

Murray State University

Accountants' Report and Financial Statements

June 30, 2002



Contents

Management's Discussion and Analysis	i
Independent Accountants' Report	1
Financial Statements	
Balance Sheet	2
Statement of Revenues, Expenses and Changes in Net Assets	4
Statement of Cash Flows	6
Notes to Financial Statements	8

Murray State University Management's Discussion and Analysis

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Murray State University (University) for the year ended June 30, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University is a comprehensive public institution of higher learning located in western Kentucky within 40 miles of Illinois, Missouri, and Tennessee. Murray State has study centers in four other cities where it offers a diverse range of degree programs from associate to master levels, through a framework of approximately 30 departmental units in 5 colleges and 1 school, and contributes to the region and state through related research and public service programs. Murray State University serves as a residential, regional university offering core programs in the liberal arts, humanities, sciences and selected high-quality professional programs for approximately 9,800 students.

The University currently has an annual budget of approximately \$100 million and employs approximately 1,300 individuals, including 375 faculty members. The 230-acre main campus consists of 75 buildings, which include a Regional Special Events Center and a new College of Education facility. Construction of a new science complex on the main campus will begin during the next school year.

Murray State University consistently ranks among the nation's best regional universities each year according to the U.S. News and World Report's America's Best Colleges rankings report. Factors considered in the rankings are reputation, retention rate, graduation rate, class size, student-faculty ratio and SAT/ACT scoring. The University is a charter member of the Ohio Valley Conference and a Division I member of the NCAA. The University's commitment to academic excellence is central to the University's mission and permeates throughout the institution.

Murray State University
Management's Discussion and Analysis

Governmental Accounting Standards

The MD&A, financial statements, and accompanying notes are prepared in accordance with following Governmental Accounting Standards Board (GASB) pronouncements:

Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities

Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus

Statement No. 38, Certain Financial Statement Note Disclosures

The MD&A does not include comparative analysis with prior year information because this is the first year of implementation of the new standards. The MD&A will include such comparative analysis in future years.

Balance Sheet

The Balance Sheet presents a financial picture of the University's financial condition at the end of the fiscal year by reporting assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets less liabilities).

Assets

Total assets of the University at the end of the fiscal year were approximately \$195 million, of which capital assets, net of depreciation, represented the largest portion. This group of assets totaled approximately \$108 million or 55% of total assets and was primarily comprised of university owned land, buildings, equipment, and library holdings. Cash and cash equivalents were the second largest asset group, totaling approximately \$40 million or 21% of total assets. Approximately half of the cash and cash equivalents total was for unexpended capital construction funds provided by the Commonwealth of Kentucky and other designated sources. Endowment investments represented another major asset of the University, totaling approximately \$28 million or 14% of total assets. Of this amount, approximately \$27 million was held by the Murray State University Foundation for investment purposes. The remaining portion of the endowment investments was held by the University, classified as restricted cash equivalents.

Liabilities

Total liabilities of the University at the end of the fiscal year were approximately \$48 million, of which bonds payable represented the largest portion. Bonds payable obligations totaled approximately \$20 million or 42% of total liabilities and were for the construction and renovation of educational and housing and dining facilities. The other significant group of liabilities was amounts payable to vendors and for payroll related obligations, which totaled approximately \$9 million or 19% of total liabilities.

Murray State University
Management's Discussion and Analysis

Condensed Balance Sheet

	<u>2002</u>
Assets:	
Current assets	\$ 26,416,812
Noncurrent assets	60,623,068
Capital assets	<u>107,904,063</u>
Total assets	<u><u>194,943,943</u></u>
Liabilities:	
Current liabilities	22,665,907
Noncurrent liabilities	<u>25,601,693</u>
Total liabilities	<u>48,267,600</u>
Net assets:	
Invested in capital assets, net of related debt	85,180,207
Restricted for:	
Nonexpendable	27,603,716
Expendable:	
Scholarships, research, and other	5,433,399
Loans	5,002,921
Capital	3,895,800
Debt service	3,646,230
Unrestricted	<u>15,914,070</u>
Total net assets	<u>146,676,343</u>
Total liabilities and net assets	<u><u>\$ 194,943,943</u></u>

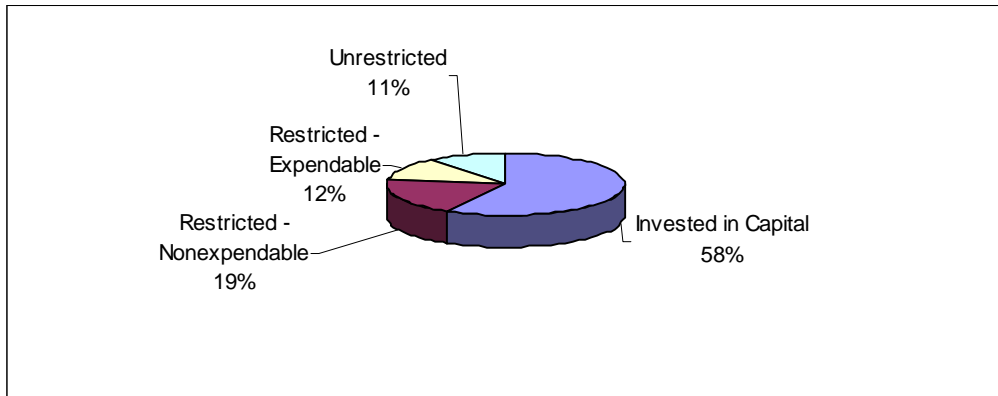
Murray State University
Management's Discussion and Analysis

Net Assets

Net assets of the University were approximately \$147 million and were divided into three major categories, defined as follows:

- Invested in capital assets, net of related debt - This category represents the institution's equity in property, buildings, equipment, library holdings, and other plant assets owned by the University.
- Restricted - This category represents those assets restricted by an individual or entity external to the University and includes additional net assets classifications of nonexpendable and expendable. Restricted nonexpendable net assets represent the corpus of assets that are permanently restricted. Restricted expendable net assets represent the assets that may be expended by the University, but must be spent for purposes as defined by the donor or external entity.
- Unrestricted - This category represents the net assets held by the University that have no formal restrictions placed upon them.

