

Murray State University

A Component Unit of the State of Kentucky

Accountants' Report and Financial Statements

June 30, 2007 and 2006



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Independent Accountants' Report on Financial Statements

Supplementary Information

Other Information

President Dr. Randy D. ...
and Board President ...
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President Dr. Randy Dunn
and Board of Regents
Murray State University

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Management's Discussion and Analysis

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Murray State University (University) for the year ended June 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes, and this discussion and analysis are the responsibility of management.

The University is a comprehensive public institution of higher learning located in western Kentucky and primarily serves students in Kentucky, Illinois, Missouri, Tennessee, and Indiana. Murray State has study centers in four other cities where it offers a diverse range of degree programs from associate to master levels, through a framework of approximately 30 departmental units in 5 colleges and 1 school, and contributes to the region and state through related research and public service programs. The University is a charter member of the Ohio Valley Conference and a Division I member of the NCAA. Murray State University serves as a residential, regional university offering core programs in the liberal arts, humanities, sciences and selected high-quality professional programs for approximately 10,300 students. The University has not only continued to post record enrollment figures, it has increased its graduation rate to 57 percent, second highest among the Commonwealth of Kentucky's public universities.

The tuition and fees for the 2006-07 academic year increased by \$285 per semester for a full time resident undergraduate student. Tuition and fees at the University continues to be significantly less than the national average.

Murray State University consistently ranks among the nation's best regional universities each year and has been recognized for its academic quality and affordability. For 17 consecutive years, *U.S. News & World Report* has ranked the University as one of the best public schools in America. In the 2008 edition of the publication, the University ranked ninth in the nation among public master's universities. The University ranked sixth as the best public university in the South and retained its listing in the master's level category of "Great Schools at a Great Price" for 2008. Factors considered in the rankings are reputation, retention rate, graduation rate, class size, student-faculty ratio, financial resources, and alumni giving rate.

Murray State University has been consistently recognized in the past for its high quality, affordable education and its unique setting. In addition to *U.S. News*, the University has been highly ranked by the *Princeton Review*, *Money Guide*, *Kiplinger's Personal Finance*, *Southern Living*, *Outdoor Life*, *Kaplan College Guide*, *Geteducated.Com*, the *MIT Student Review*, and a Carnegie Mellon study. Murray State has also been featured in the *New York Times*, the *Chronicle of Higher Education*, and the *London Times*.

The University continues to have a commitment to academic and extracurricular excellence, while retaining its status as an affordable institution of higher education.

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Management's Discussion and Analysis

Financial Highlights

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Management's Discussion and Analysis

- Ø Prior to the 2006-07 academic year, the governing bodies of each public university within the Commonwealth of Kentucky had been delegated the authority to set tuition rates for its respective university. For the 2006-07 academic year, the Commonwealth of Kentucky's Council on Postsecondary Education rescinded this delegation and began to approve the tuition rate parameters for all public universities within the Commonwealth.

- Ø In the Fall 2006, the University began the selection phase for a new Enterprise Resource Planning (ERP) system. SunGuard Higher Education was selected as the primary software vendor in June 2007. The implementation phase of the ERP project was started in July 2007 and currently includes core modules for Finance, Student Services, Student Financial Aid, and Human Resources. The installation of a new campus wide ERP system will enhance the technology available to future and current students and enhance the data capabilities of all administrative systems. The project has a scope of \$8 million and will be funded over a period of years from existing funds from within the University's operating budget.

Using the Financial Statements

The University's financial statements consist of Balance Sheets (Statements of Net Assets), Statements of Revenues, Expenses and Changes in Net Assets (Income Statements), Statements of Cash Flows and Notes to the Financial Statements. These financial statements and accompanying Notes are prepared in accordance with the appropriate Governmental Accounting Standards Board (GASB) pronouncements.

These financial statements provide an entity-wide perspective and focus on the financial condition, results of operations, and cash flows of the University as a whole.

Financial statements have also been included for the University's component units, in accordance with the requirements of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. These component units are the Murray State University Foundation, Inc. and the Murray State University Athletic Foundation, Inc. Financial statements for these entities consist of Statements of Financial Position (Balance Sheets) and Statements of Activities (Income Statements). These statements are prepared in accordance with the appropriate Financial Accounting Standards Board (FASB) pronouncements.

