
MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE
COMMONWEALTH OF KENTUCKY
FINANCIAL STATEMENTS
JUNE 30, 2013



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Independent Auditors' Report

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Report On The Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Murray State University, (the University), a component unit of the State of Kentucky, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Murray State University as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2013, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

RubinBrown LLP

October 2, 2013

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, 2013. 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. The University has study centers in four other cities where it offers a diverse range of degree programs from associate to doctoral levels, is composed of five academic colleges, and schools of agriculture and nursing, 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. The University serves as a residential, regional university offering core programs in the liberal arts, humanities, sciences and selected high-quality professional programs for approximately 10,800 students. For the 2012-13 academic year, tuition and fees increased by \$132 per semester for full time resident undergraduate students. Tuition and fees at the University continues to be less than the national average.

The University consistently ranks among the nation's top public universities and has been recognized for its academic quality and affordability. Once again, *U.S. News & World Report's Best Colleges* has recognized Murray State University among the top schools in the country. Murray State's consecutive streak of top rankings was extended to 23 years with the release of the 2014 *U.S. News Best Colleges* list. The University is at eighth place among the top public regional universities in the South. Murray State is again in the Top Tier as the only Kentucky regional public university to appear among the South's top 25 private and public schools. The University scoring shows it to be the 14th top public regional university in the nation, down three spots from last year's rankings. Factors considered in the rankings are peer assessment, graduation and retention rates, faculty resources, student selectivity, financial resources and alumni giving.

In addition to *U.S. News & World Report's* listing, the University is ranked once more as "2014 Military Friendly School" by *G.I. Jobs* magazine and listed for the fourth time in *the Chronicle of Higher Education's* "Great Colleges to Work For."

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Management's Discussion And Analysis (*Continued*)

Financial Highlights

- The University's financial position remained strong as of the end of the year, with assets of \$324.3 million and liabilities of \$87.5 million. Net position, which represent the University's residual interest in assets after liabilities are deducted, were \$236.8 million or 73 percent of total assets. Net position increased by \$10.8 million from fiscal year 2012 to 2013.
- Fiscal operations were in accordance with the annual operating budget of approximately \$152.7 million. The University continued to be a strong employer for the region and employed 4,356 individuals, including 595 faculty and 1,212 staff members and 2,549 students. These totals include 1,398 regular and full time faculty and staff.
- Total operating state appropriations for fiscal year 2013 decreased by \$2.3 million. Total funding for 2013 and 2012 from the state in appropriations were \$48 and \$50.3 million, respectively.
- The University sold general receipts bonds (series 2013A) in May 2013 for \$15.6 million to fund the renovation of Hester Hall, upgrade of the sprinklers at College Courts, and various housing and dining facility improvements costing less than \$600,000 each. Hester Hall will be closed during the 2013-14 academic year for renovation and expected open for occupancy for fall 2014.
- The University began construction in 2012 on an 18,000 square foot basketball practice facility, which will be an addition to the CFSB Center. Primary funding for this major addition was a \$3.1 million gift accepted in 2010 and \$1.1 million of other donor funds restricted for athletic programs and facilities for a total project scope of \$4.2 million. The facility was open for use in February 2013.
- The University accepted a \$1 million gift in August 2011 for the completion of interior space for the Regional Business and Innovation Center (RBIC), which was renamed Heritage Hall in 2012. Other funds have been allocated to this project for a total scope of \$1.4 million. The construction work began in January 2012 and was complete in October 2012.
- The University invests approximately 96 percent of its endowment funds with the Murray State University Foundation, Inc. (Foundation). The value of these funds is as follows:

Historical Value	\$17.3 million
Market Value	\$18.9 million

These funds experienced an unrealized gain of \$869,576 in fiscal year 2013. This allowed for most program spending to remain constant during the fiscal year 2013. The Foundation operated with a 3.3% cap on endowment spending for the fiscal year 2013.

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Management's Discussion And Analysis (*Continued*)

- In May 2011 the University entered into a Memorandum of Understanding with the McCracken County Fiscal Court, City of Paducah, Kentucky, and the Greater Paducah Economic Development Council (GPEDC) to continue to provide instruction and expanded offerings to meet the needs of the business community and to support economic growth for the region. This agreement will facilitate the construction and funding of a new extended campus facility in Paducah, Kentucky. The University purchased land for this facility in 2008. The McCracken County Fiscal Court is funding this project through a \$9,980,000 general obligation bond sale that was completed in the winter 2011. Repayment of this debt will be funded from the McCracken County Fiscal Court (\$4,966,178), City of Paducah (\$2,674,093), and Murray State University (\$2,339,729) over 20 years. The average annual debt service payment for each entity will be as follows:
 - \$325,000 McCracken County Fiscal Court
 - \$175,000 City of Paducah
 - \$153,000 Murray State University (approximate amount of lease payment)

The facility will be opened for use in January 2014. Spring 2014 classes will be held in this new facility.

- The University completed an overall review of the needs for residential college facilities. This review, conducted by MGT of America, Inc., reported a continued need for University housing. MGT provided a plan for new construction and renovations, long term occupancy projections, and rental rates. The University will continue to utilize and monitor this plan for future housing projects.

Using the Financial Statements

The University's financial statements consist of Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, 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 Foundation, a component unit, in accordance with the requirements of GASB Statement No. 39, Determining Whether Certain Organizations are Component Units. Financial statements for this entity consist of Statements of Financial Position and Statements of Activities. These statements are prepared in accordance with the appropriate Financial Accounting Standards Board (FASB) pronouncements. The Murray State University Athletic Foundation, Inc. is also a component unit, but not included due to materiality.

MURRAY STATE UNIVERSITY

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Management's Discussion And Analysis (*Continued*)

Statements of Net Position

The Statement of Net Position present a financial picture of the University's financial condition at the end of the 2013 and 2012 fiscal years by reporting assets (current and noncurrent), liabilities (current and noncurrent) and net position. Net position, the difference between total assets/deferred outflows and total liabilities/deferred inflows, are an important indicator of the current financial condition, while the change in net position is an indicator of whether the overall financial position has improved or declined during the year. The University had no deferred outflows or inflows at June 30, 2013.

Assets

Total assets at the end of the fiscal year 2013 were \$324.3 million, of which capital assets, net of depreciation, represented the largest portion. Capital assets totaled approximately \$169.8 million or 52 percent of total assets and were primarily comprised of University-owned land, buildings, equipment, and library holdings. Cash and cash equivalents amounted to \$113.6 million or 35 percent of total assets. Total assets increased by \$22.6 million during the 2013 fiscal year. This increase in gross total assets is due primarily to the following items:

- \$19.6 million - Increase in cash and cash equivalents. Primarily driven by a \$15.6 million increase due to the sale of the 2013 Series A general receipt bonds for renovations to Hester Hall, College Courts, and various other projects costing less than \$600,000 each.
- \$1.9 million - Increase in endowment investments, including a \$1.3 million increase in the stock investments and a \$0.5 million increase in unrealized gains on investment.
- \$1.1 million - Unexpended web tuition revenue due to departmental online incentive program for each semester, which started in the summer 2011. These funds were distributed to academic departments in 2013; with the expectation the departments may spend these funds in future years.

Total assets increased by \$8 million during the 2012 fiscal year due to the following:

- \$1.7 million - Increase in accounts payable for numerous construction projects, which deferred cash distributions to the next fiscal year.
- \$2.1 million - Unexpended web tuition revenue due to departmental online incentive program for each semester, which started in the summer 2011. These funds were distributed to academic departments in 2012; with the expectation the departments may spend these funds in future years.
- \$1.2 million - Increase in overall cash for auxiliary units. The majority of these savings are planned to be utilized on construction/renovation.

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Management's Discussion And Analysis (*Continued*)

- \$532,000 - Remaining cash from the general receipts bond sale for the renovation of Elizabeth Hall.
- \$531,000 - Increase in private endowment gifts.

Liabilities

Total liabilities at the end of the 2013 fiscal year were \$87.5 million, an increase of \$11.9 million. This change was due to the following:

- \$15.6 million - Increase in bonds payable for the issuance of 2013 Series A general receipt bonds.
- (\$3.9) million - Decrease in debt payable for current year payments on bonds, notes, and capital leases.

Total liabilities at the end of the 2012 fiscal year were \$75.6 million, an increase of \$2.1 million. This change was due to the following:

- \$1.7 million - Increase in accounts payable for numerous construction projects.
- \$1.9 million - Increase in overall debt due to the sale of general receipts bonds for the renovation of Elizabeth Hall.
- (\$700,600) - Decrease in accrued payrolls due to timing of payroll dates.

Net Position

Net position, which represents total equity of the University, was divided into three major categories, defined as follows:

- Net investment in capital assets - This category represents the institution's equity in property, buildings, equipment, library holdings and other plant assets owned by the University, less related depreciation and outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted - This category represents those assets which are subject to externally imposed restrictions governing their use and includes classifications of nonexpendable and expendable.
 - Restricted nonexpendable net position - Restricted nonexpendable net position 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.

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Management's Discussion And Analysis (Continued)

- Restricted expendable net position - Restricted expendable net position 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 position held by the University that have no formal restrictions. Although unrestricted net position are not subject to externally imposed stipulations, substantially all of the unrestricted net position have been designated for various programs and initiatives, capital projects and working capital requirements.