The allocation of net assets between these three categories is provided in the following chart:



Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets, which is generally referred to as the activities statement, presents the total revenues (operating and nonoperating) received and earned by the institution and expenses (operating and nonoperating) paid and owed by the institution and income or loss from operations for the current fiscal year.

Revenues

Total operating revenues, which exclude state appropriations, of the University for the fiscal year were approximately \$57 million. The primary source of operating revenues was from

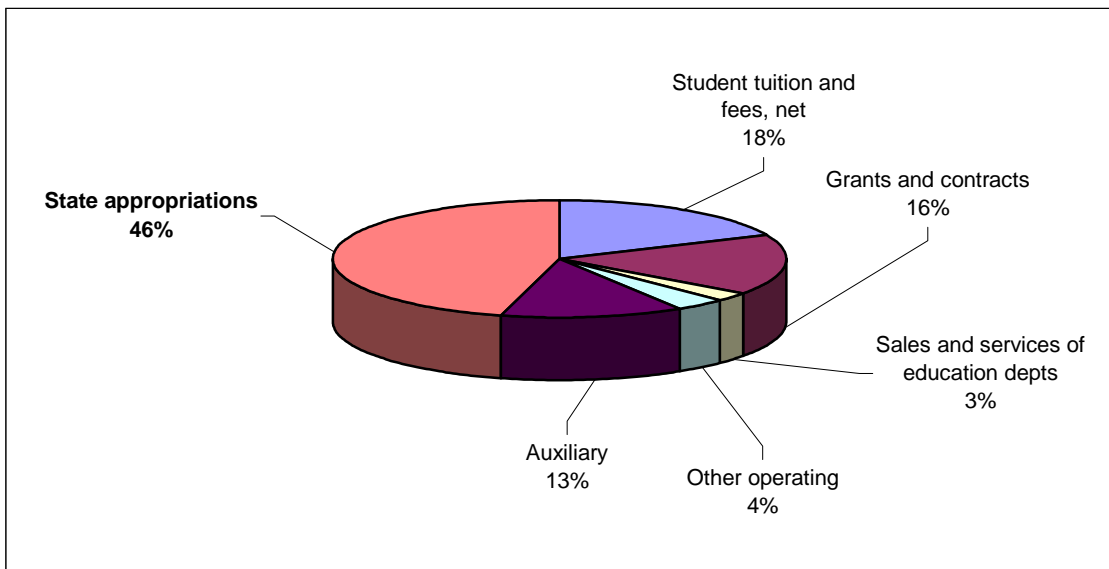
Murray State University
Management's Discussion and Analysis

student tuition and fees, net of related discounts and allowances, of approximately \$21 million.

Operating and nonoperating revenues from grants and contracts, including substantially all federal funds, were approximately \$19 million. Grant and contract revenues that were considered exchange in nature are classified as operating revenues. The remaining grant and contract revenues were related to nonexchange type agreements and are classified as nonoperating revenues. In a nonexchange agreement, the University receives dollars from another party without directly giving a service or product of equal value in exchange.

The University received \$52 million of state appropriations which are classified as nonoperating revenues. These funds were used to support University operating activities.

The sources of total operating revenues and nonoperating state appropriation revenues are reflected in the following chart:



Expenses

Total operating expenses of the University for the fiscal year were approximately \$114 million. Total educational and general expenses, excluding depreciation and auxiliary expenses, was approximately \$94 million or 82% of total operating expenses. Instructional program expenses represent the most significant portion of the educational and general operating expenses, totaling approximately \$44 million or 46% of the total educational and general portion. Depreciation expense was not allocated to each program group, but presented as a single expense item representing depreciation for all areas of the University. Depreciation expense totaled approximately \$6 million or 5% of total operating expenses.

Murray State University
Management's Discussion and Analysis

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2002</u>
Operating revenues:	
Student tuition and fees, net	\$ 20,782,031
Grants and contracts	14,074,336
Other	6,939,547
Auxiliary	<u>14,769,856</u>
Total operating revenues	<u>56,565,770</u>
 Operating expenses:	
Instruction	43,431,417
Research	1,790,612
Public service	5,150,185
Libraries	1,438,441
Academic support	5,690,889
Student services	9,563,861
Institutional support	9,516,957
Operation and maintenance of plant	11,531,704
Student financial aid	5,711,997
Depreciation	6,144,645
Auxiliary	<u>13,772,777</u>
Total operating expenses	<u>113,743,485</u>
Operating loss	<u>(57,177,715)</u>
 Nonoperating revenues (expenses):	
State appropriations	51,673,740
Other nonoperating revenues (expenses)	<u>11,670,255</u>
Total nonoperating revenues (expenses)	<u>63,343,995</u>
 Increase in net assets	<u>6,166,280</u>
 Net assets - beginning of year, as originally reported	268,785,273
Cummulative effect of change in accounting principle	(128,275,210)
Net assets - beginning of year, as restated	<u>140,510,063</u>
 Net assets - end of year	<u><u>\$ 146,676,343</u></u>

Statement of Cash Flows

The Statement of Cash Flows provides a summary of the sources and uses of cash by defined categories. The primary purposes of the Statement of Cash Flows are to provide information about the University's cash receipts and payments during the year and to help assess the University's ability to generate future net cash flows and meet obligations as they become due, as well as its need for external financing.

The major sources of cash from operating activities were tuition and fees of approximately \$22 million and grant and contract and auxiliary enterprise receipts of approximately \$14 million and \$15 million, respectively. The most significant uses of cash for operating activities were payments to employees of about \$71 million and to vendors for about \$37 million.

The cash flows from noncapital financing activities include approximately \$52 million received as general appropriations from the Commonwealth of Kentucky, which is the largest source of cash for the fiscal year.

The cash flows from capital financing activities represent cash received and used for the acquisition, construction, and renovation of capital assets. The most significant source of cash presented in this category is from the Commonwealth of Kentucky for the construction of phase I of a science complex.

The cash flows from investing activities represent the cash activities of investments related to bond reserve funds and endowment assets.

Financial Position

Due to revenue shortfalls projected by the Commonwealth of Kentucky, public educational institutions experienced a reduction of state appropriation funding for the current fiscal year. The University's portion of this reduction was \$985,160.