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Management's Discussion and Analysis

Balance Sheets

The Balance Sheets present a financial picture of the University's financial condition at the end of the 2007 and 2006 fiscal years by reporting assets (cu

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Management's Discussion and Analysis

Condensed Balance Sheets

	June 30, 2007	June 30, 2006	June 30, 2005
Assets			
Current assets	\$47,107,682	\$48,479,918	\$40,690,369
Noncurrent assets	54,381,611	51,776,781	39,621,293
Capital assets	142,197,757	121,625,301	119,254,615

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Management's Discussion and Analysis

- § Restricted nonexpendable net assets - Restricted nonexpendable net assets consist solely of permanent endowments owned by the University. The corpus, as specified by the donor, is invested in perpetuity and may not be expended.
- § Restricted expendable net assets - Restricted expendable net assets consist of those assets that may be expended by the University, but must be spent for purposes as defined by the donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- Unrestricted - This category represents the net assets held by the University that have no formal restrictions placed upon them. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the unrestricted net assets have been designated for various programs and initiatives, capital projects and working capital requirements.

The allocation of net assets between these three

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Management's Discussion and Analysis

Expenses

Total operating expenses for the 2007 fiscal year were \$144.2 million. Academic affairs, which includes instruction, research, libraries, and academic support, represents a significant portion of the operating expenses, totaling \$65.9 million or 45.7%. Student affairs, which includes student services, financial aid, and auxiliary services, were \$38.2 million or 26.5% and other expenses which includes public service, institutional support, depreciation, and operation and maintenance amounted to \$40.2 million or 27.8%. Depreciation for all areas of the University is reported as an operating expense and was not allocated to each program group, except for auxiliary enterprises.

Operating expenses increased for the year ended June 30, 2007, by \$6.3 million. The primary reasons for increased operating expenses continue to be for salaries, utilities, and other fixed

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Management's Discussion and Analysis

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues			
Student tuition and fees, net	\$ 40,291,022	\$ 35,595,332	\$ 32,351,507
Grants and contracts	21,726,300	21,253,304	20,130,510

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Management's Discussion and Analysis

The net cash flows used in capital and related financing activities represent cash received and used for the acquisition, construction, and renovation of capital assets, which changed by \$17.7 million during 2007. The majority of this change is due to the state capital appropriations of \$15 million for the Phase II funding of the Science Complex and an increase in capital asset purchases of \$15.6 million and a reduction of capital debt proceeds of \$16 million.

The cash flows provided by investing activities represent the cash activities of investments, which changed by \$1.4 million for 2007. A portion of this change is related to an increase of \$.8 million of investment earnings on Housing and Dining debt service reserve investments.

For the year ended June 30, 2006:

The net cash used in operating activities reflects the net cash used for general operations of the University, which changed by \$.6 million during 2006.

The cash flows from noncapital financing activities, changed by \$4 million during 2006. This change was due to an increase in state appropriations.

The net cash flows provided by capital and related financing activities represent cash received and used for the acquisition, construction, and renovation of capital assets, which changed by \$9.4 million during 2006. A large portion of this change is due to the sale of Series Q Housing and Dining bonds to finance the construction of the new Clark Residential College.

The cash flows provided by investing activities represent the cash activities of investments, which changed by \$4.5 million for 2006. A portion of this change is related to the purchase of investments for the Housing and Dining sinking and reserve funds and improved realized gains on investments.

Condensed Statements of Cash Flows

	2007	2006	2005
Cash provided/(used by):			
Operating activities	\$ (47,651,309)	\$ (47,902,135)	\$ (48,520,987)
Noncapital financing activities	58,179,970	58,455,183	54,474,090
Capital and related financing activities	(14,108,352)	3,583,628	(5,788,732)
Investing activities	4,575,240	3,142,266	(1,368,063)
Net (decrease) increase in cash	995,549	17,278,942	(1,203,692)
Cash and cash equivalents, beginning of year	59,416,636	42,137,694	43,341,386
Cash and cash equivalents, end of year	<u>\$ 60,412,185</u>	<u>\$ 59,416,636</u>	<u>\$ 42,137,694</u>

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Management's Discussion and Analysis

Capital Assets and Debt Administration

The University had a \$20.6 million increase in capital assets during the fiscal year ended June 30, 2007. This change is primarily due to an increase of \$8.4 million in construction in progress related to the Phase II of the Science Complex and \$9.6 million increase of the Clark Residential College projects. Capital assets as of June 30, 2007, and changes during the year are as follows:

	Balance June 30, 2007	Net Change 2006-07
Land	\$ 8,783,261	\$ 1,141,681
Construction in progress	26,890,461	22,789,860
Museum and collectibles	532,393	17,100
Buildings	188,334,280	746,029
Non-building improvements	9,786,566	162,859
Equipment	21,728,927	1,263,861
Library holdings	28,096,921	1,143,498
Livestock	182,750	5,000
Accumulated depreciation	(142,137,802)	(6,697,432)
Total	\$ 142,197,757	\$ 20,572,456

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Management's Discussion and Analysis

Infrastructure Assets

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

Economic Factors Affecting Future Periods

- Ø General state appropriations from the Commonwealth of Kentucky (Commonwealth) are expected to remain constant or slightly increase over the next period.
- Ø The University provides health insurance to employees through a self-funded program. As reflected in national trends, the costs of health claims will continue to be a major expense for the institution.
- Ø The University issued bonds of \$14,635,000 in July 2007 to construct a new residential college facility that will replace the existing Richmond Residential College. The University will begin construction of the new residential college in the Spring 2008, with an expected completion date of July, 2009. The bonds were issued under a new general receipts trust indenture that will cover all future consolidated educational and housing and dining bond issues.
- Ø The University will begin construction of a new building in the Fall 2007 to house Campus Public Safety. The University is internally funding the project with a scope of \$2 million and anticipates a completion date in the Spring 2008.