Condensed Statements of Net Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Assets			
Current assets	\$ 84,448,484	\$ 75,357,134	\$ 70,391,760
Noncurrent assets	70,102,337	55,963,418	56,588,836
Capital assets	169,768,630	170,326,187	166,678,551
Total assets	<u>324,319,451</u>	<u>301,646,739</u>	<u>293,659,147</u>
Liabilities			
Current liabilities	20,571,526	20,880,077	19,869,294
Noncurrent liabilities	66,978,005	54,747,272	53,614,962
Total liabilities	<u>87,549,531</u>	<u>75,627,349</u>	<u>73,484,256</u>
Net position			
Net investment in capital assets	118,495,387	116,715,432	114,667,161
Restricted for			
Nonexpendable	19,793,944	18,873,003	18,644,438
Expendable			
Scholarships, research, instruction and other	6,107,393	4,101,374	3,984,847
Loans	4,832,714	4,767,193	4,898,234
Capital	17,555,987	19,558,531	17,419,484
Debt service	1,671,296	2,240,995	5,865,932
Unrestricted	68,313,199	59,762,862	54,694,795
Total net position	<u>\$ 236,769,920</u>	<u>\$ 226,019,390</u>	<u>\$ 220,174,891</u>

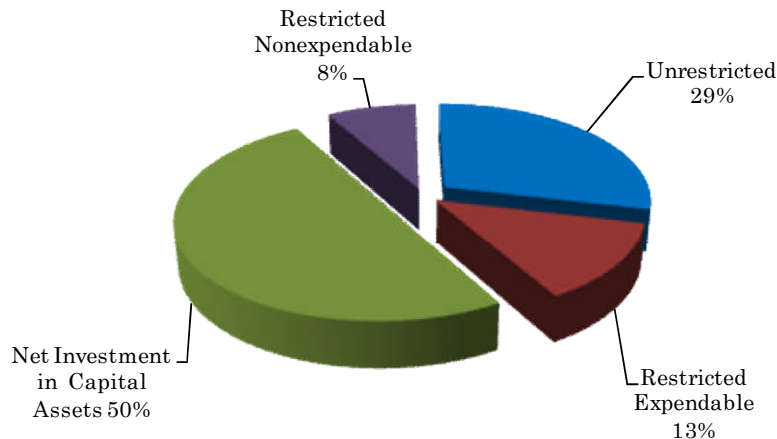
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Management's Discussion And Analysis (*Continued*)

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

University Net Position at June 30, 2013



Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position, which are generally referred to as the activities statement or income statement, present the revenues earned and expenses incurred and income or loss from operations for the current and prior fiscal years. Activities are reported as either operating or non-operating. Changes in total net position as presented on the Statements of Net Position are based on the activity presented in the Statements of Revenues, Expenses and Changes in Net position.

The financial statements are prepared on 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. A public university's dependency on state appropriations will result in reported operating losses. The Governmental Accounting Standards Board requires state appropriations to be classified as nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which expenses the costs of an asset over its expected useful life.

Revenues

Total operating revenues, which exclude state appropriations, for the 2013 fiscal year were \$106.8 million, including student tuition and fees, net of related discounts and allowances, of \$64.2 million, operating grants and contracts revenues of \$6.3 million, and auxiliary services net revenue of \$30.7 million.

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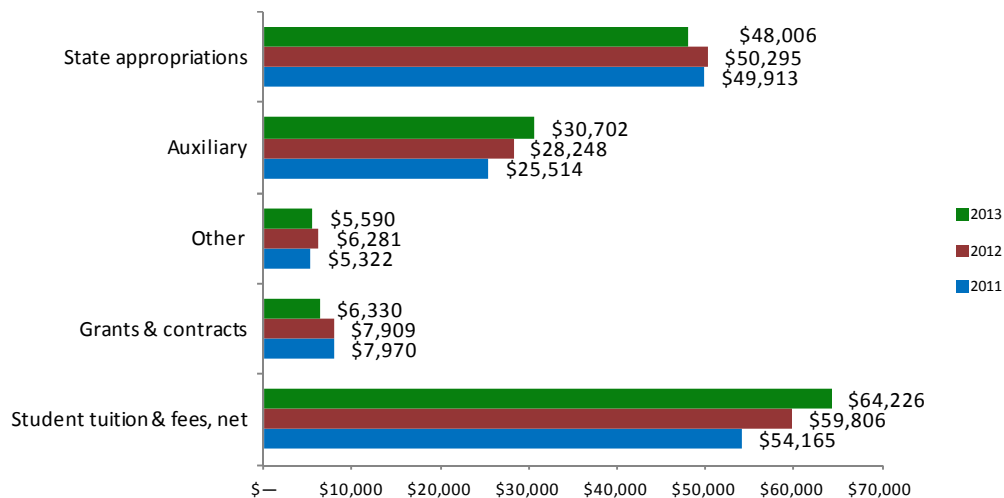
Management's Discussion And Analysis (Continued)

During 2013, operating revenues increased by \$4.6 million. This increase is comprised primarily of an increase of \$4.4 million from net student tuition and fees, and \$2.5 million increase from auxiliary services.

The University received a net of \$48 and \$50.3 million in state appropriations for operations, respectively for 2013 and 2012. State appropriations are required to be classified as nonoperating revenues; however, these funds were used to support University operating activities.

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

**Operating Revenues and State Appropriations
(In Thousands)**



Expenses

Total operating expenses for the 2013 fiscal year were \$171.1 million. Academic affairs, which include instruction, research, libraries and academic support, represent the largest portion of the operating expenses totaling \$70.6 million or 41 percent. Student affairs, which include student services, financial aid and auxiliary services, was \$48.6 million or 29 percent and other expenses which include public service, institutional support, depreciation and operation and maintenance amounted to \$52 million or 30 percent. 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.

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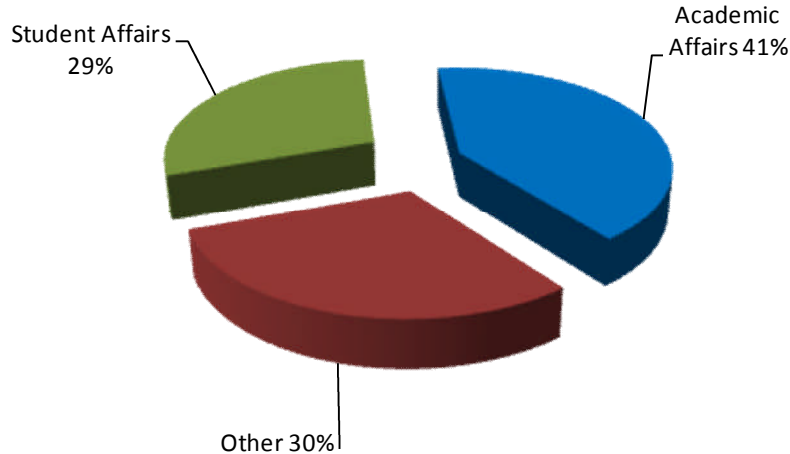
Management's Discussion And Analysis (Continued)

Operating expenses increased for the year ended June 30, 2013, by \$1.0 million. The primary reasons for increases in operating expenses are as follows:

- \$1.5 million - Increase in benefits including a \$771,332 increase in employer contributions to retirement funds and a \$560,931 increase in employer contributions to health insurance.
- \$699,000 - Increase in purchases for resale by Dining Services and the University Bookstore.
- (\$943,000) - Decrease in research expenses due primarily to the completion of federal grants that were not renewed.

Operating expenses by type are reflected in the following chart:

**University Operating Expenses
Year Ended June 30, 2013**



The net loss from operations for the year ended June 30, 2013, was \$64.2 million. Nonoperating revenues, net of expenses, of \$72.0 million, state capital appropriations of \$2 million, insurance reimbursements of \$41,000, and capital gifts of \$977,000 resulted in an increase in net position of \$10.8 million for the year ended June 30, 2013. This increase in net position is attributable to an increase in net student tuition and fees of \$4.5 million, an increase in unrealized gains on investment of \$1.2 million, auxiliary reserves for construction/renovation of \$1.1 million, and unspent web tuition revenues of \$1.1 million.

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Management's Discussion And Analysis (Continued)

The net loss from operations for the year ended June 30, 2012, was \$67.9 million. Nonoperating revenues, net of expenses, of \$72.7 million, insurance reimbursements of \$285,000, capital gifts of \$184,000, and endowment gifts of \$535,000 resulted in an increase in net position of \$5.8 million for the year ended June 30, 2012. This increase in net position is attributable to an increase in net student tuition and fees of \$4.5 million, unspent web tuition revenues of \$1.1 million, an increase in unrealized gains on investment of \$1.2 million, and auxiliary reserves for construction/renovation of \$1.1 million.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues			
Student tuition and fees, net	\$ 64,226,109	\$ 59,805,670	\$ 54,165,226
Grants and contracts	6,330,336	7,909,199	7,969,506
Other	5,590,166	6,281,038	5,321,545
Auxiliary, net	<u>30,701,678</u>	<u>28,248,321</u>	<u>25,514,058</u>
Total operating revenues	<u>106,848,289</u>	<u>102,244,228</u>	<u>92,970,335</u>
Operating expenses			
Instruction	58,527,594	57,431,018	54,224,542
Other educational and general	81,403,150	82,912,044	80,651,327
Depreciation	8,431,901	7,870,697	7,944,588
Auxiliary enterprises	21,477,661	20,688,688	19,439,844
Auxiliary depreciation	<u>1,264,334</u>	<u>1,238,711</u>	<u>1,212,438</u>
Total operating expenses	<u>171,104,640</u>	<u>170,141,158</u>	<u>163,472,739</u>
Operating loss	<u>(64,256,351)</u>	<u>(67,896,930)</u>	<u>(70,502,404)</u>
Nonoperating revenues			
State appropriations	48,005,800	50,295,400	49,912,700
Other nonoperating revenues	<u>23,983,437</u>	<u>22,441,702</u>	<u>31,683,495</u>
Total nonoperating revenues	<u>71,989,237</u>	<u>72,737,102</u>	<u>81,596,195</u>
Other revenues			
State capital appropriations and other	<u>3,017,644</u>	<u>1,004,327</u>	<u>1,316,914</u>
Increase in net assets	10,750,530	5,844,499	12,410,705
Net position, beginning of year	<u>226,019,390</u>	<u>220,174,891</u>	<u>207,764,186</u>
Net position, end of year	<u>\$ 236,769,920</u>	<u>\$ 226,019,390</u>	<u>\$ 220,174,891</u>

MURRAY STATE UNIVERSITY

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Management's Discussion And Analysis (*Continued*)

Statements of Cash Flows

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

For the year ended June 30, 2013:

The net cash used in operating activities reflects the net cash used for general operations of the University, which decreased by (\$2.1 million) during 2013. This decrease was primarily due to increases in net tuition and fees.