Capital Assets and Debt Administration

The University had several significant capital additions of facilities during the fiscal year. The Carr Health Building and Business Building renovations were completed, and construction was completed on Alexander Hall, West Kentucky Regional Post Secondary Education Facility, and the Alumni Center.

Revisions to asset capitalization limits and useful lives were made to the University's capitalization policy during the fiscal year. These revisions resulted in a reduction in the recorded value of capital assets of approximately \$24 million. As required by GASB No. 34, the University began to record depreciation expense for assets for the fiscal year. Depreciation expense applicable to prior fiscal years or accumulated depreciation totaled approximately \$105 million. The effect of accumulated depreciation was presented as a decrease in the University's net assets at the beginning of the current fiscal year.

The University did not issue any bonds or acquire significant debt during the fiscal year.

Infrastructure Assets

Infrastructure assets are defined by GASB No. 34 as long-lived assets that are normally stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. These types of assets will typically be permanent non-building additions that service the entire campus. The University has adopted the modified approach of accounting for its infrastructure assets. This approach requires that an asset management system be established and maintained. Such a system would assess and disclose that all eligible infrastructure assets are being preserved approximately at (or above) a condition level established. To date the University has not identified any assets that should be classified as infrastructure.

Independent Accountants' Report

President F. King Alexander and
Board of Regents
Murray State University
Murray, Kentucky

We have audited the accompanying basic financial statements of Murray State University, a component unit of the state of Kentucky, as of and for the year ended June 30, 2002, as listed in the table of contents. 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 amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Murray State University as of June 30, 2002, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19, in 2002 the University changed its method of financial statement presentation and disclosure by retroactively restating prior years' financial statements.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/ **BKD, LLP**

September 19, 2002

**MURRAY STATE UNIVERSITY
BALANCE SHEET
JUNE 30, 2002**

ASSETS

Current assets:

Cash and cash equivalents	\$ 18,730,404
Accounts receivable, net	4,224,937
Inventories	1,607,532
Prepaid expenses	480,856
Loans receivable, net	686,620
Interest receivable	686,463
Total current assets	<u>26,416,812</u>

Noncurrent assets:

Restricted cash and cash equivalents	21,491,017
Restricted investments	4,625,461
Accounts receivable, net	329,300
Assets held by MSU Foundation	30,288,539
Loans receivable, net	3,769,712
Capital assets	218,305,566
Accumulated depreciation	(110,401,503)
Bond issuance costs	119,039
Total noncurrent assets	<u>168,527,131</u>

Total assets	<u><u>\$ 194,943,943</u></u>
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LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 5,887,132
Self insured health liability	1,135,878
Accrued payroll	3,094,089
Interest payable	229,551
Deposits	398,205
Deferred revenue	8,985,195
Current maturities of long term liabilities	2,935,857
Total current liabilities	<u>22,665,907</u>

Noncurrent liabilities:

Deposits	159,212
Deferred revenue	4,997,748
Bonds payable	17,414,452
Capital leases	1,866,132
Masterlease notes payable	1,048,428
Notes payable	11,367
MSU Foundation notes payable	104,354
Total noncurrent liabilities	<u>25,601,693</u>

Total liabilities	<u><u>48,267,600</u></u>
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**MURRAY STATE UNIVERSITY
BALANCE SHEET
JUNE 30, 2002**

NET ASSETS

Invested in capital assets, net of related debt	\$ 85,180,207
Restricted for:	
Nonexpendable - permanent endowments	27,603,716
Expendable:	
Scholarships, research, instruction, and other	5,433,399
Loans	5,002,921
Capital assets	3,895,800
Debt service	3,646,230
Unrestricted	15,914,070
Total net assets	<u>146,676,343</u>
Total liabilities and net assets	<u>\$ 194,943,943</u>

MURRAY STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002

REVENUES

Operating revenues:	
Student tuition and fees	\$ 33,937,341
Less discounts and allowances	(13,155,310)
Net tuition and fees	<u>20,782,031</u>
Federal grants and contracts	10,430,411
State grants and contracts	3,553,022
Local and private grants and contracts	90,903
Sales and services of educational departments	2,874,654
Other operating revenues	4,064,893
Auxiliary enterprises revenues	15,692,622
Less discounts and allowances	(922,766)
Net auxiliary revenue	<u>14,769,856</u>
Total operating revenues	<u>56,565,770</u>

EXPENSES

Operating expenses:	
Instruction	43,431,417
Research	1,790,612
Public service	5,150,185
Libraries	1,438,441
Academic support	5,690,889
Student services	9,563,861
Institutional support	9,516,957
Operation and maintenance of plant	11,531,704
Student financial aid	5,711,997
Depreciation	6,144,645
Auxiliary enterprises	<u>13,772,777</u>
Total operating expenses	<u>113,743,485</u>
Operating income (loss)	<u>(57,177,715)</u>

MURRAY STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002

NONOPERATING REVENUES (EXPENSES)

State appropriations	51,673,740
State endowment match	1,521,786
Federal grants and contracts	1,403,332
State grants and contracts	1,845,650
Local and private grants and contracts	1,238,341

NONOPERATING REVENUES (EXPENSES) (cont'd)

Endowment income	783,722
Gifts	3,583,965
Investment income	453,930
Interest on capital asset-related debt	(1,066,839)
Loss on deletion and disposal of capital assets	(851,904)
Bond amortization	(39,442)
Net nonoperating revenues	<u>60,546,281</u>

Income before other revenues, expenses, gains, or losses	3,368,566
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State capital appropriations	1,818,336
Capital gifts	679,378
Insurance proceeds on capital asset loss	300,000
Increase in net assets	<u>6,166,280</u>

NET ASSETS

Net assets - beginning of year, as originally reported	268,785,273
Cumulative effect of change in accounting principle	<u>(128,275,210)</u>
Net assets - beginning of year, as restated	<u>140,510,063</u>
Net assets - end of year	<u>\$146,676,343</u>