Contacting the University's Financial Management

This financial report is designed to provide a general overview of the University's finances and to show the University's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Vice President for Finance and Administrative Services, 322 Sparks Hall, Murray, KY 42071.

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Balance Sheets
June 30, 2007 and 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents	\$ 36,919,598	\$ 37,978,869
Accounts receivable, net	6,030,348	6,849,515
Inventories	1,964,950	2,013,668
Prepaid expenses	859,954	706,956
Loans receivable, net	917,645	903,681
Interest receivable	<u>415,187</u>	<u>27,229</u>
Total current assets	<u>47,107,682</u>	<u>48,479,918</u>
Noncurrent Assets		
Restricted cash and cash equivalents	23,492,587	21,437,767
Restricted investments	26,788,595	26,146,638
Loans receivable, net	3,527,944	3,588,002
Capital assets	284,335,559	257,065,671
Accumulated depreciation	(142,137,802)	(135,440,370)
Debt issuance costs, net	<u>572,485</u>	<u>604,374</u>
Total noncurrent assets	<u>196,579,368</u>	<u>173,402,082</u>
Total assets	<u>\$ 243,687,050</u>	<u>\$ 221,882,000</u>

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Balance Sheets
June 30, 2007 and 2006

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
Current Liabilities		

Murray State University Foundation, Inc.
 Statements of Financial Position
 June 30, 2007 and 2006

ASSETS

	2007	2006
Cash and cash equivalents	\$ 3,463,701	\$ 9,748,194
Accounts receivable, net of allowance; 2007 – \$17,708, 2006 – \$17,224	19,430	58,001
Accounts receivable, L.D. Miller Trust	342,563	342,563
Investments	63,534,185	48,988,286
Prepaid and other current assets	43,836	45,074
Contributions receivable	44,506	140,141
Notes receivable	75,865	84,857
Property and equipment	3,541,475	3,654,445
Total assets	\$ 71,065,561	\$ 63,061,561

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 482,827	\$ 637,110
Accrued expenses	39,293	36,012
Deferred revenue	36,731	37,679
Assets held for others	19,825,932	18,592,559
Annuities payable	869,426	538,354
Refundable advances	608,342	—
Capital lease obligations	106,048	132,034
Total liabilities	21,968,599	19,973,748

Net Assets

Unrestricted	9,109,661	7,040,978
Temporarily restricted	16,220,429	13,056,224
Permanently restricted	23,766,872	22,990,611
Total net assets	49,096,962	43,087,813
Total liabilities and net assets	\$ 71,065,561	\$ 63,061,561

Murray State University

Murray State University
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Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Nonoperating Revenues (Expenses)		
State appropriations	\$ 55,278,600	\$ 54,954,200
Restricted student fees (Revenues are pledged as security for the City of Murray debt agreement)	658,480	660,629
Federal grants and contracts	917,157	1,056,839
State grants and contracts	1,546,365	1,718,265
Local and private grants and contracts	455,359	603,304
Gifts	1,559,878	991,666
Investment income	5,574,718	3,580,765
Interest on capital asset-related debt	(1,871,439)	(1,739,697)
Loss on deletion and disposal of capital assets	(66,778)	(170,435)
Bond amortization	<u>(70,677)</u>	<u>(73,680)</u>
Net nonoperating revenues (expenses)	<u>63,981,663</u>	<u>61,581,856</u>
Income before Other Revenues, Expenses, Gains or Losses	8,825,183	6,374,525
State capital appropriations	11,698,331	2,350,797
Capital grants	9,997	388,288
Capital gifts	<u>560,288</u>	<u>995,810</u>
Increase in Net Assets	21,093,799	10,109,420
Net Assets, Beginning of Year	<u>158,086,074</u>	<u>147,976,654</u>
Net Assets, End of Year	<u>\$ 179,179,873</u>	<u>\$ 158,086,074</u>

Murray State University Foundation, Inc.
 Statements of Activities
 Years Ended June 30, 2007 and 2006