The cash flows from noncapital financing activities, decreased by (\$3.1 million) during 2013. This change was primarily due to a decrease in State appropriations of (\$2.3 million), and a decrease in Comprehensive University Endowment Trust Fund (CUETF) gifts transferred to the MSU Foundation of (\$1.0 million) not received from the state in 2013.

The net cash flows provided by/(used in) capital and related financing activities represent cash used for the acquisition, construction and renovation of capital assets, changed from (\$10.8 million) used in 2012 to \$4.7 million provided during 2013, a \$15.5 million change. This change is due to the overall changes in debt due to new 2013 Series A general receipt bonds issued for Hester Hall renovations, Campus Courts Sprinklers, and several other projects costing less than \$600,000 each.

The cash flows provided by investing activities represent the cash activities of investments, which decreased by \$6.3 million for 2013. This change was primarily due to the refinancing of housing and dining bonds in 2012. Due to this refinancing the university was able to liquidate restricted investments of \$1.7 million from repair and maintenance reserves to use for unrestricted purposes and liquidate \$2.2 million of investments from sinking fund reserves to use toward the reduction of the refinancing debt. Also a factor of the decrease was a receivable of (\$1.0 million) received in 2012. This receivable was non-recurring because the Commonwealth's Office of Financial Management (OFM) ceased posting unrealized gains and losses in 2012 and began to only post realized earnings. In addition, (\$846,000) decreased from 2012 to 2013 in realized interested earnings from the OFM. These decreases, coupled with reduced cash balances for the Elizabeth Hall Renovation project resulted in reduced interest earnings for 2013. Losses were offset by a \$150,000 increase in interest receipts from local accounts and MSU Foundation.

For the year ended June 30, 2012:

The net cash used in operating activities reflects the net cash used for general operations of the University, which decreased by (\$2.4 million) during 2012. This decrease was primarily due to increases in net tuition and fees.

MURRAY STATE UNIVERSITY

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Management's Discussion And Analysis (Continued)

The cash flows from noncapital financing activities, decreased by (\$5.5 million) during 2012. This change was primarily due to a decrease in State CUETF endowment gifts transferred to the MSU Foundation of (\$1.3 million), decreases in grants and contracts cash of (\$3.4 million), and decreases of gifts of (\$3.1 million) that was received in 2011.

The net cash flows used in capital and related financing activities represent cash used for the acquisition, construction and renovation of capital assets, decreased by (\$349,000) during 2012. The majority of this change is due to the overall changes in debt due to new bonds issued for Elizabeth Hall renovations, the refinancing the housing and dining system bonds and Wellness Center, and annual bond payments. The net of these activities were an increase in proceeds from capital debt of \$3.9 million. The other primary factor related to this change was an increase in purchase of capital assets of (\$3.6 million) related to the renovation of Elizabeth Hall.

The cash flows provided by investing activities represent the cash activities of investments, which increased by \$3.7 million for 2012. This change was primarily due the refinancing of \$21 million of housing and dining bonds. Due to this refinancing the university was able to liquidate restricted investments of \$1.7 million from repair and maintenance reserves to use for unrestricted purposes and liquidate \$2.2 million of investments from sinking fund reserves to use toward the reduction of the refinancing debt.

Condensed Statements of Cash Flows

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash provided/(used by):			
Operating activities	\$ (56,009,942)	\$ (58,149,455)	\$ (60,538,693)
Noncapital financing activities	69,835,004	72,907,264	78,540,832
Capital and related financing activities	4,679,273	(10,772,703)	(11,121,319)
Investing activities	<u>1,074,972</u>	<u>7,449,333</u>	<u>3,689,932</u>
Net increase in cash	<u>19,579,307</u>	<u>11,434,439</u>	<u>10,570,752</u>
Cash and cash equivalents, beginning of year	<u>94,052,042</u>	<u>82,617,603</u>	<u>72,046,851</u>
Cash and cash equivalents, end of year	<u>\$ 113,631,349</u>	<u>\$ 94,052,042</u>	<u>\$ 82,617,603</u>

MURRAY STATE UNIVERSITY

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Management's Discussion And Analysis (*Continued*)

Capital Assets and Debt Administration

The University had a \$6.8 million increase in capital assets, before accumulated depreciation, during the fiscal year ended June 30, 2013. This change is due to the \$7.8 million renovation of Elizabeth Hall which was completed in August 2012.

Construction in progress decreased (\$5.3 million) in 2013. This decrease was the result of the completion of Elizabeth Hall renovations and reclassifying this asset in the Building asset with a cost of \$7.8 million.

Buildings increased \$11.7 million in 2013, again primarily due to placing Elizabeth Hall in service at \$7.8 million. Also contributing to this increase was the completion of HVAC renovations in White, Regents, Hart, and Hester Halls totaling \$2.3 million.

Capital assets as of June 30, 2013, and changes during the year are as follows:

	Balance June 30, 2013	Net Change 2012-13
Land	\$ 9,913,707	\$ 15,427
Construction in progress	9,198,858	(5,327,090)
Museum and collectibles	657,485	85,350
Buildings	260,468,360	11,660,967
Non-building improvements	14,619,792	462,484
Equipment	27,258,659	(85,661)
Software	1,932,019	—
Library holdings	30,378,043	171,507
Livestock	165,750	(231,000)
Accumulated depreciation	(184,824,043)	(7,309,541)
Total	<u>\$ 169,768,630</u>	<u>\$ (557,557)</u>

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Management's Discussion And Analysis (*Continued*)

During 2013 the University issued \$15.6 million of general receipts bonds for the renovation of Hester Hall, College Courts sprinklers, and various housing and dining improvements costing less than \$600,000.

Debt as of June 30, 2013, and changes during the year are as follows:

	Balance	Net Change
	June 30, 2013	2012-13
General Receipts Bonds	\$ 59,280,000	\$ 13,205,000
Bond discount	(247,411)	17,012
Bond premium	298,837	108,957
Bond deferred refunding loss	(2,326,877)	173,862
City of Murray	9,095,000	(285,000)
City of Murray payable deferred refunding loss	(381,697)	19,286
Master lease payable	3,782,521	(783,942)
Capital leases	629,000	(138,000)
Total	<u>\$ 70,129,373</u>	<u>\$ 12,317,175</u>

Economic Factors Affecting Future Periods

- For 2013, the general fund for the Commonwealth of Kentucky continued on its modest, steady growth trajectory resulting in an increase of 2.8 percent compared to 2012. This was .4 percent more than the official revenue estimate of 2.4 percent. General fund revenue collections showed weak to moderate positive growth in each of the four quarters of the fiscal year. The trend in the general fund revealed increasing shares of tax receipts based on income or economic activity with a decreasing reliance on transactional taxes (sales taxes, or severance taxes).

General fund growth is expected to be 1.1 percent in the first 3 quarters of 2014. Although the pension crisis at the statewide level has been mitigated due to legislation passed in the 2013 short session, the additional amount required to fully fund the actuarially calculated annual required contribution (ARC) will put a substantial burden on the university's budget since it appears that the public universities will not receive state funding to cover these additional costs. The other risk on the immediate horizon is the economic uncertainty at the national level.

- The University requested funding of \$36.9 million from the Commonwealth of Kentucky in the 2012-14 biennial budget to construct the Engineering/Physics Building. Due to budget constraints in the Commonwealth's biennial budget, construction projects were not funded. This facility remains as the University's top capital project.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Management's Discussion And Analysis (*Continued*)

- 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 University.

- The University conducted a campus wide budget review during fiscal year 2013 to reallocate \$4.2 million. In addition, the University budgeted to use \$729,765 of unrestricted net asset reserves for fiscal year 2014. A budget task force comprised of faculty, staff, and students has been appointed to determine permanent sources of funding for fiscal year 2015.

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.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF NET POSITION

Page 1 of 2

	June 30,	
	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 72,096,758	\$ 64,911,788
Accounts receivable, net	7,127,771	6,338,609
Inventories	2,269,102	2,045,517
Loans to students, net	751,291	801,564
Prepaid expenses	2,203,562	1,259,656
Total Current Assets	84,448,484	75,357,134
Noncurrent Assets		
Restricted cash and cash equivalents	41,534,591	29,140,254
Restricted investments	24,081,978	22,715,483
Loans to students, net	3,484,330	3,386,698
Capital assets	354,592,673	347,840,689
Accumulated depreciation	(184,824,043)	(177,514,502)
Debt issuance costs, net	1,001,438	720,983
Total Noncurrent Assets	239,870,967	226,289,605
Total Assets	324,319,451	301,646,739

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF NET POSITION

Page 2 of 2

	June 30,	
	2013	2012
Liabilities		
Current Liabilities		
Accounts payable	\$ 6,898,679	\$ 7,091,726
Accrued payroll	5,978,398	6,031,810
Self-insured health liability	590,137	588,477
Interest payable	603,369	623,037
Unearned revenue	2,646,052	2,787,667
Deposits - current portion	322,812	317,704
Long-term debt - current portion	3,532,079	3,439,656
Total Current Liabilities	20,571,526	20,880,077
Noncurrent Liabilities		
Deposits	380,711	374,730
Long-term debt	66,597,294	54,372,542
Total Noncurrent Liabilities	66,978,005	54,747,272
Total Liabilities	87,549,531	75,627,349
Net Position		
Net investment in capital assets	118,495,387	116,715,432
Restricted for:		
Nonexpendable:		
Endowment	19,793,944	18,873,003
Expendable:		
Scholarships, research, instruction and other	6,107,393	4,101,374
Loans	4,832,714	4,767,193
Capital projects	17,555,987	19,558,531
Debt service	1,671,296	2,240,995
Unrestricted	68,313,199	59,762,862
Total Net Position	\$ 236,769,920	\$ 226,019,390