**MURRAY STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Cash Flows from Operating Activities

Tuition and fees	\$ 21,742,445
Grants and contracts	13,917,177
Payments to employees	(66,378,954)
Payments to suppliers	(27,863,099)
Loans issued to employees	(55,084)
Collection of loans to employees	103,224
Loans issued to students	(1,035,421)
Collection of loans to students	777,981
Sales and services	2,892,727
Other operating revenues	4,065,319
Auxiliary enterprises revenues:	
Food service	4,891,118
Housing	5,316,049
Bookstore	4,326,644
Other	289,441
Auxiliary enterprises payments:	
Payment to employees	(4,653,266)
Payment to suppliers	(9,111,195)
Net cash (used) by operating activities	<u>(50,774,894)</u>

Cash Flows from Noncapital Financing Activities

State appropriations	51,673,740
State endowment match	1,392,965
Grants and contracts	4,437,216
Endowment income receipts from MSU Foundation	201,405
Gifts for other than capital purposes	310,873
Agency transactions	<u>(12,822)</u>
Net cash provided by noncapital financing activities	<u>58,003,377</u>

Cash Flows from Capital and Related Financing Activities

Proceeds from capital debt	398,865
Loan issued for capital project	(383,500)
Insurance proceeds	300,000
State capital appropriations	13,717,734
Purchases of capital assets	(11,265,393)
Principal paid on capital debt and leases	(2,926,568)
Interest paid on capital debt and leases	<u>(1,251,169)</u>
Net cash (used) by capital and related financing activities	<u>(1,410,031)</u>

**MURRAY STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Cash Flows from Investing Activities	
Proceeds from sales and maturities of investments	3,258,774
Purchase of investments	(3,385,611)
Investment administrative payments	(3,315)
Interest receipts on investments	1,734,676
Net cash provided by investing activities	<u>1,604,524</u>
Net increase in cash and cash equivalents	7,422,976
Cash and cash equivalents, beginning of year	<u>32,798,445</u>
Cash and cash equivalents, end of year	<u><u>\$ 40,221,421</u></u>

Reconciliation of operating loss to net cash used by operating activities	
Operating income (loss)	\$ (57,177,715)
Depreciation	6,144,645
Bad debt	140,825
Changes in assets and liabilities:	
Receivables, net	(607,587)
Inventories	12,814
Prepaid expenses	(124,288)
Accounts payable	(200,185)
Health insurance liability	(64,102)
Payroll withholding liability	293,136
Deposits	9,819
Deferred revenues	<u>797,744</u>
Net cash (used) by operating activities	<u><u>\$ (50,774,894)</u></u>

Supplemental cash flows information	
Gift of capital assets	<u><u>\$ 679,378</u></u>
Accounts payable incurred for capital assets	<u><u>\$ 562,507</u></u>

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 1. **Summary of Significant Accounting Policies**

Nature of Operations

Murray State University (the University) is a state supported institution of higher education located in Murray, Kentucky and is accredited by the Southern Association of Colleges and Schools. The University awards graduate and undergraduate degrees from five colleges and one school and serves a student population in excess of 9,800. The University is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statements of the Commonwealth.

Basis of Accounting and Financial Statement Presentation

The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* followed this in November 1999. Effective for the fiscal year ended June 30, 2002, the financial statement presentation required by GASB No. 34 and GASB No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made during the 2002 fiscal year in order to comply with the new requirements include (1) adoption of depreciation on capital assets; and (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the University considers all highly liquid investments that are immediately available to the University to be cash equivalents. Funds held by the Commonwealth of Kentucky are considered cash equivalents.

The University currently uses commercial banks and the Commonwealth of Kentucky as depositories. Deposits with commercial banks are covered by Federal depository insurance or collateral held by the banks in the University's name. At the Commonwealth level, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth pooled deposits are substantially covered by Federal depository insurance or by collateral held by the bank in the Commonwealth's name.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 1. Summary of Significant Accounting Policies (cont'd)

Investments

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net assets.

Assets Held by Murray State University Foundation

Assets held by the Murray State University Foundation, Inc. (Foundation) represent resources neither in the possession nor the control of the University, but are held and administered by the Foundation. An independent board governs the Foundation. The University recognizes gifts and donations made to the Foundation for the exclusive use and benefit of the University as assets and revenues of the University. The net appreciation and income of donor restricted endowments are available to the University for expenditure to the extent permitted by Kentucky law and Foundation spending policy. The University recognizes the assets held by the Foundation at the estimated fair value of the assets or the present value of the future cash flows when the University is notified of the existence of the gift or the endowment. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the University does not record pledged endowments as assets.

Accounts Receivable

Accounts receivable consists of tuition and fee charges, other operational activities, and auxiliary enterprise services. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, for non-exchange type agreements defined in accordance with GASB No. 33 or in connection with reimbursement of allowable expenditures made pursuant to the University's grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

All capital assets, as defined by University policy, are recorded at cost at the date of acquisition, or, if donated, at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to functional expense categories. Outlays for construction in progress are capitalized as incurred. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 1. Summary of Significant Accounting Policies (cont'd)

The following estimated useful lives are being used by the University:

<u>Asset</u>	<u>Estimated Life</u>
Buildings	40 years
Equipment	5-15 years
Livestock	12 years
Library holdings	10 years
Nonbuilding improvements	10-20 years

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowing. Total interest capitalized for the current fiscal year was \$180,491.

The University owns historical collections housed throughout the campus that it does not capitalize, including artifacts in Wrather Museum. These collections adhere to the University's policy to (a) maintain them for public exhibition, education, or research; (b) protect, keep unencumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at time of purchase rather than capitalized.

Deferred Revenue

Deferred revenues include amounts for tuition and fees, international program fees, and certain auxiliary activities received prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from state capital appropriations and grant and contract sponsors for which eligibility requirements have not been fully satisfied or that have not yet been earned.

