

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 18, 2003

**NEW ISSUE
NOT BANK-QUALIFIED
BOOK-ENTRY ONLY**

**RATING: Moody's " __"
(See "Rating" Herein)**

In the opinion of Bond Counsel for the Bonds, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the University, and subject to the conditions and limitations set forth herein under the caption "TAX EXEMPTION," interest on the Bonds is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes. Interest on the Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. See "TAX EXEMPTION" herein.

\$4,285,000*

**MOREHEAD STATE UNIVERSITY
HOUSING AND DINING SYSTEM REVENUE BONDS, SERIES R**

Dated: June 1, 2003

Due: November 1, as shown below

The Bonds will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds bear interest from June 1, 2003, payable semiannually, on May 1 and November 1, commencing November 1, 2003. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by Central Bank & Trust Company, Lexington, Kentucky, as Trustee. The Bonds shall be issued only as fully registered bonds in the denomination of \$5,000, or integral multiples thereof, and shall mature on November 1, in accordance with the following schedule:

<u>Year</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Price/ Yield</u>	<u>Year</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Price/ Yield</u>
2003	\$160,000			2013	\$210,000		
2004	160,000			2014	215,000		
2005	165,000			2015	225,000		
2006	170,000			2016	235,000		
2007	170,000			2017	245,000		
2008	175,000			2018	255,000		
2009	185,000			2019	265,000		
2010	190,000			2020	275,000		
2011	195,000			2021	290,000		
2012	200,000			2022	300,000		

(Plus Accrued Interest-when issued)

The Bonds are subject to optional redemption prior to their stated maturities on any date on or after November 1, 2013 as described herein.

The Bonds constitute special obligations of Morehead State University and do not constitute a debt, liability or obligation of the Commonwealth of Kentucky nor a pledge of the full faith and credit of the Commonwealth. Principal of and interest on the Bonds are payable solely from the revenues of the Housing and Dining System, as more fully described herein.

The Bonds are issued subject to the approval of legality by Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Delivery of the Bonds is expected on or about July 9, 2003 in New York, New York, through the facilities of DTC.

First Kentucky Securities Corporation
Financial Advisor

*Preliminary; subject to change

Dated: _____, 2003

This Preliminary Official Statement and information contained herein are subject to change, completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MOREHEAD STATE UNIVERSITY

PRESIDENT

Dr. Ronald G. Eaglin

BOARD OF REGENTS

Mr. Buckner Hinkle, Jr., Chairman	Dr. Charles H. Morgan, Faculty Representative
Mr. James H. Booth, Vice Chairman	Ms. Helen Pennington, Member
Mr. Gene Caudill, Member	Mr. Jason Rainey, Student Representative
Ms. Jean Dorton, Member	Dr. Charles M. Rhodes, Member
Ms. Virginia (Ginni) Fox, Member	Mr. Jerry Umberger, Member
Ms. Sylvia Lovely, Member	

BOND COUNSEL

Peck, Shaffer & Williams LLP
Covington, Kentucky

FINANCIAL ADVISOR

First Kentucky Securities Corporation
Frankfort, Kentucky

PAYING AGENT, REGISTRAR AND TRUSTEE

Central Bank & Trust Company
Lexington, Kentucky

REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds of Morehead State University identified on the cover page hereof. No person has been authorized by Morehead State University to give any information or to make any representation other than that contained in the Official Statement, and if given or made such other information or representation must not be relied upon as having been given or authorized by Morehead State University or the Financial Advisor. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Morehead State University since the date hereof.

Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency, except Morehead State University, will pass upon the accuracy or adequacy of this Official Statement or approve the Bonds for sale (see "APPROVAL OF ISSUANCE OF BONDS").

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OFFICIAL STATEMENT RELATING TO
\$4,285,000*
MOREHEAD STATE UNIVERSITY
HOUSING AND DINING SYSTEM REVENUE BONDS, SERIES R

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page and the Exhibits appended hereto, is being distributed by Morehead State University (the "University") to furnish pertinent information to all who may become owners of its Housing and Dining System Revenue Bonds, Series R (the "Bonds") authorized to be issued pursuant to the provisions of Section 162.340, 162.380, and 58.010 to 58.140, inclusive, of the Kentucky Revised Statutes, and pursuant to the terms of a Trust Indenture (the "Indenture") dated as of November 1, 1966, as supplemented by a First Supplemental Trust Indenture dated as of February 1, 1968, a Second Supplemental Trust Indenture dated as of June 1, 1989, a Third Supplemental Trust Indenture dated as of May 1, 1990, a Fourth Supplemental Trust Indenture dated as of October 1, 1991, a Fifth Supplemental Trust Indenture dated as of June 1, 2000, a Sixth Supplemental Trust Indenture dated as of June 1, 2000, a Seventh Supplemental Trust Indenture dated as of July 1, 2001, an Eighth Seventh Supplemental Trust Indenture dated as of June 1, 2003 and a Ninth Supplemental Indenture dated as of June 1, 2003 (the "Ninth Supplemental Indenture") between the Board of Regents of the University (the "Board") and Central Bank & Trust Company, Lexington, Kentucky (the "Trustee").

The summaries and references to Sections of the Kentucky Revised Statutes, the Indenture, and the Ninth Supplemental Indenture included in this Official Statement, do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document.

MOREHEAD STATE UNIVERSITY

The University, located in Morehead, Rowan County, Kentucky, was established in 1922 by an act of the General Assembly of the Commonwealth of Kentucky. The University's current name was adopted in 1966 pursuant to an act of the General Assembly. The governing body of the University, the Board of Regents, is a body corporate and an educational institution and agency of the Commonwealth, consisting of eight citizen members appointed by the Governor of Kentucky. A student, faculty and staff representative also serve on the Board and are elected by their respective peers. The government of the University is vested in the Board and the Board has general supervision of lands, buildings, and other properties of the University, subject to the statutes of the Commonwealth of Kentucky.

The University was established primarily for the purpose of training teachers, administrators and supervisors for the elementary and secondary schools of the state, but has over the years expanded its facilities and curriculum to serve as a general regional institution of higher learning. Academically, the University is organized into four colleges: the College of Science and Technology; the College of Education and Behavioral Sciences; the College of Humanities and the College of Business.

The University offers seventy-six undergraduate degree programs and twelve pre-professional programs of study. The University offers the Associate Degree in Arts, Applied Business, Applied Sciences, and Nursing. The University offers the Bachelor Degree in Business Administration and in Arts: Music, Music Education, Sciences, Social Work, University Studies, and Nursing. The Master of Arts Degree is offered in Adult and Higher Education, Art, Communications, Education, English, Health, Physical Education and Sport Sciences, Psychology, School Administration, Sociology, and Teaching.

* Preliminary, subject to change.

The Master of Science Degree is offered in Biology, Industrial Education, and Career/Technical Education. Other Master's degrees include the Master of Business Administration, and Master of Music. The Post-Master's Degree of Ed.S is offered, as well as programs leading to an Ed.D or Ph.D. offered cooperatively with the University of Kentucky. The University also offers eleven non-degree and certification programs at the graduate level.

The University plant is valued at more than \$100 million and consists of some 60 buildings located on approximately 808 acres of land in Rowan County, Kentucky.

THE BONDS

General

The Bonds will be dated June 1, 2003, will be issued in fully registered form and in denominations of \$5,000 or any integral multiples thereof, will mature as to principal and will bear interest as set forth on the cover page of this Official Statement. Interest accruing on the Bonds will be payable semiannually on May 1 and November 1 of each year commencing November 1, 2003 to holders of record on the preceding April 15 and October 15, respectively.

Redemption Provisions

The Bonds maturing on and after November 1, 2014, shall be subject to redemption by the Board prior to maturity, in whole or in part, in the inverse order of their maturities (less than all of a single maturity to be selected by lot), on any date, on or after November 1, 2013, at a redemption price equal to the principal amount of the Bonds called for redemption, plus unpaid interest accrued to the date of redemption, without premium.

THE PROJECT

The Bonds are being issued for the purpose of financing the installation of fire safety equipment at Regents Hall, Wilson Hall, Nunn Hall, Normal Hall, Waterfield Hall and Butler Hall.

DISPOSITION OF BOND PROCEEDS

The Bond proceeds will be applied to the hereinafter described funds, as follows:

(a) The amount received from the purchaser(s) representing accrued interest from June 1, 2003, to the date of delivery, will immediately be deposited into the Housing and Dining System Revenue Bond and Interest Sinking Fund Account maintained by the Trustee.

(b) The amount, if any, required to make the amount held in the System Debt Service Reserve held by the Trustee (the "System Debt Service Reserve") equal to the maximum aggregate principal and interest coming due on outstanding Housing and Dining System Revenue Bonds in any year will be deposited therein.

(c) The amount of the proceeds of the Bonds necessary to pay the cost of issuance of the Bonds will be set aside into the Housing and Dining System Cost of Issuance Account, Series R (the "Series R Cost of Issuance Account") to be maintained by the Trustee and used to pay all expenses incident to the issuance, sale and delivery of the Bonds, including the fee of the Financial Advisor, the rating fees and such other appropriate expenses as may be approved by the Board. Any unused balance after the payment of the costs of issuance will be transferred to the Housing and Dining System Revenue Bond and Interest Sinking Fund Account.

(d) The balance of the proceeds of the Bonds will be deposited to the Morehead State University Housing and Dining System Construction Fund, Series R (the "Series R Construction Fund"), to be maintained by the Treasurer of the Commonwealth of Kentucky.

SECURITY FOR THE BONDS

The Bonds, together with the University's outstanding Housing and Dining System Revenue Bonds, being the Series H, I, N, O, P and Q Bonds and any additional parity bonds which may hereafter be issued and outstanding under the terms of the Indenture (the "Housing and Dining System Revenue Bonds"), will be payable from and will constitute a charge upon the Revenues (as defined in the Indenture) to be derived by the University from the operation of its "Housing and Dining System". The Housing and Dining System may be described generally as all the student housing and dining facilities, the student activity center, appurtenant facilities and related auxiliary enterprises now existing at the main campus of Morehead State University in Morehead, Rowan County, Kentucky.

The Revenues of the Housing and Dining System consist of the gross amount of rentals generated to the University from the use and occupancy of the facilities of the Housing and Dining System. The Revenues of the Housing and Dining System may also be expanded to consist of the gross amounts generated by a Student Activity Fee and net income from the operation of Dining Facilities, but only to the extent that either or both of these amounts would be irrevocably and irreducibly established by the Board and ordered to be segregated and pledged as constituting Revenues of the Housing and Dining System. Such revenues are known as the Housing and Dining System Revenues and the University covenants that the same will be fixed (and, if necessary, revised and increased from time to time) at such rates as may be required to pay the interest on and principal of the Housing and Dining System Bonds as they respectively mature, to provide reserves therefor and to pay the operating costs of the Housing and Dining System Project to the extent they are not otherwise provided. All collections of the above mentioned Housing and Dining System Revenues are to be set aside, as received into the Housing and Dining System Revenue Fund, as defined herein, and are made subject to a first lien and paramount charge for the security and source of payment of all outstanding Housing and Dining System Revenue Bonds.

By Resolutions adopted on August 21, 1964, May 15, 1967, January 30, 1968, June 19, 1989, March 27, 1990, March 23, 2000, June 18, 2001 and March 13, 2003 and ratified and confirmed by a Resolution adopted on June 13, 2003, the Kentucky State Property and Buildings Commission has recognized a binding and continuing contractual commitment of the Commonwealth to pay the cost of operation and maintenance of the Housing and Dining System to the extent that Revenues shall be insufficient therefore, after providing for the payment of principal and interest on all outstanding Housing and Dining System Revenue Bonds heretofore issued or which may hereafter be issued with the approval of the Commission.

Notwithstanding the commitment described in the preceding paragraph, the Bonds are not secured by any appropriations of the Commonwealth. The General Assembly of the Commonwealth is not legally obligated, now or in the future, to make appropriations to the University. Historically, however, funding for a portion of the cost of University operations has been provided through the general fund budget of the Commonwealth (the "State Budget"), see APPENDIX A – MOREHEAD STATE UNIVERSITY GENERAL FUND STATE APPROPRIATIONS.

The Commonwealth operated under the Governor's Executive Spending Plan until the General Assembly enacted a budget at the conclusion of the 2003 Regular Session, which concluded March 25, 2003.

As further security for Housing and Dining System Revenue Bonds, there is created and granted by Sections 162.350 and 162.200 of the Kentucky Revised Statutes a statutory lien upon the Project of the University on a parity with all Housing and Dining System Revenue Bonds outstanding.

Housing and Dining System Revenue Bonds are additionally secured by the System Debt Service Reserve (as hereinafter defined) established by the Indenture.

SOURCES AND USES OF FUNDS

The sources and uses of funds in connection with the issuance of the Bonds are as follows:

Sources of Funds

Principal Amount of Bonds	\$4,285,000.00*
Less Original Issue Discount	()
Accrued Interest	
Total Sources of Funds	

Uses of Funds

Construction Fund	
Deposit to System Debt Service Reserve Fund	
Underwriter's Discount	
Accrued Interest	
Costs of Issuance	
Total Uses of Funds	

*Preliminary; subject to change

CERTAIN PROVISIONS OF THE TRUST INDENTURE

System Revenue Fund

Under the terms of the Indenture, there is established a special fund known as "Morehead State University Housing and Dining System Revenue Bonds Revenue Fund Account" (the "System Revenue Fund"). Said fund is held in the custody of the Treasurer of the Board, separate and apart from all other funds of the University. There shall be deposited into the System Revenue Fund all revenues of the Housing and Dining System as defined in the Indenture and as described in summary elsewhere herein under "Security For the Bonds."

System Sinking Fund

Under the terms of the Indenture, there is also established a separate account designated the "Morehead State University Housing and Dining System Revenue Bond and Interest Sinking Fund Account" (the "System Sinking Fund"). So long as any of the Bonds are outstanding, the System Sinking Fund shall be maintained and deposited with the Trustee and shall be used to pay principal and interest on all Housing and Dining System Revenue Bonds outstanding and to accumulate a reserve therefor. Upon delivery of any Housing and Dining System Revenue Bonds issued under the terms of the Indenture, there shall be deposited into the System Sinking Fund the accrued interest, if any.

Commencing with the October 1 next following the delivery date for the issuance of the Bonds, the University shall transfer from the System Revenue Fund, as the first charge thereon, and deposit to the credit of the System Sinking Fund on or before each succeeding April 1 or October 1 an amount which, together with sums as may then be available in said System Sinking Fund, shall be equal to the next

succeeding interest payment to become due on the outstanding Housing and Dining System Revenue Bonds and an amount equal to one-half of the principal payment to become due in the next succeeding twelve months. In addition to the principal and interest payments, an amount equal to 25% of the average annual debt service requirement for any new parity issue must be paid annually to the System Sinking Fund until the Debt Service Reserve equals the maximum debt service to become due on all outstanding Housing and Dining System Revenue Bonds in any succeeding year.