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

Page 1 of 2

Assets

	June 30,	
	2013	2012
Cash and cash equivalents	\$ 3,830,567	\$ 1,797,133
Accounts receivable	349,048	420,726
Investments	84,300,085	73,939,496
Real estate held for investment	87,086	139,520
Prepaid and other current assets	51,554	55,447
Contributions receivable, net	2,056,968	2,836,890
Property and equipment	4,388,381	4,531,641
Total Assets	\$ 95,063,689	\$ 83,720,853

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

Page 2 of 2

Liabilities And Net Assets

	June 30,	
	2013	2012
Liabilities		
Accounts payable	\$ 90,723	\$ 75,342
Amount due to related parties	379,545	368,254
Accrued expenses	47,877	48,998
Deferred revenue	54,395	49,536
Assets held for others	23,784,727	21,734,952
Capital lease obligation	100,671	159,266
Annuities payable	4,937,459	3,952,842
Refundable advances	419,657	402,319
Total Liabilities	29,815,054	26,791,509
Net Assets		
Unrestricted	11,150,712	9,443,805
Temporarily restricted	18,448,960	13,615,732
Permanently restricted	35,648,963	33,869,807
Total Net Assets	65,248,635	56,929,344
Total Liabilities And Net Assets	\$ 95,063,689	\$ 83,720,853

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Page 1 of 2

	For The Years Ended June 30,	
	2013	2012
Operating Revenues		
Tuition and fees	\$ 101,421,417	\$ 93,343,856
Less: Discounts and allowances	(37,195,308)	(33,538,186)
Net tuition and fees	64,226,109	59,805,670
Federal grants and contracts	4,847,457	5,978,398
State grants and contracts	1,283,670	1,626,992
Private grants and contracts	199,209	303,809
Total grants and contracts	6,330,336	7,909,199
Sales and services of educational activities	3,288,936	3,298,098
Other operating revenues	2,301,230	2,982,940
Total sales, services, and other revenues	5,590,166	6,281,038
Auxiliary enterprises revenue	31,394,405	28,911,467
Less: Discounts and allowances	(692,727)	(663,146)
Net auxiliary revenue	30,701,678	28,248,321
Total Operating Revenues	106,848,289	102,244,228
Operating Expenses		
Instruction	58,527,594	57,431,018
Research	1,649,914	2,592,831
Public service	8,342,617	8,409,323
Libraries	3,216,670	3,132,627
Academic support	7,249,726	6,976,471
Student services	14,623,199	14,791,333
Institutional support	18,888,657	18,782,552
Operation and maintenance of plant	16,151,452	15,561,619
Student financial aid	11,280,915	12,665,288
Depreciation	8,431,901	7,870,697
Auxiliary enterprises	21,477,661	20,688,688
Auxiliary depreciation	1,264,334	1,238,711
Total Operating Expenses	171,104,640	170,141,158
Operating Loss	(64,256,351)	(67,896,930)

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Page 2 of 2

	For The Years Ended June 30,	
	2013	2012
Nonoperating Revenues (Expenses)		
State appropriations	\$ 48,005,800	\$ 50,295,400
Restricted student fees (revenues are pledged as security for the City of Murray debt agreement)	685,186	667,555
Federal grants and contracts	13,926,020	14,420,740
State grants and contracts	6,284,166	6,438,812
Local and private grants and contracts	545,269	547,264
Gifts	2,012,853	1,311,013
Investment income	2,551,311	1,157,906
Interest on capital asset-related debt	(1,483,275)	(1,631,662)
Loss on deletion and disposal of capital assets	(294,432)	(154,101)
Bond amortization	(243,661)	(315,825)
Nonoperating Revenues (Expenses), Net	71,989,237	72,737,102
Income Before Other Revenues, Expenses, Gains and Losses	7,732,886	4,840,172
State Capital Appropriations	2,000,000	—
Insurance Proceeds	40,503	284,810
Capital Gifts	977,141	184,114
Additions to Permanent Endowments	—	535,403
Change in Net Position	10,750,530	5,844,499
Net Position - Beginning of Year	226,019,390	220,174,891
Net Position - End of Year	\$ 236,769,920	\$ 226,019,390

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES For The Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains And Other Support				
Contributions	\$ 19,647	\$ 2,793,223	\$ 1,036,570	\$ 3,849,440
Revenues from operations of the Frances E. Miller Memorial Golf Course	454,778	30,601	—	485,379
Fees	385,422	—	—	385,422
Investment return, net	2,710,091	5,222,179	30,133	7,962,403
Other	5,869	267,991	30,158	304,018
Change in value of annuities payable	—	—	(238,074)	(238,074)
Net assets released from restrictions	2,560,397	(2,560,397)	—	—
Total Revenues, Gains And Other Support	6,136,204	5,753,597	858,787	12,748,588
Expenses And Losses				
Payments made on behalf of Murray State University	2,560,397	—	—	2,560,397
Operations of the Frances E. Miller Memorial Golf Course	454,653	—	—	454,653
General and administrative	1,414,247	—	—	1,414,247
Total Expenses And Losses	4,429,297	—	—	4,429,297
Change In Net Assets	1,706,907	5,753,597	858,787	8,319,291
Change In Donor Restrictions	—	(920,369)	920,369	—
Net Assets - Beginning Of Year	9,443,805	13,615,732	33,869,807	56,929,344
Net Assets - End Of Year	\$ 11,150,712	\$ 18,448,960	\$ 35,648,963	\$ 65,248,635

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES For The Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenues, Gains And Other Support				
Contributions	\$ 1,100	\$ 2,627,229	\$ 696,236	\$ 3,324,565
Revenues from operations of the				
Frances E. Miller Memorial Golf Course	518,897	25,979	—	544,876
Fees	374,410	—	—	374,410
Investment return, net	562,425	94,947	25,573	682,945
Other	21,510	219,306	55,564	296,380
Change in value of annuities payable	—	66,352	(224,099)	(157,747)
Net assets released from restrictions	2,443,938	(2,443,938)	—	—
Total Revenues, Gains And Other Support	3,922,280	589,875	553,274	5,065,429
Expenses And Losses				
Payments made on behalf of Murray State University	2,443,938	—	—	2,443,938
Operations of the Frances E. Miller Memorial Golf Course	485,448	—	—	485,448
General and administrative	1,262,002	—	—	1,262,002
Total Expenses And Losses	4,191,388	—	—	4,191,388
Change In Net Assets	(269,108)	589,875	553,274	874,041
Net Assets - Beginning Of Year	9,712,913	13,025,857	33,316,533	56,055,303
Net Assets - End Of Year	\$ 9,443,805	\$ 13,615,732	\$ 33,869,807	\$ 56,929,344

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF CASH FLOWS

Page 1 of 2

	For The Years Ended June 30,	
	2013	2012
Cash Flows From Operating Activities		
Tuition and fees	\$ 63,391,901	\$ 60,228,747
Grants and contracts	6,302,635	7,967,758
Payments for salaries, wages and fringes	(98,528,860)	(96,937,907)
Payments to suppliers	(30,517,247)	(30,715,548)
Payments for student financial aid	(11,280,915)	(12,665,288)
Loans issued to employees	(27,336)	(39,875)
Collections of loans to employees	30,090	46,175
Loans issued to students	(708,318)	(1,615,017)
Collections of loans to students	660,960	1,482,906
Sales and services of educational activities	3,478,832	3,622,047
Other operating revenues	2,232,390	2,983,280
Auxiliary revenues:		
Food Service	11,647,889	10,605,852
Housing	12,703,627	11,826,285
Bookstore	5,901,694	5,557,133
Other	180,377	192,685
Auxiliary payments:		
Payments for salaries, wages and fringes	(7,222,447)	(6,957,857)
Payments to suppliers	(13,993,949)	(13,442,322)
Payments for student financial aid	(261,265)	(288,509)
Net Cash Used in Operating Activities	(56,009,942)	(58,149,455)
Cash Flows From Noncapital Financing Activities		
State appropriations	48,005,800	50,295,400
Endowment proceeds forwarded to MSU Foundation for investment	(1,079,375)	(45,677)
Grants and contracts	20,755,455	21,406,816
Endowment income	1,189,219	305,046
Gifts for other than capital purposes	946,888	956,594
Agency transactions	17,017	(10,915)
Net Cash Provided by Noncapital Financing Activities	69,835,004	72,907,264
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt, net of discounts and premiums	15,492,366	34,232,766
Restricted student fees pledged for debt service	685,186	667,555
Insurance proceeds	40,503	284,810
State capital appropriations	1,994,644	570
Purchases of capital assets	(8,594,995)	(10,620,143)
Capital gifts	630,993	173,556
Principal paid on capital debt and leases	(3,636,943)	(33,652,080)
Interest paid on capital debt and leases	(1,932,481)	(1,859,737)
Net Cash Provided by (Used in) Capital and Related Financing Activities	\$ 4,679,273	\$ (10,772,703)

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF CASH FLOWS

Page 2 of 2

	For The Years Ended June 30,	
	2013	2012
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	\$ 583,657	\$ 5,271,267
Purchases of investments	(139)	(413)
Investment receipts	245,803	120,814
Interest receipts on investments	245,651	2,057,665
Interest receipts on investments	—	2,178,479
Net Cash Provided by Investing Activities	1,074,972	7,449,333
Net Increase in Cash and Cash Equivalents	19,579,307	11,434,439
Cash and Cash Equivalents - Beginning of Year	94,052,042	82,617,603
Cash and Cash Equivalents - End of Year	\$ 113,631,349	\$ 94,052,042
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	\$ 72,096,758	\$ 64,911,788
Restricted cash and cash equivalents	41,534,591	29,140,254
Total Cash and Cash Equivalents	\$ 113,631,349	\$ 94,052,042
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (64,256,351)	\$ (67,896,930)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	9,696,235	9,109,408
Bad debt	318,264	805,914
Changes in assets and liabilities:		
Accounts and loans receivable, net	(832,864)	473,872
Inventories	(223,585)	60,171
Prepaid expenses	(866,621)	33,870
Accounts payable	352,575	504,063
Self-insured health liability	1,661	(40,977)
Accrued payroll	(53,413)	(700,610)
Deposits	(5,928)	15,852
Unearned revenue	(139,915)	(514,088)
Net Cash Used in Operating Activities	\$ (56,009,942)	\$ (58,149,455)
Supplemental Disclosure of Cash Flow Information		
Gifts of capital assets	\$ 346,148	\$ 10,558
Accounts payable incurred for capital asset purchases	680,306	1,912,301
Changes in fair value of investments	870,638	(308,794)

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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 two schools 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.