Compensated Absences

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are included at year-end with accrued payroll, and as a component of compensation and benefit expense. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 1. Summary of Significant Accounting Policies (cont'd)

Restricted Cash and Investments

Cash and investments that are externally restricted are classified as restricted assets. These assets are used to make debt service payments, maintain sinking or reserve funds, purchase or construct capital or other noncurrent assets, or for other restricted purposes.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; and (2) other liabilities that are expected to be paid later than the end of the next fiscal year.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt:

This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – expendable:

Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable:

Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 1. Summary of Significant Accounting Policies (cont'd)

Unrestricted net assets:

Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, sales and services of educational departments, auxiliary enterprises, and other sources. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses or for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

Release of Restricted Net Assets

When an expense is incurred for which both restricted and unrestricted net assets are available, the University's policy is to allow each departmental unit the flexibility to determine whether to first apply restricted or unrestricted resources based on the most advantageous application of resources in the particular circumstances.

Revenue

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of discounts and allowances, (2) sales and services of auxiliary enterprises, net of discounts and allowances, (3) Federal, state and local grants and contracts, and (4) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Recognition of Revenue

The University considers receivables collectible if due at the end of the fiscal year and recognizes them as revenues of the current year.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 1. Summary of Significant Accounting Policies (cont'd)

Tuition Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of discounts and allowances. Discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is payable by students. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a discount and allowance.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions. The accompanying financial statements include estimates for items such as allowances for doubtful accounts and loans receivable, self-insurance liabilities and other accrued liabilities. Actual results could differ from those estimates.

Recent Accounting Pronouncements

The Governmental Accounting Standards Board recently issued its Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement 14*. The new statement provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units in the University's financial statements based on the nature and significance of their relationship with the University. It generally requires reporting, as component units, organizations that raise and hold economic resources for the direct benefit of the University. The University expects to first apply the new statement during the year of June 30, 2004. The impact of applying the new statement has not yet been determined.

Note 2. **Investments**

Investments consisted of:

	June 30, 2002	
	Fair Value	Cost Basis
Money market funds	\$ 2,389,840	\$ 2,389,840
U.S. government securities	232,006	233,848
Repurchase agreements	2,003,615	2,003,615
 Total Investments	 \$ 4,625,461	 \$ 4,627,303

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 2. Investments (cont'd)

Investments in U.S. government securities and the collateral for repurchase agreements are registered in the name of Murray State University or held in the University's name by its agents and trustees.

The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in equity securities.

Note 3. **Inventories**

Inventories consisted of:

	June 30, 2002
Inventories:	
University bookstore - resale	\$ 1,146,430
Physical plant - supplies	317,774
Food services - resale and supplies	127,521
Central stores - supplies	15,807
Total inventories	\$ 1,607,532

Note 4. **Deferred Revenue**

Deferred revenue consisted of:

	June 30, 2002
Current deferred revenue:	
Prepaid tuition and fees	\$ 1,180,427
International studies programs	523,374
Grants and contracts	365,896
Auxiliary enterprises	13,847
Capital state appropriation - science complex	6,901,651
Total current deferred revenue	8,985,195
Noncurrent deferred revenue:	
Capital state appropriation - science complex	4,997,748
Total deferred revenue	\$ 13,982,943

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 5. **Accounts Receivable**

Accounts receivable consisted of:

	<u>June 30, 2002</u>
Current accounts receivable:	
Student tuition and fees	\$ 1,381,436
Grants and contracts	2,373,670
Auxiliary fees	285,937
Employee	
Travel advances	198
Computer loans	24,786
Outside sales	715,585
State agencies	67,201
Vendor receivables	40,793
Capital construction receivable	54,200
Allowance for doubtful accounts	<u>(718,869)</u>
Total current accounts receivable	4,224,937
Noncurrent accounts receivable:	
Capital construction receivable	<u>329,300</u>
Total accounts receivable	<u><u>\$4,554,237</u></u>

Note 6. **Loans Receivable**

Student loans made through the Federal Perkins Loan Program (the Program) comprise substantially all of the loans receivable at June 30, 2002. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amount cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2002, the allowance for uncollectible loans was \$240,932.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Loans receivable consisted of:

	<u>June 30, 2002</u>
Current loans receivable:	
University loan programs	\$ 39,403
Federal Nursing program	58,572
Federal Perkins program	588,645
Total current loans receivable	686,620
Noncurrent loans receivable:	
Federal Nursing program	305,406
Federal Perkins program	3,464,306
Total noncurrent loans receivable	3,769,712
Total loans receivable	\$4,456,332

Note 7. Assets Held by MSU Foundation

Assets held by the Murray State University Foundation, Inc. (Foundation) are invested primarily in an investment pool managed by the Foundation and are carried at fair value. The assets in the pool are invested as follows: securities of the U.S. government and its agencies, 2%; mutual funds invested in equity securities, 45%; mutual funds invested in fixed income securities, 47%; certificates of deposit, 2% and other 4%.

Note 8. Regional University Excellence Trust Fund

The Kentucky General Assembly appropriated funds to the Regional University Excellence Trust Fund (RUETF) with the passage of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The purpose of this fund is to encourage private investment in public higher educational activities within the Commonwealth of Kentucky. These funds were made available to the comprehensive institutions within the Commonwealth with a provision that they would be matched dollar-for-dollar from external sources. The Commonwealth's Council on Postsecondary Education (CPE) was designated to oversee the distribution and use of these funds.

**MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

Following is a summary of the funding for the RUETF as of June 30, 2002:

Funding Period	CPE Funding Available	CPE Funding Received	University External Match Received	University External Match Pledge
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 1,662,500	\$ 47,500
2000-2002	<u>3,521,787</u>	<u>3,521,787</u>	<u>1,247,243</u>	<u>2,274,544</u>
Total	<u>\$ 5,231,787</u>	<u>\$ 5,231,787</u>	<u>\$ 2,909,743</u>	<u>\$ 2,322,044</u>

The University's external match pledges have not been recorded for financial reporting purposes due to the contingency that pledges must be fulfilled within a 5 year period of time.

Note 9. Nonaffiliated Organizations

Murray State University Foundation, Inc.

Murray State University Foundation, Inc. (Foundation) is a Kentucky not-for-profit corporation formed to receive and invest funds for the enhancement and improvement of the University. The Foundation also operates the Francis E. Miller Golf Course as a separate enterprise, and manages certain endowments and investments on behalf of the University.

The Foundation has a Board of Trustees separate from that of the University; however, the President and certain other officers of the University are also officers of the Foundation.