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Contributions	\$ 15,110	\$ 2,422,311	\$ 695,998	\$
Revenues from operations of the Frances E. Miller Memorial Golf Course	568,504	—	—	
Fees	140,811	—	—	
Investment return	2,704,544	2,961,925	34,924	
Other	103,989	83,187	45,339	
Net assets released from restrictions	<u>2,303,218</u>	<u>(2,303,218)</u>	<u>—</u>	
 Total revenues, gains and other support	 <u>5,836,176</u>	 <u>3,164,205</u>	 <u>776,261</u>	 <u>9,776,642</u>

Expenses and Losses

Payments made on behalf

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Murray State University Foundation, Inc.
 Statements of Activities
 Years Ended June 30, 2007 and 2006

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Contributions	\$ 1,024,561	\$ 826,300	\$ 453,803	\$ 2,304,664
Revenues from operations of the Frances E. Miller Memorial Golf Course	553,400	—	—	553,400
Fees	132,216	—	—	132,216
Investment return	576,741	2,599,233	6,322	3,182,296
Other	183,536	2,203	90,519	276,258
Net assets released from restrictions	<u>2,582,222</u>	<u>(2,582,222)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>5,052,676</u>	<u>845,514</u>	<u>550,644</u>	<u>6,448,834</u>
Expenses and Losses				
Payments made on behalf of Murray State University Frances E. Miller Memorial Golf Course	2,582,222	—	—	2,582,222
General and administrative	<u>874,609</u>	<u>—</u>	<u>—</u>	<u>874,609</u>
Total expenses and losses	<u>4,053,329</u>	<u>—</u>	<u>—</u>	<u>4,053,329</u>
Change in Net Assets	999,347	845,514	550,644	2,395,505
Net Assets, Beginning of Year	<u>6,041,631</u>	<u>12,210,710</u>	<u>22,439,967</u>	<u>40,692,308</u>
Net Assets, End of Year	<u>\$ 7,040,978</u>	<u>\$ 13,056,224</u>	<u>\$ 22,990,611</u>	<u>\$ 43,087,813</u>

Murray State University Athletic Foundation, Inc.
 Statements of Activities
 Years Ended June 30, 2007 and 2006

	2007		
	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Sponsorships and promotions	\$ —	\$ —	\$ —
Investment return	18,935	—	18,935
Gain on sale of real estate held for sale	167,278	—	167,278
Other	23,965	—	23,965
Net assets released from restrictions	<u>—</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>210,178</u>	<u>—</u>	<u>210,178</u>
Expenses			
Contributions to Murray State University			
Athletic department	—	—	—
General and administrative	16,018	—	16,018
Fund raising events	—	—	—
Interest	36,896	—	36,896
Total expenses	<u>52,914</u>	<u>—</u>	<u>52,914</u>
Change in Net Assets (Deficit)	157,264	—	157,264
Net Assets (Deficit), Beginning of Year	<u>(243,561)</u>	<u>—</u>	<u>(243,561)</u>
Net Assets (Deficit), End of Year	\$ <u><u>(86,297)</u></u>	\$ —	\$ (86,297)

Murray State University
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities		
Tuition and fees	\$ 40,189,059	\$ 35,916,699
Grants and contracts	21,249,924	21,545,444
Salaries, wages, and benefits	(82,819,381)	(78,720,876)
Payments to suppliers	(29,531,006)	(24,468,656)
Payments to students for financial aid	(7,440,526)	(7,172,114)
Computer loans issued to employees	(52,877)	(50,511)
Collection of computer loans to employees	48,158	47,750
Loans issued to students	(1,089,230)	(1,085,773)
Collection of loans to students	1,044,462	1,105,110
Sales and services	4,862,163	3,859,771
Other operating revenues	2,219,989	2,352,534
Auxiliary enterprises revenues		
Food service	7,118,898	6,669,217
Housing	7,749,024	7,023,589
Book store	5,232,236	5,388,443
Other	182,929	226,068
Auxiliary enterprises payments		
Salaries, wages, and benefits	(5,298,479)	(5,059,154)
Payment to suppliers	<u>(11,316,652)</u>	<u>(11,479,676)</u>
Net cash used in operating activities	<u>(47,651,309)</u>	<u>(47,902,135)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	55,278,600	54,954,200
Grants and contracts	2,918,881	3,378,408
Endowment transfers	86,865	152,800

Murray State University
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Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	\$ 3,833,387	\$ 5,452,087
Purchase of investments	(3,334,196)	(5,523,051)
Interest receipts on investments	4,076,049	3,213,230
Net cash provided by investing activities	4,575,240	3,142,9(2)5.963

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Murray State University
A Component Unit of the State of Kentucky
Notes to Financial Statements
June 30, 2006 and 2005

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Murray State University (University) is a state-supported institution of higher education located in Murray, Kentucky, and is accredited by the Southern Association of Colleges and Schools. The University awards graduate and undergraduate degrees from five colleges and one school and serves a student population of approximately 10,300. The University is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statements of the Commonwealth.