All moneys held in the System Sinking Fund shall be secured and invested by the Trustee as provided in the Indenture. The System Sinking Fund is pledged irrevocably for the purpose of paying the interest and principal of the Housing and Dining System Revenue Bonds secured by the Indenture and only such amount therein as may be in excess of the Debt Service Reserve may be used for retiring Housing and Dining System Revenue Bonds before maturity.

System Repair and Maintenance Reserve

Under the terms of the Indenture, there is established an account designated "Morehead State University Housing and Dining System Repair and Maintenance Reserve" (the "System Repair and Maintenance Reserve") to be held by the Trustee separate and apart from all other accounts and funds. Under the terms of the Indenture, the required balance was \$300,000 and the annual deposit was \$15,000. Upon the original issuance of Housing and Dining System Revenue Bonds and any additional parity bonds issued in the future, the Board has covenanted, after observing the priority of payments to the System Sinking Fund, to increase the annual transfer to the System Repair and Maintenance Reserve, in addition to the annual transfers required by the Indenture, by $\frac{1}{4}$ of 1% of the original amount of such parity bonds issued until the additional reserve equals 5% of such original principal amount of Housing and Dining System Revenue Bonds. In the first Supplemental Trust Indenture authorizing the Series J Bonds the Board increased and covenanted to annually deposit \$29,500 into the System Repair and Maintenance Reserve Fund until such balance aggregated \$590,000. In the Second Supplemental Trust Indenture authorizing the Series K Bonds, the Board increased and covenanted to annually deposit \$38,325 into the System Repair and Maintenance Reserve Fund until such balance aggregated \$766,500. In the Third Supplemental Trust Indenture authorizing the Series L Bonds, the Board increased and covenanted to annually deposit \$47,225 into the System Repair and Maintenance Reserve Fund until such balance aggregated \$944,500. In the Fourth Supplemental Trust Indenture authorizing the Series M Bonds, the Board increased and covenanted to annually deposit \$63,912.50 into the System Repair and Maintenance Reserve Fund until such balance aggregated \$1,278,250. In the Fifth Supplemental Trust Indenture authorizing the Series N Bonds, the Board increased and covenanted to annually deposit \$75,887.50 into the System Repair and Maintenance Reserve Fund until such balance aggregated \$1,517,750.

Balances held in the System Repair and Maintenance Reserve may be used for unusual or extraordinary costs of maintenance, repair, replacement or operation of the Housing and Dining System to the extent that they represent unanticipated deficiencies not previously budgeted. No withdrawal may be made from such reserve to the extent that the aggregate balance is reduced below the sum of \$ _____ except by resolution of the University determining that an emergency exists requiring such expenditure to preserve the tenantability and revenue-producing capacity of the Housing and Dining System. The Trustee may make withdrawals from the System Repair and Maintenance Reserve to the extent required to prevent a default in the payment of maturing principal of or interest on the Housing and Dining System Revenue Bonds, in the event moneys available in the System Sinking Fund and the System Debt Service Reserve shall be insufficient for such purposes.

Investment of Funds

Moneys held in the System Repair and Maintenance Reserve and any amount held in the System Sinking Fund in excess of principal and interest requirements for the ensuing twelve month period shall

be invested in direct or fully guaranteed obligations of the United States Government, maturing in not more than ten years. Moneys held in the System Sinking Fund for current principal and interest requirements (as distinguished from deposits for the System Debt Service Reserve) may be invested in direct or fully guaranteed obligations of the United States Government maturing or subject to redemption at the option of the holder not later than the time such funds must be disbursed.

Current Expenses

Current expenses of the Housing and Dining System shall be payable from the System Revenue Fund but only from such amounts as remain therein after compliance with payments to the System Sinking Fund and System Repair and Maintenance Reserve. If, after making the above payments, the remaining funds in the System Revenue Fund are insufficient to provide full payment of the operating and maintenance expenses of the Housing and Dining System, the Board will (a) impose such additional rentals as the Board may at its discretion determine to be economically feasible and consistent with the educational duties of the University, or (b) make up such deficiency from other sources in such manner as to constitute a binding contractual commitment of the University and of the Commonwealth of Kentucky over the entire life of the Bonds. A Resolution of the State Property and Buildings Commission, taking cognizance of this commitment on the part of the Commonwealth and authorizing the issuance of these bonds was adopted prior to the delivery of the Bonds. It has been held by the highest court of the Commonwealth that such covenant does not create an unconstitutional debt of the Commonwealth.

After making the required disbursements above, any moneys remaining at the close of each Fiscal Year in the System Revenue Fund may be used (a) to redeem or prepay principal of outstanding Housing and Dining System Revenue Bonds, (b) to improve or restore any existing housing or dining facilities or to provide additional facilities, or (c) for any other lawful purpose.

Additional Bonds

Additional Housing and Dining System Revenue Bonds ranking on a parity with the Bonds may be issued for the purpose of financing housing and dining facilities, and related auxiliary enterprises for educational purposes which may be added to or made parts of the Housing and Dining System and insofar as the Board is in full compliance with all of its undertakings in connection with all of its outstanding Housing and Dining System Revenue Bonds made payable from the Revenues of the Housing and Dining System. The Board shall cause to be filed with the Trustee a certificate signed by an officer, agent or employee of the Board who may be principally charged with the responsibility for the maintenance and repair of the Housing and Dining System, with such certificate approved by the President of the University and a resolution of the Board, showing that a physical inspection of the Housing and Dining System has been made and that the same is in good state of repair, provided also:

1. That the average of the audited annual Revenues of the Housing and Dining System for the last two fiscal years immediately preceding the issuance of such additional Housing and Dining System Revenue Bonds, and (a) the estimated annual Revenues to be derived from the facilities to be constructed with the proceeds of such additional Housing and Dining System Revenue Bonds, (b) the estimated annual Revenues to be derived from any buildings currently under construction and (c) the estimated annual Revenues to be derived from any buildings in operation for less than a full fiscal year, with such estimates adjusted for any increase or decrease in rates made effective during the period or to become effective the next academic year succeeding the issuance of such additional Housing and Dining System Revenue Bonds, were not less than 1.30 times the maximum amount which will be required for the payment of principal of and interest on the Housing and Dining System Revenue Bonds in any future fiscal year. The estimate of annual Revenues to be used are subject to certain restrictions as further set out in the Indenture. The Board may pledge as an additional source of payment for the Housing and Dining System Revenue Bonds the revenues of any buildings added to the Housing and Dining System

otherwise than through the issuance of Housing and Dining System Revenue Bonds, or any additional student fees.

2. In the event of the issuance of any additional Housing and Dining System Revenue Bonds, payment of interest shall become due on May 1 and November 1 of each year and the principal thereof shall be scheduled to become due on November 1 of any year in which principal is scheduled to become due.

Covenants of the Board

The Board covenants with the holders of the Bonds, among other things, the following:

1. That it will at all times maintain, preserve, and keep the Housing and Dining System in good condition, repair and working order and will make all needful repairs, replacements, additions, betterments and improvements so that the operations and business of the Housing and Dining System and every part thereof shall at all times be conducted properly and advantageously.

2. That it will procure and maintain so long as any of the Bonds are outstanding, fire and extended coverage insurance on the Housing and Dining System in amounts sufficient to provide full recovery when the loss does not exceed 80% of the full insurable value of the property, and also a minimum amount of \$50,000 of boiler explosion insurance.

3. That it will procure public liability insurance (including vehicular liability insurance) with limits of not less than \$100,000 for one person and \$300,000 for more than one person involved in one accident, providing provision is not otherwise made by law for disposition of such claims of such character as would be covered thereby.

4. That in the event any buildings leased to fraternities or sororities, which the Board has heretofore erected or may hereafter erect and finance under such leases, shall at any time cease to be subject to such lease financing agreements and shall become revenue producing facilities of the Board, the Board shall, by proper action on its part, constitute the same as parts of the Housing and Dining System, except under certain circumstances.

5. That it will keep accurate financial records and proper books relating to the Housing and Dining System, and such records and books shall be open to inspection by the bondholders and their agents and representatives, and that not later than 120 days after the close of each Fiscal Year it will furnish to any bondholders who shall request same in writing, an audit report prepared by an independent public accountant or by the state auditing official.

6. That it will establish such parietal rules, rental rates and charges as may be necessary to (a) assure maximum occupancy and use of the facilities of the Housing and Dining System and (b) provide, together with other funds herein pledged to payment of the Bonds, (i) the debt service on the Bonds, (ii) the required reserve therefor, (iii) the System Repair and Maintenance Reserve for which provision is made herein, and (iv) the operating and maintenance expenses of said facilities not provided from other sources.

THE HOUSING AND DINING SYSTEM

Morehead State University Housing and Dining System ("Housing and Dining System") refers to the housing and dining buildings, appurtenant facilities and related auxiliary enterprises located in Morehead, Rowan County, Kentucky, comprising portions of the University, identified as Alumni Tower, Butler Hall, Cartmell Hall, Cooper Hall, East Mignon Hall, Fields Hall, Mignon Hall, Mignon Tower, Nunn Hall, Regents Hall, Thompson Hall, Waterfield Hall, West Mignon Hall, Wilson Hall, the apartment buildings and laundry service building known as Lakewood Terrace, and the additional student

and student family dwelling units known as Normal Hall, Mays Hall Apartments, and Gilley Apartments. The Housing and Dining System may be added to in the future by including therein any other housing and dining facilities or related auxiliary enterprises in accordance with the provisions of the Indenture and Supplemental Indentures.

GENERAL OPERATIONS OF THE UNIVERSITY

Board of Regents

Mr. Buckner Hinkle, Jr., Chairman	Attorney
Mr. James H. Booth, Vice Chairman	Businessman and Entrepreneur
Mr. Gene Caudill	Staff Representative
Ms. Jean Dorton	Part-time Director of Institutional Advancement, Mayo Technical College & Prestonsburg Community College
Ms. Virginia (Ginni) Fox	Retired CEO of Kentucky Educational Television (KET)
Ms. Sylvia Lovely	Executive Director, Kentucky League of Cities
Dr. Charles H. Morgan	Faculty Representative
Ms. Helen Pennington	Principal, Morgan County Middle School
Mr. Jason Rainey	Student Representative
Dr. Charles M. Rhodes	Cardiologist
Mr. Jerry Umberger	Retired Educator

Administrative Officers

The President and chief administrative officer of the University is Dr. Ronald G. Eaglin. Mr. Michael R. Walters is the Vice President for Administration and Fiscal Services. Dr. Michael Moore is the Provost and Executive Vice President. Ms. Madonna B. Weathers is the Vice President for Student Life. Ms. Beth Patrick is the Vice President for Planning and Technology, Ms. Barbara A. Ender is the Vice President for Development, and Mr. Keith Kappes is the Vice President for University Relations. Their biographies follow:

Dr. Ronald G. Eaglin, President of the University. Dr. Ronald G. Eaglin became the 12th president of Morehead State University on July 1, 1992. Bringing nearly 30 years of experience in higher education administration to the University post, he previously was Chancellor of the University of South Carolina's Coastal College at Conway. A former Vice Chancellor for Academic Affairs at USC's Spartanburg campus, Dr. Eaglin began his career in higher education administration in the area of student life/housing and has taught both in public school and university settings. In the early 1970's, he served as Southeast Regional Director of the American College Testing Program (ACT). He holds a bachelor's degree in biology and mathematics from Southeast Missouri State University, a master's degree in student personnel administration from Southern Illinois University and a doctoral degree in educational psychology from the University of Utah. A graduate of Leadership South Carolina, he has been active in the NCAA President's Commission and is a former Vice Chairman of the Big South Atlantic Conference (Division I). Active in the American Association of State Colleges and University's, President Eaglin has served on numerous AASCU committees, including Chair of the Committee on Academic Affairs in 1989. He frequently serves as a consultant and often presents workshops for colleges on student retention, leadership and academic advisement. He has worked with numerous statewide projects in the Southeast, including the South Carolina Department of Education, Florida Student Articulation Committee, Tennessee Commission on Higher Education, Georgia Board of Regents and South Carolina Board for Technical and Comprehensive Education.

A member of several honorary societies such as Psi Chi and Phi Delta Kappa, Dr. Eaglin is also active in his community. As President of the University, Dr. Eaglin serves as a member of the Board of Directors of the Morehead-Rowan County Chamber of Commerce and the Jesse Stuart Foundation. He is a member of the Kentucky Council on Higher Education's Conference of Presidents.

Mr. Michael R. Walters, Vice President for Administration and Fiscal Services. Mr. Walters came to the University as Controller in 1978. He has held positions in the fiscal affairs of the University including Director of Business Services, Assistant and later, Associate Vice President for Fiscal Services prior to being promoted to Vice President. Walters is a two-time graduate of Morehead State University having earned a Bachelor of Business Administration degree with an area of concentration in accounting in 1970, and a Master of Business Administration degree in 1989. He also serves as treasurer of the University and the MSU Foundation, Inc. He is director, treasurer member of the executive committee of the Kentucky Folk Art Center, Inc. and serves on the Comprehensive University Committee of the Southern Association of College and University Business Officers. A Certified Public Accountant, he is a former partner of Kelley, Galloway and Company, Certified Public Accountants in Ashland, KY. He is also a Certified Governmental Financial Manager.

Dr. Michael Moore, Provost and Executive Vice President. Dr. Michael R. Moore was appointed Executive Vice President for Academic Affairs and Dean of Faculty on July 1, 1997. He was appointed Provost and Executive Vice President on September 22, 2001. Prior to assuming his position at Morehead State University, Dr. Moore had been an administrator and faculty member at Purdue University Calumet since 1983. He headed the Department of Communication and Creative Arts at PUC from 1983 to 1991, when he was named Dean of the School of Liberal Arts and Sciences.

Dr. Moore earned his bachelor's degree from Southern Illinois University-Carbondale, and his master's and Ph.D. degrees from the University of Missouri-Columbia. He is a frequent presenter for speech and communications organizations, and has authored and co-authored many scholarly publications and articles. He is the 1992 recipient of the Edgar L. Mills Award for Distinguished Service in Communication and has had several grants funded.

Ms. Madonna Weathers, Vice President for Student Life. A MSU alumnus, Ms. Weathers has been a member of the University's administrative staff since 1972 when she was named associate director of student housing. After thirteen years in that role, she became director of residence education in 1985, director of student support services in 1989 and director of student development in 1990. She holds a bachelor's degree in education and master's degrees in education and higher education from MSU. Weathers is currently serving a second term as chair of MSU's Staff Congress. She also was co-chair of the University's Campus Giving Campaign in 1999 and 2000 and served on the SACS Self Study Steering Committee, 1998-2000. Active in the community, she serves on the boards of the St. Claire Medical Center Foundation and Peoples Bank.

Ms. Beth Patrick, Vice President for Planning and Technology. Since joining the MSU staff in 1983 as a computer programmer/analyst in the Office of Computing Services, Patrick has served in various roles in information technology, including manager of user services, director and assistant vice president of information technology before being named associate vice president in July 2001. A Russell, KY native, Patrick earned a Bachelor of Business Administration degree with an option in data processing in 1982 and a master's degree in adult and higher education in 1997, both from MSU. She was recently accepted in the University of Kentucky's doctoral program to pursue and Ed.D. degree in educational administration. Active in various professional organizations and committees, she is currently vice chair of the Kentucky Information Technology Advisory Council for the Governor's Office of Technology.