The University provides office space and pays certain operating expenses of the Foundation in exchange for investment management services provided by the Foundation. The Foundation prepares and issues its own financial statements.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 9. Nonaffiliated Organizations (cont'd)

Murray State University Athletic Foundation, Inc.

Murray State University Athletic Foundation, Inc. (Racer Foundation) is a Kentucky non-for-profit corporation formed to enhance the academic and athletic experience of the Murray State University student-athlete. The Racer Foundation has a Board of Directors separate from that of the University and prepares and issues its own financial statements.

Note 10. **Capital Assets**

Capital assets activity for the year ended June 30, 2002 was:

	Balance June 30, 2001	Cumulative Effect of Change in Accounting Principle (Note 19)	Additions	Transfers	Deletions Retirements	Balance June 30, 2002
Land	\$ 4,997,755	\$ -	\$ -	\$ 548,227	\$ -	\$ 5,545,982
Construction in progress	28,118,854	-	9,539,133	(17,965,390)	-	19,692,597
Museum and collectibles	-	-	92,864	-	-	92,864
Total capital assets not being depreciated	<u>33,116,609</u>	<u>-</u>	<u>9,631,997</u>	<u>(17,417,163)</u>	<u>-</u>	<u>25,331,443</u>
Buildings	128,456,170	(167,013)	474,635	17,417,163	-	146,180,955
Nonbuilding improvements	12,023,768	(5,092,232)	282,694	-	-	7,214,230
Equipment	34,342,290	(18,329,954)	882,831	-	(257,789)	16,637,378
Library holdings	21,743,175	-	1,190,871	-	(36,736)	22,897,310
Livestock	6,600	(6,600)	44,250	-	-	44,250
Total other capital assets	<u>196,572,003</u>	<u>(23,595,799)</u>	<u>2,875,281</u>	<u>17,417,163</u>	<u>(294,525)</u>	<u>192,974,123</u>
Total capital assets before depreciation	<u>229,688,612</u>	<u>(23,595,799)</u>	<u>12,507,278</u>	<u>-</u>	<u>(294,525)</u>	<u>218,305,566</u>
Less accumulated depreciation:						
Buildings	-	74,687,280	3,656,283	-	-	78,343,563
Improvements other other than buildings	-	3,152,857	316,008	-	-	3,468,865
Equipment	-	10,353,059	1,209,429	-	-	11,562,488
Library holdings	-	16,063,662	958,646	-	-	17,022,308
Livestock	-	-	4,279	-	-	4,279
Total accumulated depreciation	<u>\$ -</u>	<u>\$ 104,256,858</u>	<u>\$ 6,144,645</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,401,503</u>
Capital assets - net	<u>\$ 229,688,612</u>					<u>\$ 107,904,063</u>

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 11. **Accounts Payable**

Accounts payable consisted of:

	<u>June 30, 2002</u>
Current accounts payable:	
Vendors	\$ 4,311,057
Employee payroll, benefits, and withholdings	1,574,927
Loans	1,148
Total accounts payable	\$ 5,887,132

Note 12. **Employee Benefits**

A. Kentucky Teachers Retirement System:

All 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) or an optional retirement plan, as allowed by KRS161.567. 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 or has less than twenty-seven years of participation in the plan. The plan also provides for disability, 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 40601-3800 or by calling (502) 573-3266.

Funding for the plan is provided from eligible employees who contribute 6.16% of their salary through payroll deductions and the University, which also contributes 13.84% of current eligible employees' salaries to the KTRS. Kentucky Revised Statutes and the KTRS Board of Trustees establish contribution requirements of the plan members and the University. The University's contributions to KTRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$3,514,432, \$3,476,325, and \$3,449,158, respectively, and were equal to the required contributions.

B. Kentucky Employee Retirement System:

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 12. Employee Benefits (cont'd)

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

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

Funding of the plan is from eligible employees who contribute 5.00% of their salary through payroll deductions and the University, which also contributes 5.89% of current eligible employees' salaries to the non-hazardous KERS. Employees covered by hazardous KERS contribute 8.00% of gross salary and the University contributes 18.84 % of gross salaries. The Kentucky Revised Statutes and the Board of Trustees of the Kentucky Retirement Systems determine contribution rates each biennium. The University's contributions to KERS for the years ended June 30, 2002, 2001, and 2000 were \$712,433, \$732,688, and \$904,416, respectively, and were equal to the required contributions.

C. University Health Self-Insurance Program:

The University maintains a self-insurance program for employees' health insurance. The University pays approximately 72% of the expenses of the plan for permanent full-time employees and their families. Expenses incurred to cover claims paid by the University under the plan for years ended June 30, 2002 and 2001 totaled \$4,114,886 and \$3,525,859, respectively, excluding administrative and stop-loss fees. Stop-loss and administrative fees incurred for the years ended June 30, 2002 and 2001 were \$508,198 and \$424,927, respectively.

Changes in the liability for self insurance are follows:

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Liability - beginning of year	\$ 1,152,471	\$ 1,151,776
Accruals for current year claims and changes in estimate	5,285,294	4,478,855
Other costs	(508,198)	(484,451)
Claims paid	<u>(4,793,689)</u>	<u>(3,993,709)</u>
Liability - end of year	<u>\$ 1,135,878</u>	<u>\$ 1,152,471</u>

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 13. **Revenue Bonds, Notes Payable, and Capital Leases**

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2002:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	Ending <u>Balance</u>	Current <u>Portion</u>
Bonds payable	\$ 22,137,000	\$ -	\$ (2,205,000)	\$ 19,932,000	\$ 2,285,000
Less bond discounts	(286,980)	-	27,216	(259,764)	(27,216)
Bonds payable, net of discounts	21,850,020	-	(2,177,784)	19,672,236	2,257,784
Capital leases	2,190,899	-	(166,310)	2,024,589	158,457
Masterlease notes payable	1,521,136	395,000	(391,789)	1,524,347	475,919
Notes payable	136,237	-	(108,953)	27,284	15,917
MSU Foundation notes payable	182,786	3,865	(54,517)	132,134	27,780
Total bonds, notes, and capital leases	<u>\$ 25,881,078</u>	<u>\$ 398,865</u>	<u>\$ (2,899,353)</u>	<u>\$ 23,380,590</u>	<u>\$ 2,935,857</u>