Basis of Accounting and Financial Statement Presentation

The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

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

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

In accordance with the provisions of Governmental Accounting Standards Board Statement No. 39 (GASB No. 39), *Determining Whether Certain Organizations are Component Units*, certain organizations are to be reported as component units of a primary government based on the nature and significance of that organization's relationship to the primary government. Application of this statement results in including Murray State University Foundation, Inc. and Murray State University Athletic Foundation, Inc. (the Foundations) as discretely presented component units of the University. The Foundations are private nonprofit organizations that report under FASB standards, including FASB No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations' financial information in the University's financial report for these differences.

Murray State University
A Component Unit of the State of Kentucky
Notes to Financial Statements
June 30, 2006 and 2005

Note 1: Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The University considers all highly liquid investments that are immediately available to the University to be cash equivalents. Funds held by the Commonwealth of Kentucky are considered cash equivalents.

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Murray State University
A Component Unit of the State of Kentucky
Notes to Financial Statements
June 30, 2006 and 2005

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are included at year-end with accrued payroll, and as a component of compensation and benefit expense. Sick leave bene

Murray State University
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Notes to Financial Statements
June 30, 2006 and 2005

Note 1: Summary of Significant Accounting Policies (Continued)

Release of Restricted Net Assets

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

Classification of Revenues

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

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

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions. In a nonexchange transaction, the University receives value without directly giving equal value back, such as a gift or grant for which there is no return requirement. Additionally, certain significant revenues relied upon for operations, such as state appropriations, investment income and endowment income, are recorded as nonoperating revenues, in accordance with GASB No. 35.

Tuition Discounts and Allowances (an ~~acknowledgment~~ ~~of~~ ~~state~~ ~~tuition~~ ~~discounts~~ ~~and~~ ~~allowances~~ ~~for~~ ~~state~~ ~~students~~ ~~for~~ ~~tuition~~ ~~discounts~~ ~~and~~ ~~allowances~~ ~~in~~ ~~the~~ ~~state~~ ~~of~~ ~~Kentucky~~)

Murray State University
A Component Unit of the State of Kentucky
Notes to Financial Statements
June 30, 2006 and 2005

Note 1: 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 use estimates and assumptions. The accompanying financial statements include estimates for items such as allowances for doubtful accounts and loans receivable, self-insurance liabilities and other accrued liabilities. Actual results could differ from those estimates.

Recent Accounting Pronouncements

The Governmental Accounting Standards Board has issued three pronouncements relating to the governance of postemployment and termination benefits. Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* provides guidance regarding the reporting of other post-retirement benefits (OPEB). Statement No. 47, *Accounting for Termination Benefits* provides guidance for reporting all termination benefits, and Statement No. 50, *Pension Disclosures* provides further guidance for pension disclosures for governments implementing retiree health insurance and OPEB. Statement No. 48, *Sales and Pledges of Receivables and Future Revenues* addresses circumstances in which governments exchange future cash flows from specific receivables or specific future revenues for immediate cash payments. Each of these statements become effective for year ended June 30, 2008. Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* provides guidance regarding how to identify, account for, and report intangible assets and becomes effective for year ended June 30, 2010. The impact of applying these new statements has not yet been determined.

Note 2: Accounts Receivable

Accounts receivable consisted of:

	<u>2007</u>	<u>2006</u>
Current accounts receivable:		
Student tuition and fees	\$ 2,549,989	\$ 2,060,063
Grants and contracts	2,713,596	2,087,436
Auxiliary fees	616,758	632,418
MSU and Racer Foundations	877,026	941,915
Employee computer loans	22,926	18,207

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Note 3: Inventories

Inventories consisted of:

	2007	2006
Inventories		
University bookstore – resale	\$ 1,434,372	\$ 1,454,279
Physical plant – supplies	436,303	405,565
Food services – resale and supplies	69,003	148,798
Central stores – supplies	<u>25,272</u>	<u>5,026</u>
Total inventories	<u>\$ 1,964,950</u>	<u>\$ 2,013,668</u>

Note 4: Loans Receivable

Student loans made through the Federal Perkins Loan Program (the Program) comprise substantially all of the loans receivable at June 30, 2007 and 2006. The Program provides for service cancellation of a loan at rates of 12.5% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncoll

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Note 5: Deposits, Investments, and Investment Income

Deposits

At June 30, 2007 and June 30, 2006, the carrying amounts of the University's bank balances and deposits were \$60,412,185 and \$59,416,636 respectively.

