net assets	<u>\$ 122,160,909</u>	<u>\$ 115,718,885</u>

See accompanying notes.

MOREHEAD STATE UNIVERSITY  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 Years ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<b>REVENUES</b>		
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$12,998,476 and \$11,475,117)	\$ 16,900,936	\$ 15,838,505
Federal grants and contracts	20,351,171	19,445,248
State and local grants and contracts	7,591,565	5,868,272
Nongovernmental grants and contracts	891,476	551,634
Sales and services of educational activities	1,238,434	1,215,260
Auxiliary enterprises		
Residence halls (net of scholarship allowances of \$124,904 and \$115,315)	7,095,547	6,942,151
Bookstore	3,187,897	3,920,544
Other auxiliaries	1,003,058	797,597
Other operating revenues	<u>3,925,256</u>	<u>2,706,247</u>
Total operating revenues	<u>62,185,340</u>	<u>57,285,458</u>
<b>EXPENSES</b>		
Operating expenses		
Education and general		
Instruction	35,470,049	33,057,372
Research	1,239,926	443,931
Public service	9,273,462	9,350,617
Library	2,748,493	2,653,574
Academic support	6,047,201	6,170,341
Student services	7,064,599	7,605,556
Institutional support	10,078,772	9,492,194
Operation and maintenance of plant	6,318,881	5,633,831
Depreciation	5,011,505	4,609,142
Student aid	9,361,498	8,444,691
Auxiliary enterprises		
Residence Halls	4,547,477	4,293,991
Bookstore	3,407,945	3,580,014
Other auxiliaries	1,071,459	883,776
Depreciation	683,387	673,984
Other operating expenses	<u>239,580</u>	<u>361,562</u>
Total operating expenses	<u>102,564,234</u>	<u>97,254,576</u>
Operating loss	(40,378,894)	(39,969,118)

(Continued)

MOREHEAD STATE UNIVERSITY  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 Years ended June 30, 2003 and 2002

---

	<u>2003</u>	<u>2002</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 43,115,440	\$ 43,034,427
Gifts	-	661,473
Investment income (net of investment expense of \$77,081 and \$125,056)	651,325	656,663
Interest on capital asset - related debt	<u>(1,926,021)</u>	<u>(1,929,722)</u>
Net nonoperating revenues	<u>41,840,744</u>	<u>42,422,841</u>
 Income before other revenues, expenses, gains or losses	 1,461,850	 2,453,723
 Capital appropriations	 <u>4,980,174</u>	 <u>10,867,209</u>
 <b>Increase in net assets</b>	 6,442,024	 13,320,932
 Net assets, beginning of year	 115,718,885	 117,546,244
Cumulative effect of changes in accounting principle, adoption of GASB Statement No. 35	<u>-</u>	<u>(15,148,291)</u>
 Net assets, beginning of year, as restated	 <u>115,718,885</u>	 <u>102,397,953</u>
 <b>Net assets, end of year</b>	 <u>\$ 122,160,909</u>	 <u>\$ 115,718,885</u>

---

See accompanying notes.

MOREHEAD STATE UNIVERSITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 16,517,887	\$ 15,216,558
Grants and contracts	27,174,521	26,751,717
Payments to suppliers	(36,517,013)	(33,195,466)
Payments to employees	(61,691,667)	(58,231,727)
Loans issued to students	(423,780)	(505,752)
Collection of loans issued to students	435,055	475,624
Auxiliary enterprises:		
Residence halls	7,095,879	6,588,691
Bookstore	3,107,901	3,973,633
Other auxiliaries	1,003,042	797,597
Sales and services of educational activities	1,238,434	1,215,260
Other receipts	<u>3,925,257</u>	<u>2,706,248</u>
Net cash from operating activities	(38,134,484)	(34,207,617)
<b>Cash flows from noncapital financing activities</b>		
State appropriations	43,115,440	43,034,427
Gifts and grants for other than capital purposes:		
Private gifts for endowment purposes	-	661,473
Student organization agency receipts	2,394,156	1,915,217
Student organization agency disbursements	<u>(2,294,954)</u>	<u>(1,864,435)</u>
Net cash from noncapital financing activities	43,214,642	43,746,682
<b>Cash flows from capital financing activities</b>		
Proceeds from capital debt and leases	6,030,458	10,923,875
Capital appropriations	4,980,174	10,867,209
Purchase of capital assets	(11,335,938)	(18,567,060)
Principal paid on capital debt and leases	(11,012,030)	(4,673,887)
Interest paid on capital debt and leases	<u>(1,926,021)</u>	<u>(1,929,722)</u>
Net cash flows from capital financing activities	(13,263,357)	(3,379,585)
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	1,379,528	659,718
Interest received on investments	651,325	815,672
Purchase of investments	<u>(4,897,850)</u>	<u>(4,630,995)</u>
Net cash flows from investing activities	<u>(2,866,997)</u>	<u>(3,155,605)</u>
Net (decrease) increase in cash and cash equivalents	(11,050,196)	3,003,875
Cash and cash equivalents at beginning of year	<u>19,904,545</u>	<u>16,900,670</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 8,854,349</u>	<u>\$ 19,904,545</u>

(Continued)

MOREHEAD STATE UNIVERSITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2003 and 2002

---

	<u>2003</u>	<u>2002</u>
<b>Reconciliation of net operating income (loss) to net cash from operating activities</b>		
Operating loss	\$ (40,378,894)	\$ (39,969,118)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	5,694,892	5,283,126
Loss on disposal of capital assets	36,051	-
Changes in assets and liabilities:		
Receivables, net	(2,992,364)	(1,922,843)
Inventory	155,387	163,515
Accounts payable and accrued liabilities	(100,048)	700,444
Deferred revenue	(566,197)	1,521,812
Federal grants refundable	<u>16,689</u>	<u>15,447</u>
Net cash from operating activities	<u>\$ (38,134,484)</u>	<u>\$ (34,207,617)</u>

---

See accompanying notes.