Maturity Information:

A schedule of the mandatory principal and interest payments is presented below:

Year Ending <u>June 30</u>	<u>Bonds</u>	<u>Notes</u>	Total <u>Principal</u>	<u>Interest</u>	Total <u>Payments</u>
2003	\$ 2,285,000	\$ 519,616	\$ 2,804,616	\$ 1,030,390	\$ 3,835,006
2004	2,110,000	430,945	2,540,945	896,603	3,437,548
2005	2,202,000	225,945	2,427,945	774,729	3,202,674
2006	2,210,000	238,081	2,448,081	650,069	3,098,150
2007	2,335,000	230,425	2,565,425	519,473	3,084,898
2008 - 2012	4,190,000	38,753	4,228,753	1,591,285	5,820,038
2013 - 2017	2,615,000	-	2,615,000	728,412	3,343,412
2018 - 2022	1,985,000	-	1,985,000	138,658	2,123,658
Total	<u>\$ 19,932,000</u>	<u>\$ 1,683,765</u>	<u>\$ 21,615,765</u>	<u>\$ 6,329,619</u>	<u>\$ 27,945,384</u>

The required minimum reserves are \$2,003,615 and \$1,272,192 for the Consolidated Educational Sinking Fund and the Housing and Dining Sinking Fund, respectively.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 13. Revenue Bonds, Notes Payable, and Capital Leases (cont'd)

Long term liability activity for the year ended June 30, 2002 was as follows:

	Original Issue	Balance due June 30, 2002	Interest Expense Current Year	Bonds/Notes Maturing 2002-03
<u>Housing and Dining System Revenue Bonds Payable</u>				
Series H bonds dated 9/1/65 with an interest rate of 3 3/8%. Final principal payment date 9/1/03. Elizabeth Hall and Springer Hall.	1,845,000	140,000	5,228	90,000
Series I bonds dated 9/1/65 with an interest rate of 3 5/8%. Final principal payment date 9/1/04. Hart Hall.	2,250,000	267,000	10,189	95,000
Series J bonds dated 9/1/65 with an interest rate of 3 3/4%. Final principal payment date 9/1/04. College Court III.	510,000	60,000	2,374	20,000
Series K bonds dated 9/1/65 with an interest rate of 3%. Final principal payment date 9/1/02. Hester Hall and White Hall.	3,280,000	235,000	8,768	235,000
Series L bonds dated 9/1/68 with an interest rate of 3%. Final principal payment date 9/1/08. Regents Hall.	2,000,000	1,200,000	35,572	155,000
Series M bonds dated 6/26/97 with an interest rate from 4% to 5.4%. Final principal payment date 9/1/17. Winslow Cafeteria.	825,000	715,000	36,165	30,000
Series N bonds dated 5/12/99 with an interest rate from 4.35% to 4.9%. Final principal payment date 9/1/18. Fire safety for residence halls.	6,370,000	5,950,000	263,193	225,000
Series O bonds dated 6/1/2001 with an interest rate from 4.00% to 5.00%. Final principal payment date 9/1/21. Hart Hall.	1,610,000	1,610,000	75,120	5,000
Total Housing and Dining System Revenue Bonds Payable	\$ 18,690,000	\$ 10,177,000	\$ 436,609	\$ 855,000

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 13. Revenue Bonds, Notes Payable, and Capital Leases (cont'd)

	Original Issue	Balance due June 30, 2002	Interest Expense Current Year	Bonds/Notes Maturing 2002-03
<u>Notes Payable</u>				
Ohio Valley Conference Dated 9/8/99 with interest rate of 6.0%. Final principal payment due 9/3/03.	\$ 56,625	\$ 22,064	\$ 1,986	\$ 10,696
GE Capital Public Finance, Inc. Date 6/22/00 with interest rate of 5.86%. Final principal payment due 8/1/02.	15,603	5,220	595	5,221
Total Notes Payable	\$ 72,228	\$ 27,284	\$ 2,581	\$ 15,917
<u>MSU Foundation Payable</u>				
Other liabilities - MSU Foundation Various notes for purchase of academic equipment. Final principal due 4/02/08.	256,513	132,134	13,299	27,780
Total MSU Foundation Payable	\$ 256,513	\$ 132,134	\$ 13,299	\$ 27,780
<u>Capital Leases</u>	\$ 2,915,285	\$ 2,024,588	\$ 103,156	\$ 158,457
Total all bond issues, notes payable, and capital leases	\$ 40,914,026	\$ 23,380,590	\$ 1,242,653	\$ 2,935,857
Campus Backbone Networking - Master Lease dated 1/25/98 with interest of 4.23% to 4.35%. Final principal payment due 2/25/04.	1,500,000	497,350	27,889	294,154
Total Masterlease Payable	\$ 2,695,000	\$ 1,524,347	\$ 67,203	\$ 475,919

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 13. Revenue Bonds, Notes Payable, and Capital Leases (cont'd)

Capital Leases:

The University leases certain equipment and facilities, under capital lease agreements. The recorded cost of these assets and accumulated depreciation thereon as of June 30, 2002 are \$2,912,285 and \$1,798,126, respectively. Remaining minimum annual lease payments pursuant to these leases are as follows:

Year Ending June 30	Equipment	Buildings	Total
2003	\$ 82,051	\$ 179,585	\$ 261,636
2004	78,622	179,629	258,251
2005	52,503	179,428	231,931
2006	-	178,974	178,974
2007	-	179,259	179,259
2008 - 2012	-	896,781	896,781
2013 - 2017	-	896,423	896,423
	<u>213,176</u>	<u>2,690,079</u>	<u>2,903,255</u>
Less amount representing interest	(14,587)	(864,079)	(878,666)
Present value of capital lease obligations	<u>\$ 198,589</u>	<u>\$ 1,826,000</u>	<u>\$ 2,024,589</u>

Note 14. **Unrestricted Net Assets**

The University's designations of unrestricted net assets consisted of:

	<u>June 30, 2002</u>
Unrestricted net assets:	
Allocated for:	
Prior year carryovers:	
Renovation and maintenance	\$1,116,259
Departmental operations	6,218,467
Encumbrances	835,867
General contingency	6,843,477
Self insurance	<u>900,000</u>
Total unrestricted net assets	<u>\$15,914,070</u>

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 15. Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omission; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, natural disasters, and employee health benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The state of Kentucky self-insures workers' compensation benefits for all state employees, including University employees. Claims are administered by Risk Management Services Corporation.