The Federal Deposit Insurance Corporation (FDIC) insures each local bank balance deposit for \$100,000. Deposits in excess of \$100,000 are secured by pledging Treasury or U.S. Government Agency securities having a quoted value equal to the total deposits less the FDIC insured amount as per Kentucky state statute KRS 41.240.

The University also maintains cash deposits with the Commonwealth of Kentucky, as overseen by the State Investment Commission (the Commission). The Commission is charged with the oversight of the Commonwealth's investment programs pursuant to KRS 42.500. The Commonwealth's investments are categorized into four distinct classifications or "pools". The Short-Term Pool consists primarily of General Fund cash balances and provides liquidity for the remaining pools. The Intermediate-Term Pool represents Agency Fund investments, state held component unit and fiduciary fund accounts held for the benefit of others by the state. The Long-Term Pool invests the Budget Reserve Trust Fund account and any other funds deemed appropriate for the pool where liquidity is not a serious concern. The remaining fund is the Bond Proceeds Pool where capital construction bond proceeds are invested until expended for their intended purpose. Shares of the pool represent a divisible interest in the underlying securities and are not federally insured or guaranteed by the U.S. Government, FDIC, or any federal agency. The pools have not been approved by the Securities and Exchange Commission. The University's shares within the pools may indirectly expose it to risks associated with fixed income investments; however, specific information about any such transactions is not available to the University.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the University's deposits may not be returned to the University. The University does not have a formal deposit policy for custodial credit risk.

Deposits as of June 30, 2007 and 2006 consisted of:

	2007	2006
Depository accounts:		
Local bank deposits, collateral held as a pledge in the University's name	\$ 5,916,007	\$ 8,404,495
Cash on hand	74,475	74,725
Foreign currency deposits	115,344	292,973
State Investment Pool – uninsured and uncollateralized	54,306,359	50,644,443
Total deposits	\$ 60,412,185	\$ 59,416,636

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Note 5: Deposits, Investments, and Investment Income (Continued)

Deposits as presented in the balance sheet captions include:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents, current	\$ 36,919,598	\$ 37,978,869
Restricted cash and cash equivalents	<u>23,492,587</u>	<u>21,437,767</u>

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June 30, 2006 and 2005

Note 5: Deposits, Investments, and Investment Income (Continued)

The assets in the Murray State University Foundation, Inc. investment pool are invested as follows:

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University

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Note 6: Regional University Excellence Trust Fund

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

The following is a summary of the funding for the RUETF as of June 30, 2007:

<u>Funding Period</u>	<u>External Match Receipts</u>					<u>External Match Pledges</u>
	<u>CPE Funding Available</u>	<u>CPE Funding Received</u>	<u>Held By University</u>	<u>Held By Foundation</u>	<u>Total</u>	
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 878,250	\$ 831,750	\$ 1,710,000	\$ —
2000-2002	3,521,79	h3,520 o		\$577P790057799(9)5.9(8v22998		re)78.0026 (

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Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2007, was:

	Balance June 30, 2006	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2007
Land	\$ 7,641,580	\$ —	\$ 1,141,681	\$ —	\$ 8,783,261
Construction in progress	4,100,601	25,328,077	(2,161,475)	(376,742)	26,890,461
Museum and collectibles	<u>515,293</u>	<u>17,100</u>	<u>—</u>	<u>—</u>	<u>532,393</u>
Total capital assets not being depreciated	<u>12,257,474</u>	<u>25,345,177</u>	<u>(1,019,794)</u>	<u>(376,742)</u>	<u>36,206,115</u>
Buildings	187,588,251	—	785,529	(39,500)	188,334,280
Non-building improvements	9,623,707	—	162,859	—	9,786,566
Equipment	20,465,066	1,696,317	71,406	(503,862)	21,728,927
Library holdings	26,953,423	1,243,184	—	(99,686)	28,096,921
Livestock	<u>177,750</u>	<u>22,500</u>	<u>—</u>	<u>(17,500)</u>	<u>182,750</u>

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June 30, 2006 and 2005

Note 8: Accounts Payable

Accounts payable consisted of:

	2007	2006
Current accounts payable:		
Vendors	\$ 5,672,164	\$ 4,569,770
Payroll benefits and withholdings	2,173,780	1,623,349
Loans	3,460	8,396
Total accounts payable	\$ 7,849,404	\$ 6,201,515

Note 9: Employee Benefits

Kentucky Teachers Retirement System

All employees required to hold a degree and occupying full-time positions, defined as seven-tenths (7/10) of normal full-time service on a daily or weekly basis are required by state law to participate in the Kentucky Teachers Retirement System (KTRS) or an optional retirement plan, as allowed by KRS161.567. KTRS, a cost sharing, multiple-employer, public employee retirement system, provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age sixty or has less than twenty-seven years of participation in the plan. The plan also provides for disability, death and survivor benefits and medical insurance.