Ms. Barbara A. Ender, Vice President for Development and Chief Executive Officer of MSU Foundation, Inc. Prior to joining MSU in 2001, Ms. Ender was the executive director of the IUP Foundation and senior development officer at Indiana University of Pennsylvania from 1997. Ender

earned a bachelor's degree in education from West Virginia University and a master's in education, counseling and student personnel from the University of Akron, and is a graduate of Harvard Graduate School of Education's Institute for the Management of Lifelong Education.

Keith Kappes, Vice President for University Relations. Mr. Keith Kappes, a native of Carter County, has served since August 1973 as the chief public relations officer of the University. As the University's Vice President for University Relations, he reports to President Ronald Eaglin and is responsible for supervision of the University's activities in legislative relations, media relations and marketing support.

A former newspaper, wire services and broadcast journalist, Mr. Kappes came to the University in 1969 as a writer for the campus news bureau. He held various administrative positions in institutional advancement before being promoted to Vice President on July 1, 1990. He also serves as a part-time faculty member in journalism.

FUTURE DEBT

The State may authorize other housing and dining projects at the University to be funded from proceeds of additional bonds issued by the University. In future years, the University expects to request approval to issue additional debt of the University.

TAX EXEMPTION

In the opinion of Bond Counsel for the Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Bonds is excludable from gross income for Federal income tax purposes and interest on the Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Bonds is of the opinion that interest on the Bonds is exempt from income taxation by the Commonwealth and the Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the Bonds is set forth in Appendix D, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Bonds. The University has covenanted to comply with certain restrictions designed to ensure that interest on the Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Bonds being includable in gross income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the tax status of the interest on the Bonds.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Bonds has rendered an opinion that interest on the Bonds is excludable from gross income for Federal income tax purposes and that interest on the Bonds is excludable from gross income for Kentucky income tax purposes, the ownership or disposition of, or the

accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Bonds on the tax liabilities of the individual or entity.

For example, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Similarly, tax-exempt interest may also increase the amount of any environmental tax owed under Section 59 of the Code, which is based on the alternative minimum taxable income of any corporation subject to that tax. Ownership or disposition of the Bonds may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, and increasing the federal tax liability of certain individual recipients of social security or Railroad Retirement benefits, under Section 86 of the Code. Ownership of any Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Bonds.

The University has **not** designated the Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

CONTINUING DISCLOSURE

In accordance with Securities and Exchange Commission Rule 15c2-12 (the "Rule"), the University (the "Obligated Person") will agree, pursuant to a Continuing Disclosure Agreement dated as of June 1, 2003 (the "Disclosure Agreement"), to be delivered on the date of delivery of the Bonds, to cause the following information to be provided:

(a) to each nationally recognized municipal securities information repository ("NRMSIR") and, if one is established for the Commonwealth, to its state information depository ("SID"), certain annual financial information and operating data, including audited financial statements prepared in accordance with generally accepted accounting principles, generally consistent with the information contained in Appendices A and C; such information shall be provided on or before 180 days following the fiscal year ending on the preceding June 30, commencing with the fiscal year ending June 30, 2003;

(b) to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to the SID, notice of the occurrence of certain events, if material, with respect to the Bonds, which events are as follows; and

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of security;
- (7) Modifications to rights of security holders;

- (8) Bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of the event;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing repayment of the securities;
- (11) Rating changes;
- (12) The cure, in the manner provided under the Resolutions, of any payment or nonpayment related default under the Resolutions; and
- (13) The issuance of any additional Housing and Dining System Revenue Bonds or other indebtedness on a parity with the Bonds.

(c) to each NRMSIR or to the MSRB and to the SID, notice of a failure (of which the Obligated Persons have knowledge) of an Obligated Person to provide the required Annual Financial Information on or before the date specified in the Disclosure Agreement.

The Disclosure Agreement provides holder of the Bonds, including beneficial owners of the Bonds, with certain enforcement rights in the event of a failure by the University to comply with the terms thereof; however, default under the Disclosure Agreement does not constitute an event of default under the Resolutions. The Disclosure Agreement may also be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Holders of the Bonds are advised that the Disclosure Agreement, the form of which is obtainable from the Financial Advisor, should be read in its entirety for more complete information regarding its contents.

Financial information regarding the University may be obtained from the Treasurer, Morehead State University, 201 Howell-McDowell Administration Building, University Boulevard, Morehead, Kentucky 40351-1689

PENDING LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the University taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds or the due existence or powers of the University.

APPROVAL OF LEGALITY

Legal matters incident to the authorization, issuance, sale and delivery of the Bonds are subject to the approval of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel to the University. The approving legal opinion of Bond Counsel will be printed on the Bonds and will contain a statement of tax exemption as represented herein. Bond Counsel has reviewed the information herein pertaining to the Bonds under the headings "The Bonds", "Security for the Bonds", "Certain Provisions of the Trust Indenture" and "Tax Exemption", and is of the opinion that such information is a fair summary of the principal provisions of the instruments and information therein described. Said firm has not otherwise participated in the preparation of the Official Statement or the Appendices attached hereto and has not verified the accuracy or completeness of the information contained under any heading other than those stated above, nor of any financial information, enrollment numbers, projections, or computations relating thereto, and therefore, can make no representation with respect to such information. A certification as to the matters set forth under "Pending Litigation" will be delivered by the University with the Bonds.

FINANCIAL ADVISOR

First Kentucky Securities Corporation, Frankfort, Kentucky, has acted as Financial Advisor to the University in connection with the issuance of the Bonds and will receive a fee, payable from Bond

proceeds, for their services. First Kentucky Securities Corporation, has also reserved the right to submit a bid for these bonds when they are sold at public or competitive bid.

APPROVAL OF ISSUANCE OF BONDS

Pursuant to Chapter 42 of the Kentucky Revised Statutes, issuance of the Bonds must be approved by the Kentucky Finance and Administration Cabinet, Office of Financial Management.

FINANCIAL STATEMENTS

The financial statements of the University as of June 30, 2002 are attached as Appendix C.

CERTIFICATE CONCERNING OFFICIAL STATEMENT

Concurrently with the delivery of the Bonds, the Treasurer of the Board of Regents will certify that, to the best of his knowledge, the Official Statement did not, as of the date of delivery of the Bonds, contain any untrue statements of a material fact or omit to state a material fact which should be included therein for the purpose for which the Official Statement is to be used, or which is necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading in any material respect.

COMPLETENESS OF OFFICIAL STATEMENT

The Board of Regents has approved and caused this Official Statement to be executed and delivered by its Chairman. This Official Statement is deemed final by the Board for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) as of the date hereof.

The financial information supplied by the Board of Regents and reported herein is represented by the Board to be correct. Only accounts required by Federal and State laws, rules and regulations to be audited annually by independent certified public accountants have been so audited and the financial information extracted from their annual audits and presented herein is incomplete to the degree that accounts not required to be so audited have not been included in the annual audits contained in Appendix C.

RATING

As noted on the cover page of this Official Statement, Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "____" to the Bonds. Such rating reflects only the view of said organization. Any explanation of the significance of such rating may only be obtained from the rating agency at the following address: Moody's Investors Service at 99 Church Street, New York, New York 10007, (212) 553-0300. There is no assurance that the rating will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

All quotations from, and summaries and explanations of, the Kentucky Revised Statutes and the Indenture, contained herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Indenture and Ninth Supplemental Indenture may be obtained from First Kentucky Securities Corporation, 305 Ann Street, Suite 400, Frankfort, Kentucky 40601, Attention: Mr. Stan Kramer, phone: (502) 875-4611 fax: (502) 227-2320.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. Except when otherwise indicated, the information set forth herein has been obtained from the University and has not been verified as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or Bond Counsel. This Official Statement is not to be construed as a contract or agreement between the University and the purchasers or owners of any of the Bonds.

MOREHEAD STATE UNIVERSITY

By: _____
Chairman, Board of Regents

Attest:

MOREHEAD STATE UNIVERSITY

By: _____
Secretary

APPENDIX A

**MOREHEAD STATE UNIVERSITY
HOUSING AND DINING SYSTEM REVENUE BONDS
SERIES R**

The University and the Housing and Dining System

GENERAL OPERATIONS OF THE UNIVERSITY

**Enrollment-Fall Semesters
Fall Semesters 1996-2002**

	<u>Total Headcount</u>	<u>Full Time Students</u>	<u>Part Time Students</u>	<u>FTEs</u>
Fall 2002				
Undergraduate	7,705	6,576	1,129	6,511
Graduate	<u>1,685</u>	<u>297</u>	<u>1,388</u>	<u>719</u>
Totals	<u>9,390</u>	<u>6,873</u>	<u>2,517</u>	<u>7,230</u>
Fall 2001				
Undergraduate	7,257	6,159	1,098	6,122
Graduate	<u>1,770</u>	<u>301</u>	<u>1,469</u>	<u>747</u>
Totals	<u>9,027</u>	<u>6,460</u>	<u>2,567</u>	<u>6,869</u>
Fall 2000				
Undergraduate	6,750	5,720	1,030	5,723
Graduate	<u>1,577</u>	<u>265</u>	<u>1,312</u>	<u>650</u>
Totals	<u>8,327</u>	<u>5,985</u>	<u>2,342</u>	<u>6,373</u>
Fall 1999				
Undergraduate	6,641	5,621	1,020	5,541
Graduate	<u>1,530</u>	<u>234</u>	<u>1,296</u>	<u>621</u>
Totals	<u>8,171</u>	<u>5,855</u>	<u>2,316</u>	<u>6,162</u>
Fall 1998				
Undergraduate	6,735	5,725	1,010	5,661
Graduate	<u>1,528</u>	<u>262</u>	<u>1,266</u>	<u>635</u>
Totals	<u>8,263</u>	<u>5,987</u>	<u>2,276</u>	<u>6,296</u>
Fall 1997				
Undergraduate	6,683	5,724	959	5,676
Graduate	<u>1,525</u>	<u>299</u>	<u>1,226</u>	<u>682</u>
Totals	<u>8,208</u>	<u>6,023</u>	<u>2,185</u>	<u>6,358</u>
Fall 1996				
Undergraduate	6,823	5,883	940	5,793
Graduate	<u>1,521</u>	<u>272</u>	<u>1,249</u>	<u>658</u>
Totals	<u>8,344</u>	<u>6,155</u>	<u>2,189</u>	<u>6,451</u>

**Student Admissions Data
Morehead State University**

<u>Academic Year</u>	<u>Applications Received (A)</u>	<u>Applications Accepted (A)</u>	<u>Percent Accepted</u>	<u>Applicants Enrolled (B)</u>	<u>% of Applicants Enrolled</u>	<u>ACT Composite Scores (C)</u>
1996-97	3,595	2,801	77.91%	2,052	57.08%	20
1997-98	3,531	3,006	85.13%	1,779	50.38%	20
1998-99	4,252	3,375	79.37%	1,897	44.61%	19.8
1999-00	4,958	4,039	81.46%	1,849	37.29%	20
2000-01	5,815	4,517	77.68%	2,660	45.74%	20

(A) Includes freshmen and graduate students. Transfer applicant and acceptance information not available.

(B) Includes freshmen, graduate students and transfers.

(C) First-time freshmen only.

**Student Admissions Data – First-Time Freshmen Only
Morehead State University**

<u>Academic Year</u>	<u>FTR Applications Received</u>	<u>FTR Applications Accepted</u>	<u>Percent Accepted</u>	<u>FTR Applicants Enrolled</u>	<u>% of Applicants Enrolled</u>	<u>ACT Composite Scores</u>
1998-99	3,784	2,928	77.38%	1,372	36.26%	19.8
1999-00	4,079	3,243	79.50%	1,342	32.90%	19.7
2000-01	4,881	3,631	74.39%	1,464	29.99%	20
2001-02	5,180	3,772	72.82%	1,587	30.64%	19.7
2002-03	5,122	3,706	72.35%	1,546	30.18%	19.8

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Comparative Report of Student Financial Aid

	1998-99	1999-00	2000-01	2001-02
GRANTS				
Federal Pell Grant	7,018,960	7,031,514	7,615,424	9,550,254
College Access Program Grant (CAP)	1,986,991	2,037,585	2,376,147	2,446,982
Federal Supplemental Ed.Opty Grant (SEOG)	386,656	458,523	471,252	470,249
	9,392,607	9,527,622	10,462,823	12,467,485
LOANS				
Federal Perkins Loan	546,177	704,984	629,964	518,040
William D. Ford Federal Direct Loan	11,958,090	12,063,184	13,708,206	15,149,922
William D. Ford Federal Direct PLUS Loan	327,440	460,117	602,241	748,464
Stafford Loan	0	0	0	0
PLUS/SLS Loan	0	0	0	0
Alternative Loan	308,680	315,260	521,645	637,243
	13,140,387	13,543,545	15,462,056	17,053,669
STUDENT EMPLOYMENT				
Federal Work Study	1,139,747	1,426,054	1,194,999	1,238,204
Institutional Work Study	1,094,669	1,217,915	1,303,586	1,235,024
	2,234,415	2,643,969	2,498,585	2,473,228
UNIVERSITY				
Scholarships	3,697,782	3,668,218	3,644,488	3,766,188
MISC AWARDS				
Athletic Scholarships	698,575	691,963	683,121	790,861
Teachers Scholarships	89,756	70,848	129,037	129,257
ROTC Scholarships	64,355	37,715	46,640	83,773
JTPA Scholarship	140,323	49,251	4,890	45,598
Misc Tuition Waiver	115,973	382,708	588,048	702,233
Vocational Rehabilitation	787,264	814,960	547,363	587,632
Graduate Assistants	241,882	325,423	397,967	463,747
KRS 164	107,190	97,278	95,368	137,865
PHEAA Grant	1,500	3,292	3,400	2,700
Vermont Student Asst. Grant	0	0	500	1,000
Faculty Staff Waiver	254,369	297,229	261,505	320,611
National Guard Tuition Waiver	98,550	89,990	99,935	188,104
Post Sec Ed Waiver	100,861	127,765	240,380	255,920
Ky. Edu. Excellence Scholarship (KEES)	-	439,869	1,082,730	1,978,802
Veterans Benefits	-	240,523	221,262	377,451
	2,700,598	3,668,814	4,402,146	6,065,554
TOTAL PROGRAM EXPENDITURES	<u>31,165,789</u>	<u>33,052,168</u>	<u>36,470,098</u>	<u>41,826,124</u>

Student Registration Fees

The Board of Regents, with approval of the Kentucky Council on Postsecondary Education, has established a schedule of Student Registration Fees to be imposed, charged and collected from all students attending the University. The schedule of fees effective with the fall term of 2000-2001 together with the previous schedule of fees are as follows:

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Semester Registration Fees					
Undergraduate					
Resident Students	\$1,135	\$1,220	\$1,255	\$1,355	\$1,463
Non-resident Students	\$3,055	\$3,240	\$3,335	\$3,602	\$3,890
Graduate					
Resident Students	\$1,235	\$1,320	\$1,355	\$1,467	\$1,584
Non-resident Students	\$3,355	\$3,540	\$3,645	\$3,932	\$4,247
Per Credit Hour Summer School					
Undergraduate					
Resident Students	\$95	\$102	\$105	\$113	\$122
Non-resident Students	\$255	\$270	\$278	\$301	\$325
Graduate					
Resident Students	\$138	\$147	\$151	\$163	\$176
Non-resident Students	\$373	\$394	\$405	\$437	\$472

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Capacity of Existing Housing System

<u>Facility</u>	<u>Co-ed</u>	<u>Residence Halls*</u>		<u>Totals</u>
		<u>Men</u>	<u>Women</u>	
Butler Hall	197			197
Cartmell Hall	512			512
Fields Hall	122			122
Mays Hall Apartments	121			121
Mignon Tower	300			300
West Mignon Hall	196			196
East Mignon Hall	188			188
Waterfield Hall	212			212
Mignon Hall			300	300
Nunn Hall			348	348
Regents Hall			198	198
Thompson Hall			110	110
University Farm		14	12	26
Alumni Tower		383		383
Cooper Hall		200		200
Gilley Apartments		40		40
Wilson Hall		198		198
Totals	<u>1,848</u>	<u>835</u>	<u>968</u>	<u>3,651</u>

* Married housing not included.

