

Murray State University

Accountants' Report and Financial Statements

June 30, 2002



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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

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

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>

Murray State University
Management's Discussion and Analysis

Statement of Cash Flows

Murray State University
Management's Discussion and Analysis

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

Independent Accountants' Report

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

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	26,416,812

Noncurrent assets:

Restricted cash and cash equivalents	21,491,017
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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:	

REVENUES

Operating revenues:

Student tuition and fees	\$ 33,937,341
Less discounts and allowances	(13,155,310)
Net tuition and fees	20,782,031
Federal grants and contracts	10,430,411

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	1,604,524
Net increase in cash and cash equivalents	7,422,976
Cash and cash equivalents, beginning of year	32,798,445
Cash and cash equivalents, end of year	\$ 40,221,421

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

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

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

Investments

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

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)

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	<u>588,645</u>
Total current loans receivable	<u>686,620</u>
Noncurrent loans receivable:	
Federal Nursing program	305,406
Federal Perkins program	<u>3,464,306</u>
Total noncurrent loans receivable	<u>3,769,712</u>
 Total loans receivable	 <u><u>\$4,456,332</u></u>

**MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS**

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MURRAY STATE UNIVERSITY

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 (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;

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	23,595,799
Adjustment to remove pledge receivable:	
Pledge receivable at June 30, 2001	422,553
Cumulative effect of change in accounting principle	\$ 128,275,210