Reporting Entity

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement 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. (the Foundation) as a discretely presented component unit of the University. The Foundation is a private nonprofit organization that reports under generally accepted accounting principles set forth by Financial Accounting Standards Board (FASB) standards. 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 Foundation's financial information in the University's financial report for these differences.

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 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.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*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.

Restricted Cash, Cash Equivalents and Investments

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

Investments

The University accounts for its investments at fair value. Fair value is determined using quoted market prices. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net position.

Assets held by the Foundation represent those gifts and donations made directly to the University, which are held by the Foundation for investment purposes. The net appreciation and income of donor restricted endowments are available to the University for expenditure to the extent permitted by Kentucky law and the spending policy of the Foundation. The recognition of gifts, donations and endowment pledges are accounted for by the University in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* and are recognized when all applicable eligibility requirements are met.

Accounts Receivable

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

Inventories

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

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (Continued)

Capital Assets

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

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

Asset	Estimated Life
Buildings	40 years
Nonbuilding improvements	8-20 years
Equipment	5-15 years
Library holdings	10 years
Livestock	12 years
Software	8 years

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowing. Total interest capitalized was \$531,788 and \$287,402 for the years ended June 30, 2013 and 2012, respectively.

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

Debt Issuance Costs

Debt issuance costs incurred have been capitalized and are being amortized over the life of the related debt using the straight-line method. Total amortization expense was \$46,375 and \$43,003 for the years ended June 30, 2013 and 2012, respectively.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

Compensated Absences

For employees participating in the Kentucky Teachers Retirement System (KTRS), vacation pay is accrued at year end for financial statement purposes. The liability and expense incurred are included at year end with accrued payroll, and as a component of compensation and benefit expense. Sick leave benefits are expected to be realized as paid time off or used to purchase service credits upon retirement. These are recognized as expense when the time off occurs or when service credit payments are incurred. No liability is accrued for such benefits employees have earned while participating in the KTRS plan, but not yet realized. For employees participating in optional retirement plans (ORP), sick time is accrued as it is earned.

Unearned Revenue

Unearned revenue includes amounts for tuition and fees, international program fees and certain auxiliary activities received prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include amounts received from state capital appropriations and grant and contract sponsors for which eligibility requirements have not been fully satisfied or that have not yet been earned. Such amounts are recognized in the period to which the service relates or the grant/contract requirements have been met.

Net Position

The University's net position is classified as follows:

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

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

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

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

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

Release of Restricted Net Position

When an expense is incurred for which both restricted and unrestricted net position 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) federal, state and local grants and contracts (excluding Pell and similarly funded federal and state grants for student financial aid) and (3) sales and services of auxiliary enterprises, net of discounts and allowances.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange 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, Pell and similarly funded federal and state grants for student financial aid, investment income and endowment income, are recorded as nonoperating revenues, in accordance with GASB No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities – an Amendment of GASB Statement 34*.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (Continued)

Tuition Discounts and Allowances

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

Income Taxes

The University is a component of the Commonwealth of Kentucky and is not subject to federal income tax as described in section 115 of the Internal Revenue Code. However, the University is subject to federal income tax on any unrelated business taxable income.

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.

2. Accounts Receivable

Accounts receivable as of June 30 consisted of:

	<u>2013</u>	<u>2012</u>
Current accounts receivable:		
Student tuition and fees	\$ 6,641,697	\$ 5,169,526
Grants and contracts	1,360,401	1,494,665
Auxiliary fees	1,982,340	1,473,532
MSU and Racer Foundations	793,295	782,013
Employee computer and bicycle loans	10,424	13,178
Outside sales	481,699	682,886
Capital construction receivable - vendors	4,817	1,161
Allowance for doubtful accounts	<u>(4,146,902)</u>	<u>(3,278,352)</u>
Total current accounts receivable	<u>\$ 7,127,771</u>	<u>\$ 6,338,609</u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

3. Inventories

Inventories as of June 30 consisted of:

	<u>2013</u>	<u>2012</u>
University bookstore - resale	\$ 1,644,137	\$ 1,488,590
Physical plant - supplies	353,138	342,397
Food services - resale and supplies	215,061	135,348
Art	41,172	42,367
CFSB concessions	13,499	14,282
Central stores - supplies	2,095	22,533
	<u> </u>	<u> </u>
Total inventories	<u>\$ 2,269,102</u>	<u>\$ 2,045,517</u>

4. Loans Receivable

Student loans made through the Federal Perkins Loan Program (Program) comprise substantially all of the loans receivable at June 30, 2013 and 2012. 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 uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. The allowance for uncollectible loans at June 30, 2013 and 2012 was \$230,911 and \$227,206, respectively.

Loans receivable as of June 30 consisted of:

	<u>2013</u>	<u>2012</u>
Current loans receivable:		
University loan programs	\$ 50,303	\$ 66,682
Federal nursing program	80,657	81,164
Federal Perkins program	620,331	653,718
Total current loans receivable, net	<u>751,291</u>	<u>801,564</u>
Noncurrent loans receivable:		
Federal nursing program	333,254	290,414
Federal Perkins program	3,151,076	3,096,284
Total noncurrent loans receivable, net	<u>3,484,330</u>	<u>3,386,698</u>
Total loans receivable, net	<u>\$ 4,235,621</u>	<u>\$ 4,188,262</u>

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (*Continued*)

5. Deposits, Investments and Investment Income

Deposits

At June 30, 2013 and 2012, the carrying amounts of the University's bank balances and deposits were \$113,631,349 and \$94,052,042, respectively.

Currently the University maintains its deposits, outside of those held by the Commonwealth of Kentucky, in noninterest-bearing accounts at FDIC-insured institutions. Prior to December 31, 2012, with the passage of the Federal Dodd-Frank Act deposits held in noninterest-bearing transaction accounts with FDIC-insured institutions will be fully insured regardless of the amount in the account. This action allows for the financial institutions to provide an interest earning credit to reduce service fees charged to the University. After December 31, 2012, the provision allowing non-interest bearing accounts to be fully insured expired. All accounts are insured up to \$250,000.

The University also maintains cash deposits with the Commonwealth of Kentucky, as overseen by the State Investment Commission (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 two 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. Shares of each pool represent a divisible interest in the underlying securities and are not federally insured or guaranteed by the U.S. Government, Federal Deposit Insurance Corporation or any federal agency. However, all such investments in excess of FDIC are required to be fully collateralized by the U.S. Treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240. 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 other than compliance with the provisions of state law.

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

Cash and cash equivalents as of June 30 consisted of:

	<u>2013</u>	<u>2012</u>
Depository accounts:		
Local bank deposits, insured or collateral held as a pledge in the University's name	\$ 5,068,874	\$ 11,026,760
Cash on hand	61,361	125,727
Foreign currency deposits	30,826	144,343
State Investment Pool - collateral required by KRS 41.240	108,470,288	82,755,212
Total deposits	<u>\$ 113,631,349</u>	<u>\$ 94,052,042</u>

Cash and cash equivalents as presented in the statements of net position captions as of June 30 include:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents, current	\$ 72,096,758	\$ 64,911,788
Restricted cash and cash equivalents	41,534,591	29,140,254
Total deposits	<u>\$ 113,631,349</u>	<u>\$ 94,052,042</u>

Investments

Investments carried at fair value as of June 30 consisted of:

	<u>2013</u>	<u>2012</u>
Money market funds restricted for debt service purposes	\$ 1,459,310	\$ 2,042,828
Restricted assets held by the Foundation	22,622,668	20,672,655
Total investments	<u>\$ 24,081,978</u>	<u>\$ 22,715,483</u>

Restricted investments for debt services purposes are comprised of amounts invested for sinking fund and debt service reserves. Investments in U.S. Government securities and the collateral for repurchase agreements are registered in the name of Murray State University or held in the University's name by its agents and trustees. The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in equity securities.

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (*Continued*)

University investments held by the Foundation are comprised of private donations received directly by the University and state endowment matching funds. These consist of endowment funds, as well as expendable restricted funds. Assets held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

The assets in the Foundation investment pool are invested as of June 30 as follows:

	<u>2013</u>	<u>2012</u>
Percentage of pool invested in:		
Certificates of deposit and money market mutual funds	5%	7%
Mutual funds	31%	27%
Equity securities	49%	49%
Fixed income securities	14%	16%
Other	1%	1%
Total investments	<u>100%</u>	<u>100%</u>

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 does not, within its investment policy, formally limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The money market mutual funds are investments with a maturity of less than one year because they are redeemable in full immediately. In addition, the funds held in the State Investment Pool have a maturity of less than one year because they are redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires investments to be in compliance with state statute. The University has no further policy that would limit its investment choices. Credit ratings for the money market mutual funds and State Investment Pool are not available and are therefore, considered unrated.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. The University places no limit on the amount that may be invested in any one issuer. The University does not hold more than 5% of its investments with a single issuer.