Housing Demand Data

<u>Fall Semester</u>	<u>Capacity</u>	<u>Occupancy</u>	<u>Occupancy Rate</u>
1996	3,463	2,880	83.16%
1997	3,463	2,886	83.34%
1998	3,455	2,975	86.11%
1999	3,455	2,949	85.35%
2000	3,455	3,145	91.03%
2001	3,651	3,266	89.45%
2002	3,651	3,240	88.74%

Housing and Dining System Revenues

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Rates</u> <u>Per Semester</u>	<u>Summer</u> <u>Terms</u>
1996	\$709-835	\$218-247
1997	744-877	229-259
1998	744-877	229-259
1999	816-956	251-282
2000	872-1,020	269-302
2001	872-1,020	269-302
2002	932-1,080	288-320
2003	1,008-1,160	306-338

Summary of Revenues and Expenditures

Housing and Dining System

	<u>Fiscal Year Ended June 30,</u>				
	1998	1999	2000	2001	2002
Revenues					
Housing Fees	\$5,340,299	\$5,559,354	\$5,834,102	\$6,394,317	\$6,916,394
Interest Income	<u>\$137,640</u>	<u>\$99,561</u>	<u>\$125,006</u>	<u>\$159,791</u>	<u>\$141,072</u>
Total Revenues	\$5,477,939	\$5,658,915	\$5,959,108	\$6,554,108	\$7,057,466
Expenditures (exclusive of debt service)					
Operating Expenditures	<u>\$4,699,700</u>	<u>\$4,166,811</u>	<u>\$3,923,371</u>	<u>\$3,855,896</u>	<u>\$4,293,991</u>
Excess of Revenues Over Expenditures	<u>\$778,239</u>	<u>\$1,492,104</u>	<u>\$2,035,737</u>	<u>\$2,698,212</u>	<u>\$2,763,475</u>
Annual Debt Service, Series A-O					
Principal	\$1,265,000	\$980,000	\$995,000	\$1,030,000	\$1,280,000
Interest	<u>\$854,254</u>	<u>\$798,446</u>	<u>\$749,373</u>	<u>\$1,151,968</u>	<u>\$983,109</u>
Total Debt Service	<u>\$2,119,254</u>	<u>\$1,778,446</u>	<u>\$1,744,373</u>	<u>\$2,181,968</u>	<u>\$2,263,109</u>

Schedule of Bonds Payable Morehead State University June 1, 2003

Consolidated Educational Buildings Revenue Bonds

	Issue Date	Original Issue Amount	Outstanding at June 1, 2003	Final Maturity Date
Series I	June 1, 1992	\$ 5,700,000	\$ 285,000	May 1, 2004
Series K	Feb. 1, 1995	7,055,000	4,790,000	May 1, 2014
Series L	Feb. 1, 2001	<u>4,875,000</u>	<u>4,765,000</u>	May 1, 2012
		<u>\$17,630,000</u>	<u>\$9,840,000</u>	

Housing & Dining System Revenue Bonds

Series H	Nov. 1, 1966	\$1,840,000	\$ 170,000	Nov. 1, 2004
Series I	Nov. 1, 1966	3,920,000	525,000	Nov. 1, 2005
Series N	June 1, 2000	4,790,000	4,500,000	Nov. 1, 2020
Series O	June 1, 2000	4,625,000	3,930,000	Nov. 1, 2010
Series P	July 1, 2001	5,125,000	4,945,000	Nov. 1, 2020
Series Q	April 1, 2003	<u>4,485,000</u>	<u>4,485,000</u>	Nov. 1, 2012
		<u>\$24,785,000</u>	<u>\$18,555,000</u>	

The calculation of estimated coverage of debt service requirements as set forth below is based on the schedule of annual debt service for the Housing and Dining System Revenue Bonds as shown herein. The Revenues as shown have been adjusted to reflect the increase in Housing and Dining System Fees as permitted by the Basic Resolution in calculation of coverage of debt service requirements.

Estimated Coverage of Debt Service Requirements

Calculation for Parity Bonds

(Minimum Allowable Coverage = 1.3x)

2000-2001 Adjusted Revenues	\$6,899,468
2001-2002 Adjusted Revenues	<u>6,942,151</u>
Total	<u>\$13,841,619</u>
Average Annual Revenues	\$6,920,810
Maximum Annual Debt Service Requirement	
Including Series R Bonds (est.) (occurs in fy 2005)	\$2,507,720
Times Maximum Debt Service Covered (est.)	5.5196x

STATE APPROPRIATIONS

The General Assembly of the Commonwealth of Kentucky, based on an initial request from the Governor, approves a biennial budget, which includes appropriations for all the Commonwealth's public universities. The following are the state appropriations the University receives substantial funding for general operations from the Commonwealth. Such state appropriations are not pledged as security for the bonds. The state appropriations contribute substantially to the successful maintenance and operation of the University and increases the ability of the University to generate Housing and Dining System Revenues. The following table shows state appropriations for the past six fiscal years:

<u>Fiscal Year Ending June 30</u>	<u>State Appropriation</u>
1997	\$34,007,500
1998	\$36,909,005
1999	\$38,812,512
2000	\$39,326,800
2001	\$40,326,200
2002	\$43,034,427

FISCAL YEAR 2003 BUDGET

The 2002-03 fiscal year unrestricted fund budget for Morehead State University is \$92,133,200.

APPENDIX B

**MOREHEAD STATE UNIVERSITY
HOUSING AND DINING SYSTEM REVENUE BONDS, SERIES R**

Estimated Total Annual Debt Service Requirements

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**MOREHEAD STATE UNIVERSITY
HOUSING AND DINING SYSTEM REVENUE BONDS**

ESTIMATED TOTAL ANNUAL DEBT SERVICE REQUIREMENTS

<u>Date</u>	<u>Existing D/S</u>	<u>Series R</u>			<u>Net New D/S</u>
		<u>Principal</u>	<u>Interest</u>	<u>Total P+I</u>	
June 30, 2004	\$ 2,197,084	\$ 160,000	\$ 137,185	\$ 297,185	\$ 2,494,269
June 30, 2005	2,198,946	160,000	146,904	306,904	2,505,850
June 30, 2006	2,110,791	165,000	143,774	308,774	2,419,565
June 30, 2007	1,933,734	170,000	140,339	310,339	2,244,073
June 30, 2008	1,941,306	170,000	136,514	306,514	2,247,820
June 30, 2009	1,950,316	175,000	131,958	306,958	2,257,274
June 30, 2010	1,950,674	185,000	126,529	311,529	2,262,203
June 30, 2011	1,611,398	190,000	120,385	310,385	1,921,783
June 30, 2012	1,320,175	195,000	113,742	308,742	1,628,917
June 30, 2013	1,318,611	200,000	106,780	306,780	1,625,391
June 30, 2014	779,041	210,000	99,398	309,398	1,088,439
June 30, 2015	782,119	215,000	91,534	306,534	1,088,653
June 30, 2016	783,561	225,000	83,171	308,171	1,091,732
June 30, 2017	778,128	235,000	74,199	309,199	1,087,327
June 30, 2018	775,662	245,000	64,596	309,596	1,085,258
June 30, 2019	776,055	255,000	54,344	309,344	1,085,399
June 30, 2020	779,215	265,000	43,421	308,421	1,087,636
June 30, 2021	775,113	275,000	31,877	306,877	1,081,990
June 30, 2022	779,215	290,000	19,657	309,657	1,088,872
June 30, 2023	0	300,000	6,675	306,675	306,675
Total	\$25,541,144	\$4,285,000	\$1,872,982	\$6,157,982	\$31,699,126

NOTE: All calculations have been rounded to the nearest dollar.

Source: Financial Advisor

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APPENDIX C

**MOREHEAD STATE UNIVERSITY
HOUSING AND DINING SYSTEM REVENUE BONDS, SERIES R**

Financial Statements as of June 30, 2002

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MOREHEAD STATE UNIVERSITY

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

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

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These financial statements differ significantly in both the form and the accounting principles utilized from financial statements presented in prior reports. The financial statements presented in prior years focused on accountability of funds, while these statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

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

The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The University's net assets (the difference between assets and liabilities) are one indicator of the University's financial health. Over time, increases or decreases in net assets can indicate improvement or erosion of the University's financial health. Changes in net assets should be considered in conjunction with non-financial factors such as enrollment levels and conditions of facilities.

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

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

Reporting Entity

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

Condensed Financial Information

Statement of Net Assets (in thousands)

Assets

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

Liabilities

Current liabilities	12,115
Noncurrent liabilities	37,831
Total Liabilities	49,946

Net Assets

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

Assets

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

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

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

Liabilities

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

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

Net Assets

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

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

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

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

Allocation of Unrestricted Net Assets (in thousands)

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

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

Operating Revenues

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

Operating Expenses

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

Operating Loss (39,969)

Nonoperating Revenues (Expenses)

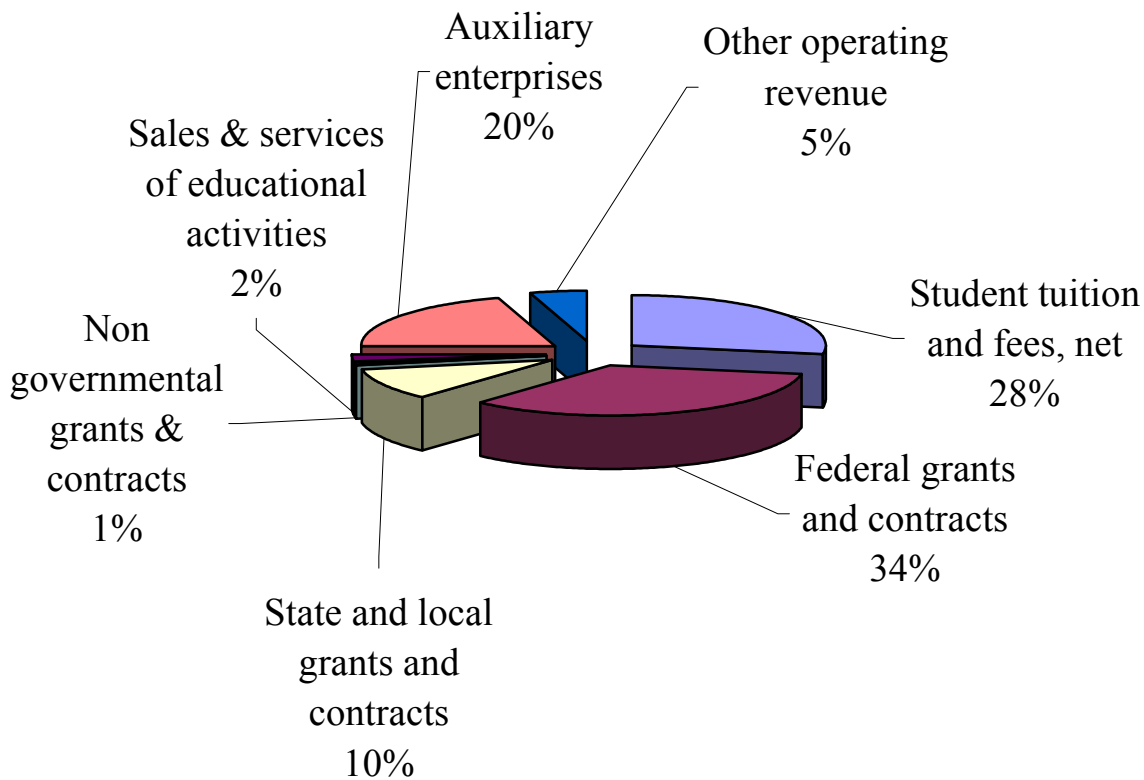
State appropriations	43,034
Gifts	661
Investment Income	657
Interest on capital asset- related debt	<u>(1,929)</u>
Total nonoperating revenues (expenses)	<u>42,423</u>

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

Revenues

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

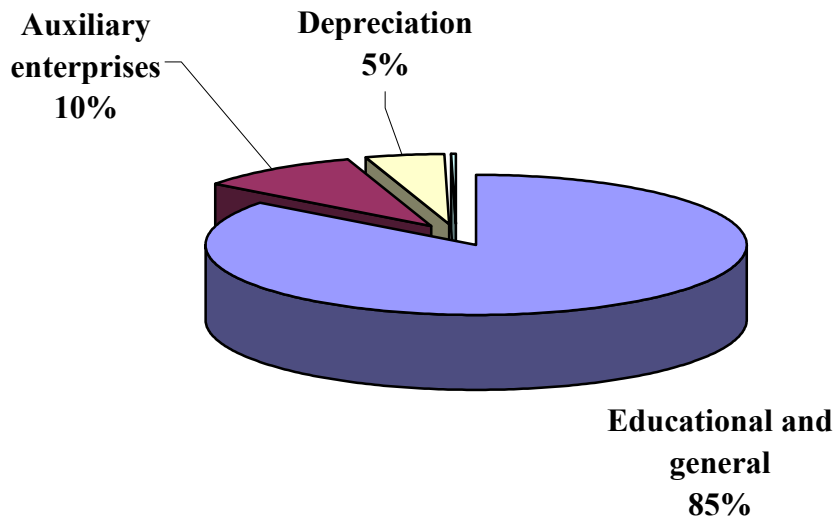
TOTAL OPERATING REVENUE



Expenses

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

TOTAL OPERATING EXPENSE



Cash Flows

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the University during the period. The Statement of Cash Flows also helps financial statement readers assess:

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

Statement of Cash Flows (in thousands)

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

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

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

Capital Asset and Debt Administration

Capital Assets

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

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

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

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

Debt

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

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

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

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

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

FACTORS IMPACTING FUTURE PERIODS

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

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

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statement of net assets of Morehead State University as of June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morehead State University as of June 30, 2002, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2002 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

The Management's Discussion and Analysis (MD&A) on pages 1 through 9 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Crowe, Chizek and Company LLP

Louisville, Kentucky
September 12, 2002

MOREHEAD STATE UNIVERSITY
STATEMENT OF NET ASSETS
June 30, 2002

ASSETS

Current assets

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

Noncurrent assets

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

LIABILITIES

Current liabilities

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

Noncurrent liabilities

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

NET ASSETS

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

See accompanying notes.