The Kentucky Teachers Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3800 or by calling (502) 848-8500.

Funding for the plan is provided from eligible employees who contribute 6.16% of their salary through payroll deductions and the University, which also contributes 13.84% of current eligible

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Note 9: Employee Benefits (Continued)

employee retires before reaching age 65 or has less than 27 years of service. The plan also provides for disability, death and survivor benefits and medical insurance.

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

Funding of the plan is from eligible employees who contribute 5.00% of their salary through payroll deductions and the University, which also contributes 7.75% of current eligible employees' salaries to the non-hazardous KERS fund. Employees covered by the hazardous KERS fund contribute 8.00% of gross salary and the University contributes 22.00 % of gross salaries. The Kentucky Revised Statutes and the Board of Trustees of the Kentucky Retirement Systems determine contribution rates each biennium. The University's contributions to KERS for the years ended June 30, 2007, 2006, and 2005 were \$1,207,251, \$916,026, and \$835,942, respectively, and were equal to the required contributions.

University Health Self-Insurance Program

The University maintains a self-insurance program for employees' health insurance. For the fiscal year ended June 30, 2007, the University paid approximately 85% of total plan expenses for permanent full-time employees and their families. Expenses incurred to cover claims paid by the University under the plan for years ended June 30, 2007 and 2006 totaled \$5,716,345 and \$3,983,735, excluding administrative and stop-loss fees. Stop-loss and administrative fees incurred for the years ended June 30, 2007 and 2006 were \$781,065 and \$653,045, respectively. The University's stop-loss insurance limits its exposure for claims to \$100,000 per individual.

Changes in the liability for self insurance are follows:

	<u>2007</u>	<u>2006</u>
Liability, beginning of year	\$ 1,160,513	\$ 1,079,117
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	7,033,142	5,900,595
Administrative and stop loss fees	(781,065)	(653,045)
Claims paid	<u>(5,925,249)</u>	<u>(5,166,154)</u>
Liability, end of year	<u>\$ 1,487,341</u>	<u>\$ 1,160,513</u>

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June 30, 2006 and 2005

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Notes to Financial Statements
June 30, 2006 and 2005

Note 11: Revenue Bonds, Notes Payable and Capital Leases (Continued)

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2006:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long Term Portion
Bonds payable	\$ 15,785,000	\$ 15,800,000	\$ (2,345,000)	\$ 29,240,000	\$ 2,460,000	\$ 26,780,000
Less bond discounts	<u>(212,026)</u>	<u>(310,616)</u>	<u>41,060</u>	<u>(481,582)</u>	<u>(38,787)</u>	<u>(442,795)</u>
Bonds payable, net of discounts	15,572,974	15,489,384	(2,303,940)	28,758,418	2,421,213	26,337,205
City of Murray payable	10,000,000	—	(90,000)	9,910,000	105,000	9,805,000
Master lease notes payable	9,420,731	372,850	(1,202,626)	8,590,955	1,333,710	7,257,245
Capital leases	1,559,000	—	(97,000)	1,462,000	102,000	1,360,000
Notes payable	144,400	—	(144,400)	—	—	—
MSU Foundation notes payable	<u>92,468</u>	<u>—</u>	<u>(92,468)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total bonds, notes and capital leases	<u>\$ 36,789,573</u>	<u>\$ 15,862,234</u>	<u>\$ (3,930,434)</u>	<u>\$ 48,721,373</u>	<u>\$ 3,961,923</u>	<u>\$ 44,759,450</u>

Maturity Information

A schedule of the mandatory principal and interest payments (excluding bond discounts) is presented below: Mte9o9(ents TT2 1 69atYearst pay)D7 E.7(40022955 Tw{tereT2 9366 354.96 47295.5)20.b6co)-

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Notes to Financial Statements
June 30, 2006 and 2005

Note 11: Revenue Bonds, Notes Payable and Capital Leases (Continued)

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Original Issue	Balance Due June 30, 2007	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2007-2008
Housing and Dining System Revenue Bonds Payable				
Series L bonds dated September 1, 1968, with interest at 3.00%; final principal payment due September 1, 2008; Regents Hall	2,000,000	375,000	12,070	185,000
Series M bonds dated June 26, 1997, with interest from 4.00% to 5.40%; final principal payment due September 1, 2017; Winslow Cafeteria	825,000	550,000	28,660	40,000
Series N bonds dated May 12, 1999, with interest from 4.35% to 4.90%; final principal payment due September 1, 2018; fire safety for residence halls	6,370,000	4,725,000	209,906	275,000
Series O bonds dated June 1, 2001, with interest from 4.00% to 5.00%; final principal payment due September 1, 2021; Hart Hall	1,610,000	1,410,000	67,586	65,000
Series P bonds dated June 18, 2004, with interest from 1.10% to 4.25%; final principal payment due September 1, 2024; Winslow Cafeteria	2,500,000	2,205,000	73,814	100,000
Series Q bonds dated December 1, 2005 with interest from 4.00% to 4.59%; final principal payment due September 1, 2027; Clark Hall	15,800,000			