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

Investment Income

Investment income for the years ended June 30 consisted of:

	<u>2013</u>	<u>2012</u>
Assets held by the University:		
Interest income	\$ 257,112	\$ 1,039,870
Assets held by MSU Foundation:		
Investment income restricted reserve funds	2,032	1,956
Investment income endowment funds	1,421,529	424,874
Net increase (decrease) in fair value of endowment investments	<u>870,638</u>	<u>(308,794)</u>
 Total investment income	 <u><u>\$ 2,551,311</u></u>	 <u><u>\$ 1,157,906</u></u>

6. Endowments

Changes in endowment assets for the years ended June 30 are as follows:

	<u>2013</u>	<u>2012</u>
Endowment assets, beginning of year	\$ 18,873,003	\$ 18,644,438
Investment return		
Investment income	2,032	1,956
Net appreciation (depreciation)	870,638	(308,794)
Total investment return	<u>872,670</u>	<u>(306,838)</u>
 Contributions	 <u>48,271</u>	 <u>535,403</u>
 Endowment assets, end of year	 <u><u>\$ 19,793,944</u></u>	 <u><u>\$ 18,873,003</u></u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

7. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2013
Land	\$ 9,898,280	\$ 510	\$ 14,917	\$ —	\$ 9,913,707
Construction in progress	14,525,948	6,799,148	(12,126,238)	—	9,198,858
Museum and collectibles	572,135	85,350	—	—	657,485
Total capital assets not being depreciated	<u>24,996,363</u>	<u>6,885,008</u>	<u>(12,111,321)</u>	<u>—</u>	<u>19,770,050</u>
Buildings	248,807,393	—	11,660,967	—	260,468,360
Nonbuilding improvements	14,157,308	—	462,484	—	14,619,792
Equipment	27,344,320	2,597,417	—	(2,683,078)	27,258,659
Library holdings	30,206,536	493,898	—	(322,391)	30,378,043
Livestock	396,750	105,490	—	(336,490)	165,750
Software	1,932,019	—	—	—	1,932,019
Total other capital assets	<u>322,844,326</u>	<u>3,196,805</u>	<u>12,123,451</u>	<u>(3,341,959)</u>	<u>334,822,623</u>
Total capital assets before depreciation	<u>347,840,689</u>	<u>10,081,813</u>	<u>12,130</u>	<u>(3,341,959)</u>	<u>354,592,673</u>
Less accumulated depreciation:					
Buildings	122,304,740	6,326,732	—	—	128,631,472
Improvements other than buildings	7,870,762	707,359	—	—	8,578,121
Equipment	20,669,962	1,616,173	—	(1,946,255)	20,339,880
Library holdings	25,544,162	791,489	—	(306,272)	26,029,379
Livestock	174,954	12,979	—	(134,167)	53,766
Software	949,922	241,503	—	—	1,191,425
Total accumulated depreciation	<u>177,514,502</u>	<u>9,696,235</u>	<u>—</u>	<u>(2,386,694)</u>	<u>184,824,043</u>
Capital assets, net	<u>\$ 170,326,187</u>				<u>\$ 169,768,630</u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2012
Land	\$ 9,825,663	\$ —	\$ 72,617	\$ —	\$ 9,898,280
Construction in progress	7,661,423	11,395,523	(4,298,058)	(232,940)	14,525,948
Museum and collectibles	561,577	10,558	—	—	572,135
Total capital assets not being depreciated	<u>18,048,663</u>	<u>11,406,081</u>	<u>(4,225,441)</u>	<u>(232,940)</u>	<u>24,996,363</u>
Buildings	247,271,737	—	1,550,618	(14,962)	248,807,393
Nonbuilding improvements	11,627,126	—	2,530,182	—	14,157,308
Equipment	27,621,306	1,383,811	144,641	(1,805,438)	27,344,320
Library holdings	30,253,988	354,193	—	(401,645)	30,206,536
Livestock	511,750	—	—	(115,000)	396,750
Software	1,932,019	—	—	—	1,932,019
Total other capital assets	<u>319,217,926</u>	<u>1,738,004</u>	<u>4,225,441</u>	<u>(2,337,045)</u>	<u>322,844,326</u>
Total capital assets before depreciation	<u>337,266,589</u>	<u>13,144,085</u>	<u>—</u>	<u>(2,569,985)</u>	<u>347,840,689</u>
Less accumulated depreciation:					
Buildings	116,663,148	5,655,432	—	(13,840)	122,304,740
Improvements other than buildings	7,209,749	661,013	—	—	7,870,762
Equipment	20,754,089	1,664,248	—	(1,748,375)	20,669,962
Library holdings	25,074,073	851,651	—	(381,562)	25,544,162
Livestock	178,559	35,562	—	(39,167)	174,954
Software	708,420	241,502	—	—	949,922
Total accumulated depreciation	<u>170,588,038</u>	<u>9,109,408</u>	<u>—</u>	<u>(2,182,944)</u>	<u>177,514,502</u>
Capital assets, net	<u>\$ 166,678,551</u>				<u>\$ 170,326,187</u>

8. Accounts Payable

Accounts payable at June 30 consisted of:

	2013	2012
Current accounts payable:		
Vendors	\$ 4,976,279	\$ 5,401,788
Payroll benefits and withholdings	1,836,540	1,551,367
MSU Foundation	83,119	128,160
Loans	2,741	10,411
Total accounts payable	<u>\$ 6,898,679</u>	<u>\$ 7,091,726</u>

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (*Continued*)

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 60 or has less than 27 years of participation in the plan. The plan also provides for disability, death and survivor benefits and medical insurance.

The KTRS 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 a percentage of their salary through payroll deductions and the University, which also contributes the required percentage of their current eligible employees' salaries to the KTRS. Kentucky Revised Statutes and the KTRS Board of Trustees establish contribution rate requirements of the plan members and the University, based on when participants join the plan. Contribution Rates are as follows:

	Employees joined:	
	<u>Before July 1, 2008</u>	<u>After July 1, 2008</u>
Employee Contributions	6.84%	7.16%
Employer Contributions	14.52%	14.84%
Optional Retirement Plan Participants	—	5.10%

The University's overall contributions to KTRS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$5,966,577, \$5,850,913 and \$5,358,140, respectively.

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (*Continued*)

Kentucky Employee Retirement System

Substantially, all other full-time University employees are required by law to participate in the Kentucky Employee Retirement System (KERS), a cost sharing multiple-employer, public employee retirement system. KERS provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age 65 or has less than 27 years of service. The plan also provides for disability, death and survivor benefits and medical insurance.

The KERS 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) 696-8800.

Funding of the plan is from eligible employees who contribute a percentage of their salary through payroll deductions and the University, which also contributes a percentage of current eligible employees' salaries to the nonhazardous KERS fund. University Public Safety Officers participate in the hazardous duty fund of KERS. The Kentucky Revised Statutes and the Board of Trustees of the Kentucky Retirement Systems determine contribution rates each biennium. Contribution Rates are as follows:

	Employees joined:	
	Before	After
	September 1, 2008	September 1, 2008
Non-Hazardous:		
Employee Contributions	5%	6%
Employer Contributions	23.61%	23.61%
Hazardous:		
Employee Contributions	8%	9%
Employer Contributions	29.79%	29.79%

The University's contributions to KERS for the years ended June 30, 2013, 2012 and 2011, were \$3,693,561, \$3,108,668 and \$2,561,430, 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, 2013, the University paid approximately 81% of total plan expenses for permanent full-time employees and their families. The University's contribution to cover claims paid under the plan for years ended June 30, 2013 and 2012, totaled \$8,596,210 and \$8,277,242, respectively. Stop loss and administrative fees are disclosed in the chart below. The University's stop-loss insurance limits its exposure for claims to \$125,000 per individual.

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

Changes in the liability for self insurance for the years ended June 30 are as follows:

	<u>2013</u>	<u>2012</u>
Liability, beginning of year	\$ 588,477	\$ 629,454
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	10,668,147	10,063,963
Administrative and stop-loss fees	(1,197,541)	(1,079,344)
Claims paid	<u>(9,468,946)</u>	<u>(9,025,596)</u>
Liability, end of year	<u>\$ 590,137</u>	<u>\$ 588,477</u>

10. Unearned Revenue

Unearned revenue as of June 30 consisted of:

	<u>2013</u>	<u>2012</u>
Current unearned revenue:		
Prepaid tuition and fees	\$ 2,125,698	\$ 2,125,232
Grants and contracts	477,726	639,699
Auxiliary enterprises	<u>42,628</u>	<u>22,736</u>
Total current unearned revenue	<u>\$ 2,646,052</u>	<u>\$ 2,787,667</u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

11. Revenue Bonds, Notes Payable and Capital Leases

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2013:

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year	Long-Term Portion
Bonds payable	\$ 46,075,000	\$ 15,635,000	\$ (2,430,000)	\$ 59,280,000	\$ 2,480,000	\$ 56,800,000
Less bond discounts	(264,423)	—	17,012	(247,411)	(17,012)	(230,399)
Plus bond premiums	189,880	121,830	(12,873)	298,837	18,674	280,163
Less bond deferred refunding loss	(2,500,739)	—	173,862	(2,326,877)	(193,147)	(2,133,730)
Bonds payable, net of discounts	<u>43,499,718</u>	<u>15,756,830</u>	<u>(2,251,999)</u>	<u>57,004,549</u>	<u>2,288,515</u>	<u>54,716,034</u>
City of Murray payable	9,380,000	—	(285,000)	9,095,000	305,000	8,790,000
Less bond deferred refunding loss	(400,983)	—	19,286	(381,697)	(19,286)	(362,411)
City of Murray payable, net	<u>8,979,017</u>	<u>—</u>	<u>(265,714)</u>	<u>8,713,303</u>	<u>285,714</u>	<u>8,427,589</u>
Master lease notes payable	4,566,463	—	(783,942)	3,782,521	812,850	2,969,671
Capital leases	<u>767,000</u>	<u>—</u>	<u>(138,000)</u>	<u>629,000</u>	<u>145,000</u>	<u>484,000</u>
Total bonds, notes and capital leases	<u>\$ 57,812,198</u>	<u>\$ 15,756,830</u>	<u>\$ (3,439,655)</u>	<u>\$ 70,129,373</u>	<u>\$ 3,532,079</u>	<u>\$ 66,597,294</u>

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2012:

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year	Long-Term Portion
Bonds payable	\$ 41,800,000	\$ 27,935,000	\$ (23,660,000)	\$ 46,075,000	\$ 2,430,000	\$ 43,645,000
Less bond discounts	(614,532)	—	350,109	(264,423)	(17,012)	(247,411)
Plus bond premiums	—	200,607	(10,727)	189,880	12,873	177,007
Less bond deferred refunding loss	—	(2,645,624)	144,885	(2,500,739)	(173,861)	(2,326,878)
Bonds payable, net of discounts, premiums	<u>41,185,468</u>	<u>25,489,983</u>	<u>(23,175,733)</u>	<u>43,499,718</u>	<u>2,252,000</u>	<u>41,247,718</u>
City of Murray payable	9,235,000	9,250,000	(9,105,000)	9,380,000	285,000	9,095,000
Less bond deferred refunding loss	—	(405,000)	4,017	(400,983)	(19,286)	(381,697)
City of Murray payable, net	<u>9,235,000</u>	<u>8,845,000</u>	<u>(9,100,983)</u>	<u>8,979,017</u>	<u>265,714</u>	<u>8,713,303</u>
Master lease notes payable	5,322,542	—	(756,079)	4,566,463	783,942	3,782,521
Capital leases	<u>898,000</u>	<u>—</u>	<u>(131,000)</u>	<u>767,000</u>	<u>138,000</u>	<u>629,000</u>
Total bonds, notes and capital leases	<u>\$ 56,641,010</u>	<u>\$ 34,334,983</u>	<u>\$ (33,163,795)</u>	<u>\$ 57,812,198</u>	<u>\$ 3,439,656</u>	<u>\$ 54,372,542</u>

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (Continued)

Maturity Information

A schedule of the mandatory principal and interest payments (excluding bond discounts) is presented below:

Years Ending June 30	Bonds	Notes	Total Principal	Interest	Total Payments
2014	\$ 2,480,000	\$ 1,262,850	\$ 3,742,850	\$ 2,255,457	\$ 5,998,307
2015	3,150,000	1,320,843	4,470,843	2,271,209	6,742,052
2016	3,230,000	1,374,960	4,604,960	2,144,649	6,749,609
2017	3,330,000	1,436,247	4,766,247	2,012,201	6,778,448
2018	3,380,000	721,620	4,101,620	1,875,606	5,977,226
2019-2023	17,110,000	2,135,000	19,245,000	7,577,180	26,822,180
2024-2028	18,355,000	2,445,000	20,800,000	4,058,932	24,858,932
2029-2033	7,215,000	2,810,000	10,025,000	1,090,863	11,115,863
2034	1,030,000	—	1,030,000	20,600	1,050,600
Total	<u>\$ 59,280,000</u>	<u>\$ 13,506,520</u>	<u>\$ 72,786,520</u>	<u>\$ 23,306,697</u>	<u>\$ 96,093,217</u>

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (Continued)

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Original Issue	Balance Due June 30, 2013	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2013-2014
General Receipts Bonds Payable				
Series A 2007 bonds dated July 31, 2007, with an interest rate of 4.00% to 4.50%; final principal payment date September 1, 2027; Richmond Hall	\$ 14,550,000	\$ 11,970,000	\$ 527,811	\$ 580,000
Series A 2009 bonds dated April 22, 2009, with an interest rate of 2.50% to 4.20%; final principal payment date September 1, 2028; completion of Richmond Hall and various projects under \$600,000	7,665,000	6,755,000	254,199	320,000
Series A 2011 bonds dated July 12, 2011, with an interest rate of 2.00% to 4.50%; final principal payment date September 1, 2031; renovation of Elizabeth College	7,645,000	7,360,000	265,664	290,000
Series B 2011 refunding bonds dated July 26, 2011, with an interest rate of 2.00% to 3.75%; final principal payment date September 1, 2021; refunding of Housing and Dining bonds series M, N & O	4,670,000	3,680,000	94,163	485,000
Series C 2011 refunding bonds dated July 12, 2011, with an interest rate of 2.00% to 4.00%; final principal payment date September 1, 2027; refunding of Housing and Dining bonds series P & Q	15,620,000	13,880,000	455,722	805,000
Series A 2013 bonds dated May 29, 2013, with an interest rate of 2.00% to 4.00%; final principal payment date September 1, 2033; renovation of Hester Hall and various projects under \$600,000	15,635,000	15,635,000	73,287	—
Total general receipts bonds payable	<u>\$ 65,785,000</u>	<u>\$ 59,280,000</u>	<u>\$ 1,670,846</u>	<u>\$ 2,480,000</u>
Bonds payable before discount	\$ 65,785,000	\$ 59,280,000	\$ 1,670,846	\$ 2,480,000
Less bond discount	—	(247,411)	—	(17,012)
Plus bond premium	—	298,837	—	18,674
Less bond deferred refunding loss	—	(2,326,877)	—	(193,147)
Total bonds payable	<u><u>\$ 65,785,000</u></u>	<u><u>\$ 57,004,549</u></u>	<u><u>\$ 1,670,846</u></u>	<u><u>\$ 2,288,515</u></u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (Continued)

	Original Issue	Balance Due June 30, 2013	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2013-2104
City of Murray Payable				
Agreement dated December 30, 2002, with interest of 2.50% to 4.85%; final principal payment due June 1, 2033; Wellness Center. Refunded on April 17, 2012 with final payment made on May 21, 2013	\$ 10,000,000	\$ —	\$ 7,550	\$ —
Agreement dated April 17, 2012, with interest of 1.00% to 3.50%; final principal payment due June 1, 2033; Wellness Center refunding of the December 30, 2002 issue.	9,250,000	9,095,000	238,392	305,000
City of Murray payable before discount deferred refunding loss	19,250,000	9,095,000	245,942	305,000
Less bond deferred refunding loss	—	(381,697)	—	(19,286)
Total City of Murray payable	\$ 19,250,000	\$ 8,713,303	\$ 245,942	\$ 285,714
Master Lease Notes Payable				
Campus energy performance upgrade - Master lease dated February 10, 2005, with interest of 3.94%; final principal payment due August 10, 2017	\$ 6,707,876	\$ 2,889,067	\$ 122,128	\$ 598,910
Energy savings projects - Master lease dated June 29, 2010, with interest of 2.85%; final principal payment due June 29, 2017	1,500,000	893,454	29,165	213,940
Total master lease payable	\$ 8,207,876	\$ 3,782,521	\$ 151,293	\$ 812,850
Capital Leases				
University of Kentucky dated June 25, 1998, with interest rate at 5.14%; final principal payment due January 1, 2017; Crisp Center	\$ 2,200,000	\$ 629,000	\$ 37,878	\$ 145,000
Less: Capitalized and Imputed Interest	—	—	(622,684)	—
Total All Bond Issues, Notes Payable and Capital Leases	\$ 95,442,876	\$ 70,129,373	\$ 1,483,275	\$ 3,532,079

The revenue bond indentures require the University to make deposits to sinking and reserve funds in annual amounts to meet the principal and interest payments due within the next 12 months, as well as maintain a reserve balance as a percentage of outstanding balances. As of June 30, 2013 and 2012, the sinking fund and reserve fund requirements have been funded as required.

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*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>2013</u>	<u>2012</u>
Capital lease assets, at cost	\$ 2,200,000	\$ 2,200,000
Less accumulated depreciation	<u>(1,815,000)</u>	<u>(1,760,000)</u>
Net book value	<u>\$ 385,000</u>	<u>\$ 440,000</u>

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

<u>Years Ending June 30</u>	<u>Total</u>
2014	\$ 179,179
2015	179,349
2016	179,057
2017	<u>179,282</u>
	716,867
Less amount representing interest	<u>(87,867)</u>
Present value of capital lease obligations	<u>\$ 629,000</u>

12. Deposits

The deposits held as of June 30 consisted of:

	<u>2013</u>	<u>2012</u>
Current:		
Horse stall rentals	\$ 14,080	\$ 8,080
Racer card declining balances	55,299	77,481
Housing deposits	139,026	136,717
Agency account balances	<u>114,407</u>	<u>95,426</u>
Total current deposits	322,812	317,704
Noncurrent:		
Housing deposits	<u>380,711</u>	<u>374,730</u>
Total deposits	<u>\$ 703,523</u>	<u>\$ 692,434</u>

Noncurrent housing deposit additions were \$336,970 and \$176,635 for the years ended June 30, 2013 and 2012, respectively. Noncurrent housing deposit deductions were \$329,025 and \$163,500 for the years ended June 30, 2013 and 2012, respectively.

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

13. Unrestricted Net Position

The University's designations of unrestricted net position at June 30 consisted of:

	<u>2013</u>	<u>2012</u>
Unrestricted net position		
Allocated for:		
Prior year carryovers for		
Departmental operations	\$ 19,761,305	\$ 17,992,017
Encumbrances	920,565	746,269
Working capital	7,268,344	6,136,272
Revenue contingency	2,400,290	2,514,770
General contingency	37,372,558	31,473,534
Self insurance	590,137	900,000
	<u> </u>	<u> </u>
Total unrestricted net position	<u>\$ 68,313,199</u>	<u>\$ 59,762,862</u>

14. Component Units

Murray State University Foundation, Inc.

Murray State University Foundation, Inc. (Foundation) is a Kentucky nonprofit corporation formed to receive, invest and expend funds for the enhancement and improvement of the University. It is a legally separate, tax-exempt component unit of the University that manages certain endowments and investments on behalf of the University. The Foundation has a Board of Trustees separate from that of the University; however, certain officers of the University are also officers of the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statement package.