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

REVENUES

Operating revenues

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

EXPENSES

Operating expenses

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

Operating loss (39,969,118)

(Continued)

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

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

See accompanying notes.

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

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

(Continued)

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

**Reconciliation of net operating income (loss)
to net cash from operating activities**

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

See accompanying notes.

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

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

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

Basis of Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The University reports as a Business Type Activity (BTA). BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

Effective July 1, 2001, the University adopted GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 37. The University also adopted GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, on July 1, 2001. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- **Restricted:**
 - Nonexpendable*– Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University’s permanent endowment funds.

 - Expendable*– Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted:** Net assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

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

The financial statement presentation required by GASB Statement No. 35 is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows. It replaces the fund group perspective previously required.

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

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

Allowance for Doubtful Accounts: The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. The allowance represents an amount, which, in management's judgment, will be adequate to absorb probable losses on existing accounts that may become uncollectible.

Inventories: Inventories representing approximately 69% of total inventories at June 30, 2002, are stated at the lower of cost (first-in, first-out basis) or market. The remainder of the inventories is stated at the lower of moving-average-cost or market.

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

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

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

Capital Assets: Capital assets are stated at cost for purchased assets and at fair value at date of donation in the case of gifts. Expenditures, which increase values or extend useful lives of the respective assets are capitalized, whereas expenditures for maintenance and repairs are charged to expense as incurred. Depreciation of assets is computed using the straight-line method over the assets estimated useful lives. The University capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research and public service. Estimated lives used for depreciation purposes are as follows:

<u>Classification</u>	<u>Estimated Life</u>
Land improvements	20 years
Buildings	50 years
Vehicles	5-9 years
Equipment	5-15 years
Library books	10 years

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

Deferred Revenue: Deferred revenues include amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent reporting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Restricted Asset Spending Policy: The University's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Operating Activities: The University defines operating activities, as reported on the statement of revenues, expenses and changes in net assets, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, gifts and investment income, are recorded as nonoperating revenues, in accordance with GASB Statement No. 35.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

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

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Actual results could differ from the estimated amounts.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The statement of net assets classification "cash and cash equivalents" includes all readily available sources of cash such as petty cash, demand deposits, certificates of deposit and temporary investments in marketable securities with original maturities less than three months.

At June 30, 2002 the University had petty cash funds totaling \$115,969 and deposits as reflected by bank balances as follows:

Insured, commercial banks	\$ 316,447
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	17,248,186
Maintained by Commonwealth of Kentucky	<u>3,135,740</u>
	<u>\$ 20,700,373</u>

The difference in the cash-carrying amount per the statement of net assets and the above bank balances represented items in transit.

A portion of the University's investments are held in the state depository and invested by the Commonwealth's Office of Financial Management. Investments at cost with the Commonwealth as of June 30, 2002 were \$20,988,039. The University's investments are classified as to credit risk by the three categories described below:

Category 1: Insured or registered, with securities held by the University or its agent in the University's name.

Category 2: Uninsured and unregistered, with securities held by the counter party's trust department or agent in the University's name.

(Continued)

MOREHEAD STATE UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Category 3: Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent, but not in the University's name.

All of the University's investments are Category 1 and are as follows:

	<u>Cost</u>	(Carrying Value) Market <u>Value</u>	Unrealized Gain (<u>Loss</u>)
U. S. Government obligations	\$ 150,873	\$ 150,873	\$ -
Investments held in trust	9,549,810	8,804,240	(745,570)
Investments in state investment pool	<u>20,988,039</u>	<u>21,195,464</u>	<u>207,425</u>
	<u>\$ 30,688,722</u>	<u>\$ 30,150,577</u>	<u>\$ (538,145)</u>

NOTE 3 - ACCOUNTS, GRANTS AND LOANS RECEIVABLE

Accounts, grants and loans receivable consist of the following as of June 30, 2002:

Student tuition and fees	\$ 731,466
Student loans	3,596,556
Grants and contracts	3,204,108
Auxiliary enterprises	610,886
Other	<u>834,488</u>
	8,977,504
Less: allowance for doubtful accounts	<u>(471,407)</u>
	8,506,097
Current portion	<u>5,225,717</u>
Noncurrent portion	<u>\$ 3,280,380</u>

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 4 - CAPITAL ASSETS, NET

Capital assets as of June 30, 2002, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 8,507,603	\$ 628,941	\$ -	\$ 9,136,544
Buildings	120,307,187	22,435,421	-	142,742,608
Library books	13,351,412	923,691	-	14,275,103
Vehicles	1,586,687	242,647	74,697	1,754,637
Equipment and livestock	29,566,563	1,878,890	757,331	30,688,122
Art collection	66,075	-	-	66,075
Construction in progress	<u>13,782,784</u>	<u>17,248,442</u>	<u>24,790,972</u>	<u>6,240,254</u>
	187,168,311	43,358,032	25,623,000	204,903,343
 <u>Accumulated Depreciation</u>				
Land improvements	3,194,923	220,123	-	3,415,046
Buildings	59,358,830	2,513,769	-	61,872,599
Library books	10,281,294	641,526	-	10,922,820
Vehicles	1,317,897	111,782	65,517	1,364,162
Equipment and livestock	<u>21,987,317</u>	<u>1,795,926</u>	<u>690,460</u>	<u>23,092,783</u>
	<u>96,140,261</u>	<u>5,283,126</u>	<u>755,977</u>	<u>100,667,410</u>
 Capital assets, net	 <u>\$ 91,028,050</u>	 <u>\$ 38,074,906</u>	 <u>\$ 24,867,023</u>	 <u>\$ 104,235,933</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2002, are as follows:

Payable to vendors and contractors	\$ 1,753,174
Accrued vacation	1,350,898
Accrued salaries and other liabilities	<u>2,886,824</u>
	 <u>\$ 5,990,896</u>

(Continued)

MOREHEAD STATE UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002

NOTE 6 - DEFERRED REVENUE

Deferred revenue consists of the following as of June 30, 2002:

Unearned summer school tuition and fees	\$	677,471
Unearned grants and contracts		<u>1,729,302</u>
	\$	<u><u>2,406,773</u></u>

NOTE 7 - LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2002, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Housing and Dining System Revenue Bonds	\$ 15,970,000	\$ 5,125,000	\$ 1,480,000	\$ 19,615,000	\$ 1,360,000	\$ 18,255,000
Consolidated Educational Building Revenue Bonds	11,310,000	4,875,000	2,260,000	13,925,000	945,000	12,980,000
Capital lease obligations	2,578,344	133,875	823,887	1,888,332	688,651	1,199,681
Notes payable	<u>-</u>	<u>790,000</u>	<u>110,000</u>	<u>680,000</u>	<u>110,000</u>	<u>570,000</u>
Total bonds, notes and capital lease obligations	29,858,344	10,923,875	4,673,887	36,108,332	3,103,651	33,004,681
Federal refundable grants	<u>4,810,927</u>	<u>15,447</u>	<u>-</u>	<u>4,826,374</u>	<u>-</u>	<u>4,826,374</u>
Total long-term liabilities	<u>\$ 34,669,271</u>	<u>\$ 10,939,322</u>	<u>\$ 4,673,887</u>	<u>\$ 40,934,706</u>	<u>\$ 3,103,651</u>	<u>\$ 37,831,055</u>

The following is a summary of bonds, capital lease obligations and notes payable at June 30, 2002:

2.75 - 7.15% Housing and Dining System Revenue Bonds, Series D through P, repayable in annual installments with the final installment due June, 2021	\$ 19,615,000
5.50 - 6.875% Consolidated Educational Building Revenue Bonds, Series H, I, K, and L, repayable in annual installments with the final installment due May, 2014	13,925,000

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 7 - LONG-TERM LIABILITIES (Continued)

5.20% Capital lease obligation with a finance corporation, repayable in semi-annual installments with the final installment due April, 2004	298,333
6.00% Capital lease obligation with MSU Foundation, repayable in monthly installments with the final installment due February, 2009	119,929
5.00% Capital lease obligation with MSU Foundation, repayable in monthly installments with the final installment due February, 2019	213,752
4.55% Capital lease obligation with a finance corporation, repayable in semi-annual installments with the final installment due October, 2003	192,534
4.3531% Capital lease obligation with a finance corporation, repayable in semi-annual installments with the final installment due July, 2002	54,186
5.07% Capital lease obligation with a finance corporation, repayable in semi-annual installments with the final installment due January, 2005	635,695
5.04% Capital lease obligation with a finance corporation, repayable in semi-annual installments with the final installment due January, 2006	373,903
5.00% note payable to an individual, repayable in annual installments with the final installment due June, 2010	600,000
5.00% note payable to an individual, repayable in annual installments with the final installment due June, 2010	<u>80,000</u>
	<u>\$ 36,108,332</u>

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 7 - LONG-TERM LIABILITIES (Continued)

In order to retire the revenue bonds, the University is required to make deposits to sinking funds in annual amounts sufficient to meet the principal and interest payments due within the next twelve months. As of June 30, 2002, the reserve requirements have been fully funded.

The revenue bonds are collateralized by various buildings. The revenues derived from student registration fees and residence hall rental fees are pledged as collateral on the revenue bond issues.

The following is property held under capital lease obligations at June 30, 2002:

Equipment	\$ 3,762,432
Accumulated depreciation	<u>2,556,849</u>
	<u>\$ 1,205,583</u>

The following is a schedule by years of future minimum payments required for the capital lease obligations as of June 30, 2002:

Year Ending June 30,	Equipment <u>Leases</u>
2003	\$ 774,932
2004	547,783
2005	376,002
2006	144,921
2007	40,528
Thereafter	<u>259,037</u>
Total minimum lease payments	2,143,203
Less: amounts representing interest	<u>254,871</u>
Present value of minimum lease payments	<u>\$ 1,888,332</u>

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 7 - LONG-TERM LIABILITIES (Continued)

The principal and interest repayment requirements relating to the outstanding bonds and notes payable at June 30, 2002, are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 2,415,000	\$ 1,853,730	\$ 4,268,730
2004	2,460,000	1,630,215	4,090,215
2005	2,880,000	1,507,539	4,387,539
2006	2,935,000	1,368,657	4,303,657
2007	2,900,000	1,223,895	4,123,895
2008-2021	<u>20,630,000</u>	<u>5,412,176</u>	<u>26,042,176</u>
	<u>\$ 34,220,000</u>	<u>\$ 12,996,212</u>	<u>\$ 47,216,212</u>

NOTE 8 - PENSION PLAN

Kentucky Teachers Retirement System: All faculty and exempt employees required to hold a degree and occupying full-time positions, defined as seven-tenths (7/10) of normal full-time service on a daily or weekly basis, are required by state law to participate in the Kentucky Teachers Retirement System (KTRS). KTRS, a cost sharing, multiple-employer, public employee retirement system, provides retirement benefits based on an employee's final average salary and number of years service. Benefits are subject to certain reductions if the employee retires before reaching age sixty, unless the employee has twenty-seven or more years of participation in the plan. The plan also provides for disability retirement, death and survivor benefits, and medical insurance.

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

Funding for the plan is provided from eligible employees who contribute 6.16% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 13.84% of current eligible employees' salaries to the KTRS through appropriations to the University. Contribution requirements of the plan members and the University are established by Kentucky Revised Statute and the KTRS Board of Trustees. The University's contributions to KTRS for the years ending June 30, 2002, 2001 and 2000 were \$3,381,575, \$3,043,873 and \$3,043,267, respectively, equal to the required contributions for each year.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 8 - PENSION PLAN (Continued)

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

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

Funding for the plan is provided from eligible employees who contribute 5.00% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 5.89% of current eligible employees' salaries to the KERS through appropriations to the University. University contribution rates are determined by the Kentucky Revised Statute and the Board of Trustees of the Kentucky Retirement Systems each biennium. The University's contributions to KERS for the years ending June 30, 2002, 2001 and 2000 were \$540,971, \$580,052 and \$694,562, respectively, equal to the required contributions for each year.

Optional Retirement Plans: Optional retirement plans (ORP's) are available to employees hired on or after January 1, 1997, who would otherwise be participants in the Kentucky Teachers' Retirement System. The ORP is established as a 403(b) defined contribution plan under, the Internal Revenue Code guidelines. The providers of the University's ORP's are the Teachers Insurance and Annuity Association-College Retirement Equities Fund, Variable Annuity Life Insurance Company and Aetna Life Insurance and Annuity Company. Under these plans the employee's contribution is 6.16% of their gross salary and the University's contribution is 10.76% to the retirement company and 4.08% to Kentucky Teachers Retirement System. The University's contributions under these plans for the years ending June 30, 2002, 2001 and 2000 were \$220,759, \$134,616 and \$163,691, respectively, equal to the required contributions for each year.

NOTE 9 - LEASES

The University has operating lease agreements for use of equipment and various parcels of real estate cancelable annually with the option to renew. The University recognizes the expenditures related to those obligations as lease payments are made. Total rent expenses under operating type leases were approximately \$497,000 in 2002.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 10 - CONTINGENCIES AND COMMITMENTS

The University is defendant in several lawsuits; however, University management is of the opinion, based on advice of legal counsel, that the ultimate resolution of these litigation matters will not have a material effect on the future operations or financial position of the University.

The University has made certain commitments related to the completion of various construction in progress totaling approximately \$9,000,000. Such construction is principally financed by appropriations from the Commonwealth of Kentucky and proceeds from bonds.

NOTE 11 - SELF-INSURANCE PROGRAM

The University maintains a self-insurance program for employees' health and dental insurance. The University funds the plan at the single rate for all permanent full-time employees with the employees paying the difference between the single plan and the family plan, if applicable. Expenses incurred to cover claims paid by the University under the plan for fiscal year ending June 30, 2002 totaled \$4,490,435.

NOTE 12 - RISK MANAGEMENT

The University is exposed to various risks of loss from torts; theft of, damage to, destruction of assets; business interruption; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from theft of, damage to, destruction of assets; business interruption; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years. As a sovereign entity of the Commonwealth of Kentucky, the Kentucky Board of Claims handles tort claims on behalf of the University.

The Commonwealth of Kentucky operates a public entity risk pool operating as a common risk management and insurance program for its members. The University pays an annual premium to the pool for its workers' compensation insurance coverage. The pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 13 - KENTUCKY FOLK ART CENTER, INC.