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Note 11: Revenue Bonds, Notes Payable and Capital Leases (Continued)

	<u>Original Issue</u>	<u>Balance Due June 30, 2007</u>	<u>Interest Expense, Current Year</u>	<u>Bonds/Notes/ Leases Maturing 2006-2007</u>
Master Lease Payable (Continued)				
Campus Energy Performance Upgrade – Masterlease dated February 10, 2005, with interest of 3.94%. Final principal payment due August 10, 2017	6,707,876	6,030,800	244,180	473,905
Oracle Software – Masterlease dated August 11, 2005 with interest of 4.13%. Final principal payment due September 1, 2007	<u>372,850</u>	<u>124,225</u>	<u>5,956</u>	<u>124,225</u>
Total Master lease payable	<u>\$ 11,740,453</u>	<u>\$ 7,244,022</u>	<u>\$ 309,742</u>	<u>\$ 1,183,648</u>
Capital Leases				
University of Kentucky dated June 25, 1998, with interest rate at 5.14%; final principal payment due January 1, 2017	<u>\$ 2,200,000</u>	<u>\$ 1,360,000</u>	<u>\$ 77,259</u>	<u>\$ 107,000</u>
Total capital leases	<u>\$ 2,200,000</u>	<u>\$ 1,360,000</u>	<u>\$ 77,259</u>	<u>\$ 107,000</u>

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Note 11: Revenue Bonds, Notes Payable and Capital Leases (Continued)

Capital Leases

The University leases certain equipment and facilities, under capital lease agreements. The recorded cost of these assets and accumulated depreciation thereon were as follows:

	<u>2007</u>	<u>2006</u>
Capital lease assets, at cost	\$ 2,200,000	\$ 2,200,000
Less accumulated depreciation	<u>(1,485,000)</u>	<u>(1,430,000)</u>
Net book value	<u>\$ 715,000</u>	<u>\$ 770,000</u>

Remaining minimum annual lease payments pursuant to these leases are as follows:

<u>Year Ending June 30</u>	<u>Total</u>
2008	\$ 179,230
2009	179,870
2010	179,118
2011	179,030
2012	179,532
2013-2017	<u>896,443</u>
	1,793,223
Less amount representing interest	<u>(433,223)</u>
Present value of capital lease obligations	<u>\$ 1,360,000</u>

Note 12: Deposits

The deposits held by the University consisted of:

	<u>2007</u>	<u>2006</u>
Current:		
Racer card declining balance	5(3,7w&e pay)-72s:	Ho869(0)-405.2(pay)-72s:

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Note 12: Deposits (Continued)

Noncurrent housing deposit additions were \$173,039 and \$89,809 for years ended June 30, 2007

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Note 14: Component Units (Continued)

During the year ended June 30, 2007 and June 30, 2006, the Foundation made payments of \$2,303,218 and \$2,582,222, respectively.

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Note 18: Segment Information (Continued)

Condensed financial information as and for the years ended June 30, 2007 and 2006 of the University's Housing and Dining segment is as follows:

Housing and Dining System - Condensed Balance Sheets

	2007	2006
Assets		
Current assets	\$ 1,985,187	\$ 1,827,175
Noncurrent assets	9,968,935	19,743,778
Capital assets, net of accumulated depreciation	<u>18,034,859</u>	<u>8,712,989</u>
Total assets	<u>\$ 29,988,981</u>	<u>\$ 30,283,942</u>
Liabilities		
Current liabilities	\$ 1,682,732	\$ 1,941,267

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Note 18: Segment Information (Continued)

Housing and Dining System - Condensed Statements of Cash Flows

	2007	2006
Cash flows from		
Operating activities	\$ 2,845,576	\$ 3,189,781
Noncapital financing activities	(1,517,078)	(2,627,502)
Capital and related financing activities	(11,672,420)	14,526,960
Investing activities	<u>1,180,933</u>	<u>1,957,411</u>
Net increase (decrease) in cash	(9,162,989)	13,131,828
Cash, beginning of year	<u>16,313,950</u>	<u>3,182,122</u>
Cash, end of year	<u>\$ 7,150,961</u>	<u>\$ 16,313,950</u>

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Note 18: Segment Information (Continued)

Wellness Center - Condensed Statement of Cash Flows

Cash flows from	
Operating activities	\$
Noncapital financing activities	
Capital and related financing activities	
Investing activities	
Net increase (decrease) in cash	
Cash, beginning of year	