Note 16. Contingencies and Commitments

The University is a defendant in various lawsuits. It is the opinion of management and its legal counsel, based in part on the doctrine of sovereign immunity and other statutory provisions, that the ultimate outcome of litigation will not have a material effect on the future operations or financial position of the University.

The University has outstanding commitments under construction contracts of approximately \$4,600,000 as of June 30, 2002.

Note 17. Natural Expense Classifications with Functional Classifications

The University's operating expenses by functional classification were as follows:

Fund Classification	Year ended June 30, 2002						
	Natural Classification						Total
	Compen- sation & Benefits	Operations	Utilities	Non Capitalized Property	Scholarships	Depreciation	
Instruction	\$ 37,071,237	\$ 5,653,463	\$ -	\$ 664,659	\$ 42,058	\$ -	\$ 43,431,417
Research	1,131,339	578,199	-	80,775	300	-	1,790,613
Public Service	3,844,178	1,115,564	-	190,443	-	-	5,150,185
Academic Support	3,342,451	1,707,120	-	640,767	550	-	5,690,888
Libraries	1,410,791	6,504	-	21,147	-	-	1,438,442
Student Services	6,136,446	3,377,169	-	47,313	2,941	-	9,563,869
Institutional Support	8,767,086	486,903	-	262,968	-	-	9,516,957
Operations and Maintenance	4,877,175	2,171,095	4,396,413	87,012	-	-	11,531,695
Financial Aid	35,205	48,945	-	855	5,626,992	-	5,711,997
Auxiliary	4,693,852	8,954,210	-	62,813	61,902	-	13,772,777
Depreciation	-	-	-	-	-	6,144,645	6,144,645
Total Expenses	\$ 71,309,760	\$ 24,099,172	\$ 4,396,413	\$ 2,058,752	\$ 5,734,743	\$ 6,144,645	\$ 113,743,485

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 18. **Segment Information**

The University's Housing and Dining System was established by the 1965 Trust Indenture. The Housing and Dining System, as defined by this trust indenture, includes all the student housing, dining, and student center facilities, and related enterprises facilities that now exist at the main campus in Murray, Kentucky. The University issues revenue bonds for this system to finance certain of its housing and dining auxiliary enterprise activities. These bonds will be payable from and will constitute a charge upon the gross revenue to be derived by the University from the operation of its Housing and Dining System. The revenues of the system consist of the gross amount of rentals received by the University for the use and occupancy of the facilities of the housing system and the net income from dining operations. These revenues do not include those generated by the University bookstore.

Condensed financial information of the University's Housing and Dining segment is as follows:

	June 30, 2002
CONDENSED BALANCE SHEET	
Assets:	
Current assets	\$ 2,878,314
Noncurrent assets	2,859,330
Capital assets, net of accumulated depreciation	4,839,634
Total assets	\$10,577,278
Liabilities:	
Current liabilities	\$ 5,975,382
Noncurrent liabilities	10,313,400
Total liabilities	16,288,782
Net Assets:	
Invested in capital assets, net of related debt	(5,137,199)
Restricted for:	
Expendable:	
Capital	931,634
Debt service	1,591,128
Unrestricted	(3,097,067)
Total net assets	(5,711,504)
Total liabilities and net assets	\$10,577,278

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 18. Segment Information (cont'd)

	For the year ended <u>June 30, 2002</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	
Operating revenues	\$10,230,555
Operating expenses	9,722,930
Depreciation expense	575,828
	(68,203)
Nonoperating revenues(expenses)	(1,592,081)
	(1,660,284)
Net Assets - beginning of year, as originally reported	14,058,309
Cumulative effect of change in accounting principle	(18,109,529)
Net Assets - beginning of year, as restated	(4,051,220)
Net Assets - end of year	\$(5,711,504)
 CONDENSED STATEMENT OF CASH FLOWS	
Net cash flows provided (used) by:	
Operating activities	\$ 1,479,981
Noncapital financing activities	79,298
Capital and related financing activities	(1,300,676)
Investing activities	3,278
Net increase in cash	261,881
Cash - beginning of year	2,328,034
Cash - end of year	\$ 2,589,915

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 19. Change in Accounting Principle

As discussed in Note 1, the University adopted GASB Nos. 34 and 35 during the 2002 fiscal year. The cumulative effect of adoption has been recorded as an adjustment of previously reported net assets as of July 1, 2001.

Prior to the adoption of GASB Nos. 34 and 35, the University did not record depreciation on capital assets. To comply with the requirements of these statements, the University prepared detail cost records for all capital assets and the related accumulated depreciation on those capital assets as of July 1, 2001. As part of this process, the University raised the threshold above which capital assets are recognized and deleted previously recorded capital assets with a cost below the revised threshold.

Per GASB No. 33, the timing of recognition of pledges receivable for endowment and the related revenue was affected. The University previously recognized pledges receivable and the related revenue when the pledge was received. Upon adoption of the new statements, pledges receivable and the related revenue are not recognized until the new resources are actually received (the pledges are collected).

The cumulative effect of the change in accounting principle are as follows:

Recognition of accumulated depreciation on capital assets:	
Buildings	\$ 74,687,280
Library holdings	16,063,662
Equipment	10,353,059
Nonbuilding improvements	3,152,857
Total	<u>104,256,858</u>
Deletion of previously recognized capital assets due to revised capitalization threshold:	
Buildings	167,013
Non-building improvements	5,092,232
Equipment	18,336,554
Total	<u>23,595,799</u>
Adjustment to remove pledge receivable:	
Pledge receivable at June 30, 2001	<u>422,553</u>
Cumulative effect of change in accounting principle	<u><u>\$ 128,275,210</u></u>

In addition to the change described above, there was a significant change to the overall form and content of the University's financial statements.