The Kentucky Folk Art Center, Inc. (the KFAC) provides educational opportunities, benefits and programs to the public to enhance the awareness of and foster an appreciation and understanding of contemporary folk art. Under an operating agreement, the University provides office space and certain administrative services to the KFAC at no charge. As a result of the 1998 General Assembly's legislative decision to appropriate \$200,000 annually to KFAC as an affiliate of the University, the KFAC became an affiliated corporation in accordance with the provisions of KRS 164A.610. The financial statements of this affiliated corporation are reported upon separately.

NOTE 14 - MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

These financial statements do not include the assets, liabilities, fund balances and current revenues and expenditures relating to Morehead State University Foundation, Inc. (the Foundation). Under an operating agreement, the University is reimbursed for office space and certain administrative services provided to the Foundation. The financial statements of the Foundation are issued separately. The Foundation is a non-profit, non-affiliated Kentucky corporation formed for educational and charitable purposes in accordance with the provisions of ICRS 273. At June 30, 2002, the University has a receivable from the Foundation of approximately \$280,000.

NOTE 15 - SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specifically identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets, and liabilities, that are required by an external party to be accounted for separately. The University has one segment that meets the reporting requirements of GASB Statement No. 35, which is the University Housing and Dining System.

The Housing and Dining System is an organizational unit of the University that manages the University's student dormitory housing units. The gross revenues from the dormitory housing units are pledged for retirement of the Housing and Dining System Revenue Bonds.

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 15 - SEGMENT INFORMATION (Continued)

Condensed Statement of Net Assets at June 30, 2002

	<u>Housing and Dining</u>
Assets	
Current assets	\$ 6,353,129
Noncurrent assets	150,873
Capital assets, net	<u>21,401,486</u>
Total assets	<u>27,905,488</u>
Liabilities	
Current liabilities	1,360,000
Noncurrent liabilities	<u>18,255,000</u>
Total liabilities	<u>19,615,000</u>
Net assets	
Invested in capital, net of related debt	1,786,486
Restricted	<u>6,504,002</u>
Total net assets	<u>\$ 8,290,488</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2002

	<u>Housing and Dining</u>
Operating revenues	\$ 6,916,394
Operating expenses	(4,293,991)
Depreciation expense	<u>(655,366)</u>
Operating income	1,967,037
Nonoperating revenue	141,072
Nonoperating expenses	<u>(1,006,154)</u>
Excess of revenues over expenses	1,101,955
Transfers (to) from other University units	<u>-</u>
Change in net assets	1,101,955
Net assets, beginning of year	<u>7,188,533</u>
Net assets, end of year	<u>\$ 8,290,488</u>

(Continued)

MOREHEAD STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 15 - SEGMENT INFORMATION (Continued)

Condensed Statement of Cash Flows for the year ended June 30, 2002

	<u>Housing and Dining</u>
Net cash flows from operating activities	\$ 2,622,403
Net cash flows from investing activities	(1,912,151)
Net cash flows from capital and related financing activities	(166,435)
Net cash flows from non-capital financing activities	<u>-</u>
Net increase in cash and cash equivalents	543,817
Cash and cash equivalents, beginning of year	<u>2,138,471</u>
Cash and cash equivalents, end of year	<u>\$ 2,682,288</u>

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APPENDIX D

**MOREHEAD STATE UNIVERSITY
HOUSING AND DINING SYSTEM REVENUE BONDS, SERIES R**

Form of Bond Counsel Opinion

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[Date of Delivery]

Morehead State University
Morehead, Kentucky

Re: \$_____ Morehead State University Housing and Dining System Revenue Bonds,
Series R, Dated June 1, 2003

Gentlemen:

We have acted as bond counsel in connection with the issuance by the Board of Regents of Morehead State University, a public body corporate and educational institution and agency of the Commonwealth of Kentucky (the "Issuer") of \$_____ of Morehead State University Housing and Dining System Revenue Bonds, Series R, dated June 1, 2003 (the "Bonds") pursuant to Sections 162.340 to 162.380, inclusive, of the Kentucky Revised Statutes, as amended (the "Act"), a Trust Indenture dated as of November 1, 1966 (the "Indenture") and a Ninth Supplemental Trust Indenture, dated as of June 1, 2003 (the "Series R Supplemental Indenture"), between the Issuer and Central Bank & Trust Company, Lexington, Kentucky, as trustee. We have examined the law and the transcript of proceedings pursuant to which the Bonds have been authorized and issued, and such other matters as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the opinion of Jon Woodall, Esq., as General Counsel to the Issuer, representations of the Issuer contained in the Indenture and Series R Supplemental Indenture and in the transcript of proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The Issuer is a duly created and validly existing public body corporate and educational institution and agency of the Commonwealth of Kentucky, with full power to execute and deliver the Indenture and Series R Supplemental Indenture and perform the agreements on its part contained therein and issue the Bonds.

2. The Indenture and Series R Supplemental Indenture have been duly adopted by the Issuer and constitute valid and binding obligations of the Issuer enforceable upon the Issuer.

3. The Bonds have been duly authorized, executed and delivered by the Issuer and constitute valid and binding special obligations of the Issuer payable solely from the sources provided therefor in the Indenture and Series R Supplemental Indenture.

4. The Bonds and any additional parity bonds heretofore and hereafter issued and outstanding under the terms of the Indenture are and will be payable from and constitute a paramount charge upon the defined Revenues (gross amount of rentals and other user fees and charges for use and occupancy of the student housing and dining facilities) derived by the Issuer from the operation of its Housing and Dining System, which consists of all the housing facilities of the Issuer now in existence and hereafter acquired. As further security for the Bonds and any parity bonds heretofore or hereafter issued pursuant to the Resolution, there is created and granted by Sections 162.200 and 162.350 of the Kentucky Revised Statutes, as amended, a statutory mortgage lien upon the Housing and Dining System of the Issuer.

5. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest, including original issue discount, on the Bonds is excludible from gross income for Federal

income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Bonds.

6. Interest on the Bonds is exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

7. The Issuer has not designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Code.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Series R Supplemental Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting creditors' rights, and to the exercise of judicial discretion in accordance with general equitable principles.

Very truly yours,

APPENDIX E

**MOREHEAD STATE UNIVERSITY
HOUSING AND DINING SYSTEM REVENUE BONDS, SERIES R**

Book Entry Only System

BOOK ENTRY ONLY SYSTEM

The Bonds initially will be issued solely in book-entry form to be held in the book-entry only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners of Beneficial Ownership Interests, each as hereinafter defined, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Resolution and Series Resolution.

The following information about the book-entry only system applicable to the Bonds has been supplied by DTC. Neither the University nor the Trustee makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Bonds. The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for in the aggregate principal amount of the Bonds and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions-in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Trustee or the University, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the University or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the University or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The University may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

NEITHER THE UNIVERSITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT

PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A HOLDER WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Bonds.

The University cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the University believes to be reliable, but the University takes no responsibility for the accuracy thereof.

APPENDIX F

**MOREHEAD STATE UNIVERSITY
HOUSING AND DINING SYSTEM REVENUE BONDS, SERIES R**

Official Terms and Conditions of Bond Sale

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OFFICIAL TERMS AND CONDITIONS OF BOND SALE

Re: Morehead State University Housing and Dining System Revenue Bonds, Series R, dated June 1, 2003, in the principal amount of \$4,285,000*

DATE AND HOUR OF SALE

The Vice-President for Administration and Fiscal Services of Morehead State University, Morehead, Kentucky will until 10:00 A.M. E.D.S.T., June 25, 2003, in the office of the Vice-President for Administration and Fiscal Services of the University in Morehead, Kentucky, receive competitive, sealed bids for the purchase of \$4,285,000* of Morehead State University Housing and Dining System Refunding Revenue Bonds, Series R, dated June 1, 2003. Electronic bids may also be received via PARITY, as described below.

DESCRIPTION AND MATURITIES OF BONDS

The Series R Bonds bear interest from June 1, 2003, payable semiannually, on November 1 and May 1, commencing November 1, 2003, will be in the denomination of \$5,000 or any multiple thereof within the same maturity, are numbered R-1 and upward, and will mature and/or be subject to mandatory redemption on November 1 on each of the respective years, as follows:

<u>Maturity</u> <u>November 1</u>	<u>Amount*</u>	<u>Maturity</u> <u>November 1</u>	<u>Amount*</u>
2003	\$160,000	2013	\$210,000
2004	160,000	2014	215,000
2005	165,000	2015	225,000
2006	170,000	2016	235,000
2007	170,000	2017	245,000
2008	175,000	2018	255,000
2009	185,000	2019	265,000
2010	190,000	2020	275,000
2011	195,000	2021	290,000
2012	200,000	2022	300,000

*The principal maturities are subject to change as provided in the Ninth Supplemental

Trust Indenture pursuant to which the Series R Bonds will be issued.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series R Bonds. The Series R Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series R Bond certificate will be issued for each maturity of the Series R Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

Purchases of the Series R Bonds under the DTC system must be made by or through securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (the "Direct Participants"), which will receive a credit for the Series R Bonds on DTC's records. The ownership interest of each actual purchaser of each Series R Bond (a "Beneficial Owner") is in turn to be recorded on the records of Direct Participants or securities brokers and dealers, banks, and trust

*Preliminary, subject to change.

companies that clear through or maintain a custodial relationship with a Direct Participant (the "Indirect Participants"). Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series R Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series R Bonds, except in the event that use of the book-entry system for the Series R Bonds is discontinued.

The Series R Bonds shall be lettered and numbered from R-1 upward, or such numbering shall be made in such other appropriate manner as may be determined by the Trustee.

The person in whose name any Series R Bond is registered on the Record Date (June 15 or October 15) with respect to an interest payment date shall be entitled to receive the interest payable on such interest payment date (unless such Bond shall have been duly called for redemption on a redemption date which is prior to such interest payment date).

The Series R Bonds shall be subject to redemption from the proceeds of insurance, in the event of damage or destruction of properties constituting parts of the Housing and Dining System, as provided in the Trust Indenture;

The Series R Bonds maturing on and after November 1, 2014, shall be subject to redemption by the Board prior to maturity, in whole or in part, in the inverse order of their maturities (less than all of a single maturity to be selected by lot), on any date, on or after November 1, 2013, at a redemption price equal to the principal amount of the Series R Bonds called for redemption, plus unpaid interest accrued to the date of redemption, without premium.

If a Series R Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Series R Bond may be redeemed, but only in a principal amount equal to \$5,000 or any integral multiple thereof, if such Series R Bond is one of the maturities or amounts or part of the maturities or amounts called for redemption. Upon surrender of any Series R Bond for redemption in part, the Trustee shall (authenticate and) deliver an exchange Series R Bond or Series R Bonds in an aggregate principal amount equal to the unredeemed portion of the bond so surrendered.

The Trustee shall give notice of any redemption by sending at least one such notice by first class mail not less than thirty (30) and not more than sixty (60) days prior to the date fixed for redemption to the registered owner of each Series R Bond to be redeemed in whole or in part at the address shown on the Bond Register as of the date of mailing such notice; and interest on such Series R Bonds or portions thereof shall cease to accrue after the redemption date.

AUTHORITY AND PURPOSE

These Series R Bonds are being issued pursuant to the authority of Sections 162.340 through 162.380, inclusive, and 58.010 through 58.140, inclusive, of the Kentucky Revised Statutes, to provide funds for the installation of Phase IV fire safety projects at Regents Hall and Wilson Hall and Phase V fire safety projects at Nunn Hall, Normal Hall, Waterfield Hall and Butler Hall, which projects will be a part of the Housing and Dining System of Morehead State University as such system was established pursuant to the terms of a Trust Indenture between the Board of Regents of Morehead State University and Pikeville National Bank & Trust Company, which has been replaced by Central Bank and Trust Company, Lexington, Kentucky, Trustee, dated November 1, 1966, as authorized by a Resolution of the Board of Regents. The Board issued and has outstanding Morehead State University Housing and Dining System Revenue Bonds, Series H, I, N, O, P and Q (the "Outstanding Bonds"), issued pursuant to the Trust Indenture, the First Supplemental Trust Indenture dated February 1, 1968, the Second Supplemental

Trust Indenture dated June 1, 1989, the Third Supplemental Trust Indenture dated May 1, 1990, the Fourth Supplemental Trust Indenture dated October 1, 1991, the Fifth Supplemental Trust Indenture dated June 1, 2000, the Sixth Supplemental Trust Indenture dated June 1, 2000, the Seventh Supplemental Trust Indenture dated July 1, 2001, the Eighth Supplemental Trust Indenture dated April 1, 2003 and the Ninth Supplemental Trust Indenture dated June 1, 2003. The Series R Bonds are being issued on a parity as to security and source of payment with the Outstanding Bonds, pursuant to the Trust Indenture and a Ninth Supplemental Trust Indenture.

SECURITY

The Outstanding Bonds and any additional parity bonds hereafter issued and outstanding under the terms of the Trust Indenture, are and will be payable from and constitute a paramount charge upon the defined Revenues derived by the University from the operation of its Housing and Dining System. The Housing and Dining System may be described generally as all the student residence halls and certain related facilities.

As further security for the Series R Bonds there is created and granted by Sections 162.350 and 162.200 of the Kentucky Revised Statutes a statutory mortgage lien upon the Housing and Dining System of the University.

NOT QUALIFIED TAX EXEMPT OBLIGATIONS

Pursuant to the provisions of Section 265(b)(3) of the Code, the Board has **not** designated the Series R Bonds as "qualified tax-exempt obligations" within the meaning of the Code.

BIDDING CONDITIONS AND RESTRICTIONS

The public offering of the Series R Bonds is made up of the following specific conditions and provisions:

A. A minimum price is required for the entire issue of not less than \$4,199,300 (98% of par), plus accrued interest from the date of the Series R Bonds (June 1, 2003) to the date of delivery, payable in Federal Funds.

B. The successful bidder will be required to deposit with Central Bank & Trust Company, for the account of the Morehead State University, immediately available funds in an amount equal to 2% of the principal amount of Series R Bonds awarded, representing the good faith deposit, by the close of business on the day following the sale. The amount of the good faith deposit, without interest, will be deducted from the purchase price at the time of delivery of the Series R Bonds.

C. The determination of the best bid will be made on the basis of the lowest net interest cost calculated by computing the total interest payable on the Series R Bonds from June 1, 2003, through the Final Maturity Date, plus discount or less premium, as set forth in the Official Bid Form, for exactly \$4,285,000 of Series R Bonds under the terms and conditions therein specified. Upon determination of the lowest net interest cost, the final principal amount and the maturities of the Series R Bonds may be adjusted to provide for proper sizing of the debt service reserve. The successful bidder will be required to accept the final amount and maturities as so computed, whether the principal amount has been increased or decreased by up to \$425,000, and to pay the percentage purchase price based upon the aggregate amount of the final bond issue.

D. Bidders must state an interest rate or rates in multiples of 1/8, 1/10 or 1/20 of 1%, or both.

E. There is no limit on the number of different rates which may be specified in any bid.

F. All Series R Bonds of the same maturity shall bear the same and a single interest rate from the date thereof to maturity.