During the years ended June 30, 2013 and 2012, the Foundation made payments of \$2,560,397 and \$2,443,938, respectively, on behalf of the University from restricted sources. Accounts receivable at June 30, 2013 and 2012, from the Foundation were \$379,545 and \$368,254, respectively. Accounts payable to the Foundation as of June 30, 2013 and 2012, respectively, were not significant. Complete financial statements for the Foundation can be obtained from the MSU Foundation Office, 100 Nash House, Murray, Kentucky 42071.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

Significant notes to the Foundation's financial statements are as follows:

a) Investments and Investment Return

Investments at June 30 consisted of:

	<u>2013</u>	<u>2012</u>
Money market mutual funds	\$ 4,107,658	\$ 5,117,996
Certificates of deposit	33,200	283,200
Equity securities	41,471,580	36,135,096
Cash value of life insurance policies	194,758	485,110
Mutual funds	25,912,095	19,915,625
Asset-backed bonds	—	40,681
Mortgage-backed bonds	3,179,363	4,095,215
Government bonds	5,126,702	3,382,771
Municipal bonds	596,246	361,855
Corporate bonds	3,071,315	4,121,947
Annuities	607,168	—
	<u>\$ 84,300,085</u>	<u>\$ 73,939,496</u>

Total investment return is comprised of the following:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 1,669,120	\$ 1,489,541
Realized gains on investments reported at fair value	3,180,839	298,188
Unrealized gains (losses) on investments reported at fair value	3,112,444	(1,104,784)
	<u>\$ 7,962,403</u>	<u>\$ 682,945</u>

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors.

b) Assets Held for Others

Assets held for others represent resources in the possession of, but not under the control of, the Foundation. Assets held for others as of June 30 were as follows:

	<u>2013</u>	<u>2012</u>
Murray State University	\$ 22,622,668	\$ 20,672,655
Murray State University Alumni Association	1,151,280	1,051,585
Others	10,779	10,712
	<u>\$ 23,784,727</u>	<u>\$ 21,734,952</u>

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (Continued)

c) Annuities and Trusts Payable

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from donors are recorded at fair value on the date of the gift. The Foundation has recorded a liability at June 30, 2013 and 2012 of \$1,079,638 and \$132,406, respectively, which represents the present value of the future gift annuity obligations. The liability has been determined using discount rates ranging from 1.2% to 7.0%.

The Foundation administers several charitable remainder unitrusts and annuity trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime), either in the form of a percentage of the fair value of the trust's assets (unitrust) or in the form of a specified dollar amount (annuity trust). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the future interest of the Foundation is recorded in the statement of activities as temporarily restricted contributions in the period the trust is established. Assets (investments) held in the charitable remainder trusts are recorded at fair value in the Foundation's statement of financial position. The present value of the estimated future payments were \$3,857,821 and \$3,820,436 at June 30, 2013 and 2012, respectively, which was calculated using discount rates ranging from 1.8% to 8%, and applicable mortality tables.

d) Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Scholarships	\$ 9,748,381	\$ 7,259,148
Instruction and institutional support	8,239,678	6,020,604
Chairs and professorships	460,901	335,980
	<u>\$ 18,448,960</u>	<u>\$ 13,615,732</u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

Permanently restricted net assets at June 30 are restricted to:

	<u>2013</u>	<u>2012</u>
Investment in perpetuity, the income of which is expendable to support:		
Scholarships	\$ 26,505,911	\$ 26,236,325
Instruction and institutional support	6,532,695	5,744,430
Chairs and professorships	2,048,139	1,341,526
Operations of the Golf Course	191,603	191,373
Any activity of the Foundation	370,615	356,153
	<u>\$ 35,648,963</u>	<u>\$ 33,869,807</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2013</u>	<u>2012</u>
Scholarships	\$ 1,194,933	\$ 1,108,198
Instruction and institutional support	1,365,464	1,335,740
	<u>\$ 2,560,397</u>	<u>\$ 2,443,938</u>

Murray State University Athletic Foundation, Inc.

Murray State University Athletic Foundation, Inc. (Racer Foundation) is a Kentucky nonprofit corporation formed to enhance the academic and athletic experience of the University student-athlete. The Racer Foundation has a Board of Directors separate from that of the University. The University does not control the timing or amount of receipts from the Racer Foundation, the majority of resources or income thereon that the Racer Foundation holds and invests. The resources held by the Racer Foundation can only be used by, or for the benefit of, the University. The Racer Foundation is considered a component unit of the University. The Racer Foundation financial statements are not presented in the University's financial statements since they were not material to the University's financial statements.

Accounts receivable from the Racer Foundation was \$413,750 and \$413,760 for the years ended June 30, 2013 and 2012, respectively. Complete financial statements for the Racer Foundation can be obtained from the MSU Athletic Foundation Office, Stewart Stadium, Murray, Kentucky 42071.

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (*Continued*)

15. Risk Management

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

Claims and Litigation

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

Commitments

The University has outstanding commitments under construction contracts of approximately \$2,386,499 and \$6,157,700 as of June 30, 2013 and 2012, respectively.

Government Grants

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single Audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

MURRAY STATE UNIVERSITY**A Component Unit of the Commonwealth of Kentucky****Notes To Financial Statements (Continued)****16. Natural Expense Classifications with Functional Classifications**

The University's operating expenses by functional classification for the years ended June 30 was as follows:

Fund Classification	Year Ended June 30, 2013					
	Natural Classification					
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	\$ 51,990,426	\$ 5,646,398	\$ 149,556	\$ 741,214	\$ —	\$ 58,527,594
Research	1,316,923	309,536	—	23,455	—	1,649,914
Public service	5,945,310	2,039,033	220,548	137,726	—	8,342,617
Libraries	1,704,200	1,353,307	87	159,076	—	3,216,670
Academic support	4,414,547	2,503,479	158,162	173,038	500	7,249,726
Student services	9,257,896	5,059,022	77,789	208,147	20,345	14,623,199
Institutional support	17,435,632	1,172,420	98,639	181,966	—	18,888,657
Operations and maintenance	6,697,346	4,062,565	5,342,716	48,825	—	16,151,452
Financial aid	—	—	—	—	11,280,915	11,280,915
Depreciation	—	8,431,901	—	—	—	8,431,901
Auxiliary	7,222,447	11,171,067	2,711,203	111,679	261,265	21,477,661
Auxiliary depreciation	—	1,264,334	—	—	—	1,264,334
Total expenses	\$ 105,984,727	\$ 43,013,062	\$ 8,758,700	\$ 1,785,126	\$ 11,563,025	\$ 171,104,640

Fund Classification	Year Ended June 30, 2012					
	Natural Classification					
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	\$ 51,120,908	\$ 5,600,701	\$ 149,507	\$ 559,902	\$ —	\$ 57,431,018
Research	1,545,706	933,631	5,759	100,312	7,423	2,592,831
Public service	5,812,251	2,282,573	247,192	67,307	—	8,409,323
Libraries	1,766,390	1,339,030	105	27,102	—	3,132,627
Academic support	4,297,341	2,305,444	216,749	156,937	—	6,976,471
Student services	8,920,138	5,662,060	95,580	109,023	4,532	14,791,333
Institutional support	16,996,991	1,404,418	121,517	259,626	—	18,782,552
Operations and maintenance	6,488,716	3,785,861	5,249,048	37,994	—	15,561,619
Financial aid	—	—	—	—	12,665,288	12,665,288
Depreciation	—	7,870,697	—	—	—	7,870,697
Auxiliary	6,957,857	10,609,559	2,705,283	127,480	288,509	20,688,688
Auxiliary depreciation	—	1,238,711	—	—	—	1,238,711
Total expenses	\$ 103,906,298	\$ 43,032,685	\$ 8,790,740	\$ 1,445,683	\$ 12,965,752	\$ 170,141,158

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (*Continued*)

17. 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 and assets and liabilities that are required by an external party to be accounted for separately. The Susan E. Bauernfeind Student Recreation and Wellness Center is the University's only reportable segment.

Susan E. Bauernfeind Student Recreation and Wellness Center

The University entered into an agreement with the City of Murray, Kentucky on December 30, 2002, to finance the construction of a student recreation/wellness center. The University established a \$3.00 per credit hour student fee, effective for the Fall 2002 semester, to be designated as the Wellness Center Fee. A portion of the revenues from this fee will be used to fund all debt and debt related expenses according to the terms and provisions of the Memorandum of Agreement between the University and the City of Murray.

The City of Murray refinanced the original bonds in the spring of 2012 to take advantage of an overall decrease in net interest costs. The terms of original agreement between the University and the City of Murray remained unchanged, with the exception of changes in the amount of debt and interest payments.

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

Condensed financial information as of and for the years ended June 30 of the University's Wellness Center segment are as follows:

Wellness Center - Condensed Statements of Net Position

	<u>2013</u>	<u>2012</u>
Assets		
Current assets	\$ 327,545	\$ 216,306
Noncurrent assets	1,617,112	1,481,395
Capital assets, net of accumulated depreciation	<u>8,318,799</u>	<u>8,587,514</u>
Total assets	<u>10,263,456</u>	<u>10,285,215</u>
Liabilities		
Current liabilities	35,617	38,062
Noncurrent liabilities	<u>8,713,304</u>	<u>8,979,018</u>
Total liabilities	<u>8,748,921</u>	<u>9,017,080</u>
Net position		
Net investment in capital assets	(394,505)	(391,504)
Restricted		
Expendable capital	852,072	715,314
Expendable debt service	729,429	728,070
Unrestricted	<u>327,539</u>	<u>216,255</u>
Total net position	<u>\$ 1,514,535</u>	<u>\$ 1,268,135</u>

Wellness Center - Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 78,821	\$ 77,682
Operating expenses	(482,219)	(517,669)
Depreciation expense	<u>(268,715)</u>	<u>(268,715)</u>
Operating loss	(672,113)	(708,702)
Net nonoperating revenues	<u>918,513</u>	<u>696,370</u>
Change in net position	246,400	(12,332)
Net position, beginning of year	<u>1,268,135</u>	<u>1,280,467</u>
Net position, end of year	<u>\$ 1,514,535</u>	<u>\$ 1,268,135</u>

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (Continued)

Wellness Center - Condensed Statements of Cash Flows

	<u>2012</u>	<u>2011</u>
Cash flows from		
Operating activities	\$ (386,658)	\$ (427,654)
Noncapital financing activities	539,441	553,163
Capital and related financing activities	93,604	117,485
Investing activities	<u>614</u>	<u>14,131</u>
Net increase in cash	247,001	257,125
Cash, beginning of year	<u>1,697,650</u>	<u>1,440,525</u>
Cash, end of year	<u>\$ 1,944,651</u>	<u>\$ 1,697,650</u>

18. Risk and Uncertainties

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such change could materially affect the investment amounts reported in the balance sheets.

19. Current Economic Conditions

The current economic environment presents the University with unprecedented circumstances and challenges which, in some cases, have resulted in declines in contributions, governmental support and grant revenue. The financial statements have been prepared using values and information currently available to the University.