G. Interest rates must be on an ascending scale, in that the interest rate for Series R Bonds of any maturity may not be less than the interest rate stipulated for any preceding maturity.

H. Bidders may require that a portion of the Series R Bonds be term bonds maturing on one or more dates (the "Term Bonds"); provided, however, that such Term Bonds will be subject to mandatory redemption by lot at a redemption price of 100% of the principal amount thereof plus accrued interest to the date of redemption on November 1 of the years and in the principal amounts set forth in the maturity schedule above.

I. The right to reject bids for any reason deemed advisable by the Board of Regents and the right to waive any possible informalities, irregularities, or defects in any bid which, in the judgment of the Board, with the advice of the Financial Advisor, shall be minor or immaterial, is expressly reserved.

J. Bids shall be made on forms which, together with a Preliminary Official Statement, may be obtained at the office of the Vice President for Administration and Fiscal Services of the University or from the Financial Advisor, First Kentucky Securities Corporation, 305 Ann Street, Frankfort, Kentucky 40601, Attention Mr. Stan Kramer (502) 875-4611. Bids must be enclosed in sealed envelopes marked "Bid for Morehead State University Housing and Dining System Revenue Bonds, Series R" and bids must be received by the Vice-President for Administration and Fiscal Services of the University prior to the date and hour set for the sale. It is also possible to submit a bid by the delivery (including by facsimile) of a signed bid form to the Financial Advisor (502-227-2320) or University officials (606-738-5011) prior to the sale and completing the bid by telephone prior to the deadline for submitting bids. Bids may alternatively be submitted electronically via PARITY. For further information about PARITY, potential bidders may contact the Financial Advisor or Dalcomp at 40 West 23rd Street, 5th Floor, New York, NY 10010, tel: (212) 404-8102.

K. The purchasers of the Series R Bonds shall pay the CUSIP Service Bureau charge for the assignment of CUSIP numbers, which numbers will be printed on the Series R Bonds at no expense or cost to the purchasers. Neither the failure to print a CUSIP number on any Series R Bond, nor any error with respect thereto, shall constitute cause for a failure or refusal by the purchasers thereof to accept delivery of and pay for the Series R Bonds.

L. Delivery will be made at the Depository Trust Company, New York, New York, at no additional cost or expense to the purchasers. The Board will pay for the printing of the Series R Bonds, which will contain the opinion of Bond Counsel. Delivery is expected on July 9, 2003.

M. Upon wrongful refusal of the purchasers to take delivery of and pay for the Series R Bonds in Federal Funds when tendered for delivery, the good faith deposit shall be forfeited by such purchasers, and such amount shall be deemed liquidated damages for such default; provided, however, if the Series R Bonds are not ready for delivery and payment within forty-five (45) days from the date of sale herein provided for, said purchasers shall be relieved of any liability to accept the Series R Bonds hereunder. However, it is contemplated that the Series R Bonds will be delivered on a date during such period as may be designated by representatives of the Board, and the purchasers will be required to accept delivery of and pay for the Series R Bonds on any

designated date within such 45 day period upon notice being given at least five (5) business day prior to the designated delivery date.

N. If the successful bidder desires to obtain insurance guaranteeing the payment of the principal and/or interest on the Series R Bonds, the University agrees that it will cooperate with the successful bidder in obtaining such insurance, but all of the expenses and charges in connection therewith shall be borne by such bidder and the University shall not be liable to any extent therefor.

O. The successful bidder shall promptly advise the Financial Advisor of (i) the reoffering price for each maturity of the Series R Bonds, and (ii) the principal amount sold to the public of each principal maturity of the Series R Bonds on the reoffering date.

P. Bidders are advised that First Kentucky Securities Corporation, of Frankfort, Kentucky, has been employed as Financial Advisor in connection with the issuance of these Series R Bonds. Their fee for services rendered with respect to the sale of the Series R Bonds is contingent upon the issuance and delivery of the Series R Bonds. They may submit a bid for the purchase of the Series R Bonds at the time of the advertised public sale of the Series R Bonds, either individually or as members of a syndicate organized to submit a bid for the purchase of the Series R Bonds.

The Board of Regents has agreed to provide or cause to be provided, in accordance with the requirements of Rule 15c2-12, as amended and interpreted from time to time (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), (i) on or prior to 270 days after the end of each fiscal year, certain annual financial information and operating data, including audited financial statements for the preceding fiscal year, generally consistent with the information contained in the Official Statement, and (ii) timely notice of the occurrence of certain material events with respect to the Series R Bonds.

The purchaser's obligation to purchase the Series R Bonds shall be conditioned upon its receiving, at or prior to the delivery of the Series R Bonds, in form and substance reasonably satisfactory to the purchaser, evidence that the Board of Regents has made the continuing disclosure undertaking set forth above for the benefit of the holders of the Series R Bonds.

The Board of Regents shall provide to the successful purchaser a final Official Statement in accordance with the Rule. Arrangements have been made with the printer of the Preliminary Official Statement, upon submission of completion text, to print a reasonable quantity of final Official Statements in sufficient time to meet the delivery requirements of the successful bidder under SEC or Municipal Securities Rulemaking Board Delivery Requirements, which Official Statements will be provided at the expense of the Board.

The Board of Regents will furnish to the purchasers the customary No Litigation Certificate and the final, approving Legal Opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, without expense to the purchasers.

Concurrently with the delivery of the Series R Bonds, the Treasurer of the Board of Regents will certify that, to the best of his knowledge, the Official Statement did not, as of its date, and does not, as of the date of delivery of the Series R Bonds, contain any untrue statement of a material fact or omit to state a material fact which should be included therein for the purpose for which the Official Statement is to be used, or which is necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading in any material respect.

TAX EXEMPTION

In the opinion of Bond Counsel for the Series R Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series R Bonds is excludable from gross income for Federal income tax purposes and interest on the Series R Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Series R Bonds. The University has covenanted to comply with certain restrictions designed to ensure that interest on the Series R Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Series R Bonds being includable in gross income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Series R Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series R Bonds may adversely affect the tax status of the interest on the Series R Bonds.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series R Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series R Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Series R Bonds has rendered an opinion that interest on the Series R Bonds is excludable from gross income for Federal income tax purposes and that interest on all Series R Bonds is excludable from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series R Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Series R Bonds on the tax liabilities of the individual or entity.

For example, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Similarly, tax-exempt interest may also increase the amount of any environmental tax owed under Section 59 of the Code, which is based on the alternative minimum taxable income of any corporation subject to that tax. Ownership or disposition of the Series R Bonds may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, and increasing the federal tax liability of certain individual recipients of social security or Railroad Retirement benefits, under Section 86 of the Code. Ownership of any Series R Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Series R Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Series R Bonds.

The University has not designated the Series R Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

The Board reserves the right to amend the Ninth Supplemental Trust Indenture pursuant to which the Series R Bonds are issued without obtaining the consent of the owners of the Series R Bonds (i) to whatever extent shall, in the opinion of Bond Counsel, be deemed necessary to assure that interest on the Series R Bonds shall be exempt from Federal income taxation, and (ii) to whatever extent shall be permissible (without jeopardizing such tax exemption or the security of the owners of the Series R Bonds) to eliminate or reduce any restrictions concerning the project financed by the Series R Bonds, the investment of the proceeds of the Series R Bonds, or the application of such proceeds or of the revenues of the project financed by the Series R Bonds. The purchasers of the Series R Bonds will be deemed to have relied fully upon these covenants and undertakings on the part of the Board as part of the consideration for the purchase of the Series R Bonds. To the extent that the Board obtains an opinion of nationally recognized bond counsel to the effect that non-compliance with any of the covenants contained in the Ninth Supplemental Trust Indenture would not subject interest on the Series R Bonds to Federal income taxation or Kentucky income taxation, the Board is not required to comply with such covenants and requirements.

If, prior to the delivery of the Series R Bonds, any event shall occur which alters the tax-exempt status of the Series R Bonds, the purchaser shall have the privilege of voiding the purchase contract by giving immediate written notice to the Board of Regents, whereupon the amount of the good faith deposit of the purchaser will be returned to the purchaser, and all respective obligations of the parties will be terminated.

Bond Counsel has reviewed the Official Statement with regard to all matters pertaining to the legality and tax exemption of the Series R Bonds, including statements concerning the authority, purpose and security of the Series R Bonds; but Bond Counsel has not reviewed any of the financial statements or other financial information in the Official Statement, and expresses no opinion thereon and assumes no responsibility in connection therewith.

/s/ Carol Johnson

Secretary, Board of Regents,
Morehead State University

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APPENDIX G

**MOREHEAD STATE UNIVERSITY
HOUSING AND DINING SYSTEM REVENUE BONDS, SERIES R**

Official Bid Form

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OFFICIAL BID FORM

\$4,285,000*

Morehead State University

Housing and Dining System Revenue Bonds, Series R

Dated: June 1, 2003

Subject to the terms and conditions set forth in the Official Terms and Conditions of Sale of Bonds, providing for the sale of \$4,285,000* of Morehead State University Housing and Dining System Revenue Bonds, Series R, dated June 1, 2003 (the "Series R Bonds"), and in accordance with the notice of sale of the Series R Bonds as advertised, to all of which the undersigned agrees, the undersigned hereby submits the following offer to purchase the Series R Bonds.

We hereby bid for said \$4,285,000* principal amount of Series R Bonds, the sum of \$_____ (not less than \$4,199,300) (98%), plus accrued interest from June 1, 2003, to the date of delivery, at the following annual interest rates:

SCHEDULE OF PRINCIPAL AMOUNTS AND INTEREST RATES

<u>Maturity</u> <u>November 1</u>	<u>Principal*</u> <u>Amount</u>	<u>Serial</u> <u>Bond</u> <u>Rate</u>	<u>Term</u> ¹ <u>Bond</u> <u>Rate</u>	<u>Maturity</u> <u>November 1</u>	<u>Principal*</u> <u>Amount</u>	<u>Serial</u> <u>Bond</u> <u>Rate</u>	<u>Term</u> ¹ <u>Bond</u> <u>Rate</u>
2003	\$160,000	_____	_____	2013	\$210,000	_____	_____
2004	160,000	_____	_____	2014	215,000	_____	_____
2005	165,000	_____	_____	2015	225,000	_____	_____
2006	170,000	_____	_____	2016	235,000	_____	_____
2007	170,000	_____	_____	2017	245,000	_____	_____
2008	175,000	_____	_____	2018	255,000	_____	_____
2009	185,000	_____	_____	2019	265,000	_____	_____
2010	190,000	_____	_____	2020	275,000	_____	_____
2011	195,000	_____	_____	2021	290,000	_____	_____
2012	200,000	_____	_____	2022	300,000	_____	_____

¹Bidders may elect to structure the maturities to include term bonds with mandatory sinking fund redemptions. To bid term bonds, put interest rate in Term Bond Rate column.

We understand that this bid may be accepted for as much as \$4,710,000 of Bonds and for as little as \$3,860,000 of Bonds, at the same price per \$1,000 of Bonds as the price bid per \$1,000 of Bonds by the undersigned with the variation in such amount being adjusted as determined at the time of acceptance of the best bid.

We understand that the Board of Regents will furnish the final, approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky. We agree that if we are the successful bidder, immediately available funds in an amount equal to 2% of the principal amount of Bonds awarded, payable to Morehead State University, will be deposited in Central Bank & Trust Company, Lexington, Kentucky, by federal wire transfer, ABA No. 042100146 prior to the end of the business day on June 26, 2003, in accordance with the Notice of Bond Sale and the Official Terms, with the understanding that the amount thereof, without interest, will be deducted from the purchase price of the Series R Bonds when tendered to us for delivery. If we are the successful bidder, we agree to accept and make payment for the Series R Bonds in accordance with the terms of sale.

*Preliminary, subject to change.

Respectfully submitted,

By: _____

Title: _____

Total interest cost from June 1, 2003, to final maturity	\$ _____
Less premium bid or plus discount, if any	\$ _____
Net interest cost	\$ _____
Average interest rate or cost	\$ _____

The above computations of net interest cost and of average interest rate or cost, submitted for information only and are not part of this Bid.

ACCEPTANCE OF BID WITH ADJUSTMENT OF MATURITY AMOUNTS

Accepted by the Board of Regents of Morehead State University, with the change in maturities of Series R Bonds being as follows:

<u>Maturity</u> <u>November 1</u>	<u>Principal</u> <u>Amount</u>	<u>Maturity</u> <u>November 1</u>	<u>Principal</u> <u>Amount</u>
2003	\$ _____	2013	\$ _____
2004	_____	2014	_____
2005	_____	2015	_____
2006	_____	2016	_____
2007	_____	2017	_____
2008	_____	2018	_____
2009	_____	2019	_____
2010	_____	2020	_____
2011	_____	2021	_____
2012	_____	2022	_____

Accepted this 25th day of June, 2003.

MOREHEAD STATE UNIVERSITY

By: _____
Vice President for Administration and Fiscal Services

APPENDIX H

**MOREHEAD STATE UNIVERSITY
HOUSING AND DINING SYSTEM REVENUE BONDS, SERIES R**

Form of Continuing Disclosure Agreement

FORM OF CONTINUING DISCLOSURE AGREEMENT

Relating to:

\$ _____
MOREHEAD STATE UNIVERSITY
HOUSING AND DINING SYSTEM REVENUE BONDS,
SERIES R

Dated as of: June 1, 2003

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THIS CONTINUING DISCLOSURE AGREEMENT (the "Agreement") is made and entered into as of June 1, 2003, between Central Bank & Trust Co., as disclosure agent (the "Disclosure Agent") and Morehead State University (the "Issuer").

RECITALS

WHEREAS, the Issuer has issued or will issue its Housing and Dining System Revenue Bonds, Series R in the original aggregate principal amount of \$ _____ (the "Bonds") pursuant to a Ninth Supplemental Trust Indenture dated as of June 1, 2003, as supplemented from time to time (collectively, the "Indenture") between the Issuer and Central Bank & Trust Co., as trustee for the purpose of financing the installation of Phase IV fire safety projects at Regents Hall and Wilson Hall and Phase V fire safety projects at Nunn Hall, Normal Hall, Waterfield Hall and Butler Hall (collectively, the "Project"); and

WHEREAS, the Bonds have been offered and sold pursuant to a Preliminary Official Statement, dated June 18, 2003, and a final Official Statement, dated June 25, 2003 (the "Offering Document"); and _____ has agreed to purchase the Bonds based on its competitive bid pursuant to the Issuer's Notice of Bond Sale) as to the Bonds (the "Original Purchaser"); and

WHEREAS, the Disclosure Agent and the Issuer, wish to provide for the disclosure of certain information concerning the Bonds, the Project and other matters on an ongoing basis as set forth herein for the benefit of Bondholders (as hereinafter defined) in accordance with the provisions of Securities and Exchange Commission Rule 15c2-12, as amended from time to time (the "Rule");

NOW, THEREFORE, in consideration of the mutual promises and agreements made herein and in the Indenture, the receipt and sufficiency of which consideration is hereby mutually acknowledged, the parties hereto agree as follows:

Section 1. Definitions; Scope of this Agreement.

(A) All terms capitalized but not otherwise defined herein shall have the meanings assigned to those terms in the Indenture, as amended and supplemented from time to time. Notwithstanding the foregoing, the term "Disclosure Agent" shall originally mean the Trustee, or any successor trustee under the Indenture; any such successor disclosure agent shall automatically succeed to the rights and duties of the Disclosure Agent hereunder, without any amendment hereto. The following capitalized terms shall have the following meanings:

"Annual Financial Information" shall mean a copy of the annual audited financial information prepared for the Issuer which shall include, a balance sheet, a statement of revenue and expenditure and a statement of changes in fund balances. All such financial information shall be prepared using generally accepted accounting principles, provided, however, that the Issuer may change the accounting principles used for preparation of such financial information so long as the Issuer includes as information provided to the public, a statement to the effect that different accounting principles are being used, stating the reason for such change and how to compare the financial information provided by the differing financial accounting principles.

"Beneficial Owner" shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Bondholders" shall mean any holder of the Bonds and any Beneficial Owner thereof.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Material Event" shall mean any of the events listed in items (i) through (xiii) below the occurrence of which the Issuer obtains knowledge, and which the Issuer determines would constitute material information for Bondholders, provided, that the occurrence of an event described in clauses (i), (iii), (iv), (v), (viii), (ix) and (xi) shall always be deemed to be material. The following events with respect to the Bonds, if material, shall constitute Material Events:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) Modifications to rights of security holders;
- (viii) Bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event;
- (ix) Defeasances;
- (x) Release, substitution or sale of property securing repayment of the securities;
- (xi) Rating changes;
- (xii) The cure, in the manner provided under the Indenture, of any payment or nonpayment related default under the Indenture; and
- (xiii) The issuance of any Additional Bonds or other indebtedness on a parity with the Bonds.

The SEC requires the listing of (i) through (xiii) although some of such events may not be applicable to the Bonds.

"NRMSIR" shall mean any nationally recognized municipal securities information repository, as such term is used in the Release.

"Operating Data" shall mean an update of the Operating Data contained in Appendix A of the Offering Document.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Release" shall mean Securities and Exchange Commission Release No. 34-34961.

"SEC" shall mean the Securities and Exchange Commission.

"SID" shall mean the state information depository ("SID"), as such term is used in the Release, if and when a SID is created for the State.

"State" shall mean the Commonwealth of Kentucky..

"Turn Around Period" shall mean (i) five (5) business days, with respect to Annual Financial Information and Operating Data delivered by the Issuer to the Disclosure Agent; (ii) two (2) business days with respect to Material Event occurrences disclosed by the Issuer to the Disclosure Agent; or (iii) two (2) business days with respect to the failure, on the part of the Issuer, to deliver Annual Financial Information and Operating Data to the Disclosure Agent which period commences upon notification by the Issuer of such failure, or upon the Disclosure Agent's actual knowledge of such failure.

(B) This Agreement applies to the Bonds and any Additional Bonds issued under the Indenture.

(C) The Disclosure Agent shall have no obligation to make disclosure about the Bonds or the Project except as expressly provided herein; provided that nothing herein shall limit the duties or obligations of the Disclosure Agent, as Trustee, under the Indenture. The fact that the Disclosure Agent or any affiliate thereof may have any fiduciary or banking relationship with the Issuer, apart from the relationship created by the Indenture, shall not be construed to mean that the Disclosure Agent has actual knowledge of any event or condition except in its capacity as Trustee under the Indenture or except as may be provided by written notice from the Issuer.

Section 2. Disclosure of Information.

(A) General Provisions. This Agreement governs the Issuer's direction to the Disclosure Agent, with respect to information to be made public. In its actions under this Agreement, the Disclosure Agent is acting not as Trustee but as the Issuer's agent; provided that the Disclosure Agent shall be entitled to the same protection in so acting under this Agreement as it has in acting as Trustee under the Indenture.

(B) Information Provided to the Public. Except to the extent this Agreement is modified or otherwise altered in accordance with Section 3 hereof, the Issuer shall make or cause to be made public the information set forth in subsections (1), (2) and (3) below:

(1) Annual Financial Information and Operating Data. Annual Financial Information and Operating Data at least annually not later than 180 days following the end of each fiscal year, beginning with the fiscal year ending June 30, 2003 and continuing with each fiscal year thereafter, for which the information is provided, taking into account the Turn Around Period, and, in addition, all information with respect to the Bonds required to be disseminated by the Trustee pursuant to the Indenture.

(2) Material Events Notices. Notice of the occurrence of a Material Event.

(3) Failure to Provide Annual Financial Information. Notice of the failure of Issuer to provide the Annual Financial Information and Operating Data by the date required herein.

(C) Information Provided by Disclosure Agent to Public.

(1) The Issuer directs the Disclosure Agent on its behalf to make public in accordance with subsection (D) of this Section 2 and within the time frame set

forth in clause (3) below, and the Disclosure Agent agrees to act as the Issuer's agent in so making public, the following:

- (a) the Annual Financial Information and Operating Data;
- (b) Material Event occurrences;
- (c) the notices of failure to provide information which the Issuer has agreed to make public pursuant to subsection (B)(3) of this Section 2;
- (d) such other information as the Issuer shall determine to make public through the Disclosure Agent and shall provide to the Disclosure Agent in the form required by subsection (C)(2) of this Section 2. If the Issuer chooses to include any information in any Annual Financial Information report or in any notice of occurrence of a Material Event, in addition to that which is specifically required by this Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Financial Information report or notice of occurrence of a Material Event; and

(2) The information which the Issuer has agreed to make public shall be in the following form:

- (a) as to all notices, reports and financial statements to be provided to the Disclosure Agent by the Issuer, in the form required by the Indenture or other applicable document or agreement; and
- (b) as to all other notices or reports, in such form as the Disclosure Agent shall deem suitable for the purpose of which such notice or report is given.

(3) The Disclosure Agent shall make public the Annual Financial Information, the Operating Data, the Material Event occurrences and the failure to provide the Annual Financial Information and Operating Data within the applicable Turn Around Period. Notwithstanding the foregoing, Annual Financial Information, Operating Data and Material Events shall be made public on the same day as notice thereof is given to the Bondholders of outstanding Bonds, if required in the Indenture, and shall not be made public before the date of such notice. If on any such date, information required to be provided by the Issuer to the Disclosure Agent has not been provided on a timely basis, the Disclosure Agent shall make such information public as soon thereafter as it is provided to the Disclosure Agent.

(D) Means of Making Information Public.

(1) Information shall be deemed to be made public by the Issuer or the Disclosure Agent under this Section if it is transmitted to one or more of the following as provided in subsection (D)(2) of this Section 2:

- (a) to the Bondholders of outstanding Bonds, by the method prescribed by the Indenture;
- (b) to each NRMSIR, by (i) electronic facsimile transmissions confirmed by first class mail, postage prepaid, or (ii) first class mail, postage prepaid; provided that the Issuer or the Disclosure Agent is authorized to transmit information to a NRMSIR by whatever means are

mutually acceptable to the Disclosure Agent or the Issuer, as applicable, and the NRMSIR;

(c) to the SID (if a SID is established for the State), by (i) electronic facsimile transmissions confirmed by first class mail, postage prepaid, or (ii) first class mail, postage prepaid; provided that the Issuer or the Disclosure Agent is authorized to transmit information to a SID by whatever means are mutually acceptable to the Disclosure Agent or the Issuer, as applicable, and the SID;

(d) to the MSRB, by (i) electronic facsimile transmissions confirmed by first class mail, postage prepaid, or (ii) first class mail, postage prepaid; provided that the Issuer or the Disclosure Agent is authorized to transmit information to a MSRB by whatever means are mutually acceptable to the Disclosure Agent or the Issuer, as applicable, and the MSRB; and/or

(e) to the SEC, by (i) electronic facsimile transmissions confirmed by first class mail, postage prepaid, or (ii) first class mail, postage prepaid; provided that the Issuer or the Disclosure Agent is authorized to transmit information to a SEC by whatever means are mutually acceptable to the Disclosure Agent or the Issuer, as applicable, and the SEC.

(2) Information shall be transmitted to the following:

(a) all Annual Financial Information and Operating Data shall be made available to each NRMSIR and to the SID (if a SID is established for the State);

(b) notice of all Material Event occurrences and all notices of the failure to provide Annual Financial Information or Operating Data within the time specified in Section 2(B)(1) hereof shall be made available to each NRMSIR or the MSRB and to the SID (if a SID is established for the State); and

(c) all information described in clauses (a) and (b) shall be made available to any Bondholder upon request, but need not be transmitted to the Bondholders who do not so request.

(d) to the extent any Annual Financial Information or Operating Data is included in a document filed with each NRMSIR and SID (if a SID is established for the State) or the SEC, the Issuer shall have been deemed to have provided that information if a statement specifically referencing the filed document is filed with each NRMSIR and SID (if a SID is established for the State) as part of the Issuer's obligation to file Annual Financial Information and Operating Data pursuant to this Agreement. Additionally, if the referenced document is a final official statement (as that term is defined in Rule 15c2-12(f)(3)), it must be available from the MSRB.

Nothing in this subsection shall be construed to relieve the Disclosure Agent, as Trustee, of its obligation to provide notices to the holders of all Bonds if such notice is required by the Indenture.

With respect to requests for periodic or occurrence information from Bondholders, the Disclosure Agent may require payment by requesting of holders a reasonable charge for duplication and transmission of the information

and for the Disclosure Agent's administrative expenses incurred in providing the information.

Nothing in this Agreement shall be construed to require the Disclosure Agent to interpret or provide an opinion concerning the information made public. If the Disclosure Agent receives a request for an interpretation or opinion, the Disclosure Agent may refer such request to the Issuer for response.

(E) Disclosure Agent Compensation. The Issuer shall pay or reimburse the Disclosure Agent for its fees and expenses for the Disclosure Agent's services rendered in accordance with this Agreement as provided in the Trust Indenture.

(F) Indemnification of Disclosure Agent. In addition to any and all rights of the Disclosure Agent to reimbursement, indemnification and other rights pursuant to the Indenture or under law or equity, the Issuer shall indemnify and hold harmless the Disclosure Agent and its respective officers, directors, employees and agents from and against any and all claims, damages, losses, liabilities, reasonable costs and expenses whatsoever (including attorney fees) which such indemnified party may incur by reason of or in connection with the Disclosure Agent's performance under this Agreement; provided that the Issuer shall not be required to indemnify the Disclosure Agent for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by the willful misconduct or gross negligence of the Disclosure Agent in such disclosure of information hereunder. The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Agent and payment of the Bonds.

Section 3. Amendment or Waiver.

Notwithstanding any other provision of this Agreement, the Issuer and the Disclosure Agent may amend this Agreement (and the Disclosure Agent shall agree to any reasonable amendment requested by the Issuer) and any provision of this Agreement may be waived, if such amendment or waiver is supported by an opinion of nationally recognized bond counsel or counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule as well as any change in circumstance.

Section 4. Miscellaneous.

(A) Representations. Each of the parties hereto represents and warrants to each other party that it has (i) duly authorized the execution and delivery of this Agreement by the officer of such party whose signature appears on the execution pages hereto, (ii) that it has all requisite power and authority to execute, deliver and perform this Agreement under its organizational documents and any corporate resolutions now in effect, (iii) that the execution and delivery of this Agreement, and performance of the terms hereof, does not and will not violate any law, regulation, ruling, decision, order, indenture, decree, agreement or instrument by which such party is bound, and (iv) such party is not aware of any litigation or proceeding pending, or, to the best of such party's knowledge, threatened, contesting or questioning its existence, or its power and authority to enter into this Agreement, or its due authorization, execution and delivery of this Agreement, or otherwise contesting or questioning the issuance of the Bonds.

(B) Governing Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State; provided that, to the extent that the SEC, the MSRB or any other federal or state agency or regulatory body with jurisdiction over the Bonds shall have

promulgated any rule or regulation governing the subject matter hereof, this Agreement shall be interpreted and construed in a manner consistent therewith.

(C) Severability. If any provision hereof shall be held invalid or unenforceable by a court of competent jurisdiction, the remaining provisions hereof shall survive and continue in full force and effect.

(D) Counterparts. This Agreement may be executed in one or more counterparts, each and all of which shall constitute one and the same instrument.

(E) Termination. This Agreement may be terminated by any party to this Agreement upon thirty days' written notice of termination delivered to the other party or parties to this Agreement; provided the termination of this Agreement is not effective until (i) the Issuer, or its successor, enters into a new continuing disclosure agreement with a disclosure agent who agrees to continue to provide, to each NRMSIR, SID and/or MSRB and the Bondholders of the Bonds, all information required to be communicated pursuant to the rules promulgated by the SEC or the MSRB, (ii) nationally recognized bond counsel or counsel expert in federal securities laws provides an opinion that the new continuing disclosure agreement is in compliance with all State and Federal Securities laws and (iii) notice of the termination of this Agreement is provided to each NRMSIR, the appropriate SID, if any, and/or MSRB.

This Agreement shall terminate when all of the Bonds are or are deemed to be no longer outstanding by reason of redemption or legal defeasance or at maturity.

(F) Defaults: Remedies. A party shall be in default of its obligations hereunder if it fails to carry out or perform its obligations hereunder.

If an event of default occurs and continues beyond a period of thirty (30) days following notice of default given in writing to such defaulting party by any other party hereto or by a beneficiary hereof as identified in Section 4(G), the non-defaulting party or any such beneficiary may (and, at the request of the Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, the non-defaulting party shall), enforce the obligations of the defaulting party under this Agreement; provided, however, the sole remedy available in any proceeding to enforce this Agreement shall be an action in mandamus, for specific performance or similar remedy to compel performance.

(G) Beneficiaries. This Agreement is entered into by the parties hereof and shall inure solely to the benefit of the Issuer, the Trustee, the Disclosure Agent, the Participating Underwriter and Bondholders, and shall create no rights in any other person or entity.

Section 5. Additional Disclosure Obligations.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933, the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, may apply to the Issuer, and that under some circumstances compliance with this Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

Section 6. Notices.

Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Issuer: Mr. Michael R. Walters
CPA, Associate Vice President for Administration and Fiscal Affairs
Morehead State University
202 Howell-McDowell Adm. Building
Morehead, Kentucky 40351-1689
Telephone/Fax: (606) 783-2053

To the Disclosure Central Bank & Trust Co.

300 West Vine Street
Lexington, Kentucky 40507
Attention: Corporate Trust Department
Telephone/Fax: (859) 253-6247

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

IN WITNESS WHEREOF, the Disclosure Agent and the Issuer have each caused their duly authorized officers to execute this Agreement, as of the day and year first above written.

MOREHEAD STATE UNIVERSITY, Issuer

By: _____
Vice President for Administration and
Fiscal Services

CENTRAL BANK & TRUST CO., Disclosure Agent

By: _____

Title: _____