

Deloitte & Touche LLP
Suite 2100
220 West Main Street
Louisville, Kentucky 40202

Tel: (502) 562-2000
Fax: (502) 562-2073
www.us.deloitte.com

**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
of Murray State University

We have audited the accompanying balance sheet of Murray State University (the "University") as of June 30, 2001, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2001, and the changes in its fund balances and its current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the University, taken as a whole. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the University's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report, dated September 21, 2001, on our consideration of the University's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

September 21, 2001

Deloitte
Touche
Tohmatsu

MURRAY STATE UNIVERSITY
BALANCE SHEET
 As of June 30, 2001
 With Comparative Figures as of June 30, 2000

	Current Funds		Loan Funds	Endowment Funds	Plant Funds	Agency Funds	Totals	
	Unrestricted	Restricted					2001	2000
ASSETS								
Cash and cash equivalents	\$ 16,103,375	\$ 1,995,561	\$ 566,719	\$ 918,760	\$ 13,160,231	\$ 53,799	\$ 32,798,445	\$ 25,284,714
Investments	-	-	-	-	4,498,624	-	4,498,624	5,308,376
Accounts and loans receivable, net	1,524,525	2,342,438	4,307,877	-	610	-	8,175,450	7,493,617
Interest receivable	708,170	-	-	-	129,156	-	837,326	421,312
Inventories	1,620,346	-	-	-	-	-	1,620,346	1,473,396
Prepaid expenses	319,631	36,937	-	-	-	-	356,568	312,093
Discount on bonds payable	-	-	-	-	418,244	-	418,244	401,194
Due from other funds	2,281,491	-	-	-	1,276,974	-	3,558,465	4,878,256
Assets held by MSU Foundation	-	3,973,284	-	24,149,190	592,279	-	28,714,753	20,560,544
Property, plant and equipment	-	-	-	-	229,688,612	-	229,688,612	211,168,814
Total assets	\$ 22,557,538	\$ 8,348,220	\$ 4,874,596	\$ 25,067,950	\$ 249,764,730	\$ 53,799	\$ 310,666,833	\$ 277,302,316
LIABILITIES AND FUND BALANCE								
Liabilities:								
Accounts payable	\$ 3,272,750	\$ 184,311	\$ -	\$ -	\$ 2,809,992	\$ -	\$ 6,267,053	\$ 4,301,520
Accrued payroll	2,741,379	59,574	-	-	-	-	2,800,953	2,679,150
Other accrued expenses	1,199,980	-	9,050	-	-	-	1,209,030	1,154,458
Interest payable	-	-	-	-	233,390	-	233,390	245,839
Deposits	305,011	-	-	-	-	53,799	358,810	444,318
Deferred revenues	1,154,131	131,669	-	-	-	-	1,285,800	1,061,955
Due to other funds	1,065,203	2,147,104	-	-	346,158	-	3,558,465	4,878,256
Notes payable	-	-	-	-	1,840,160	-	1,840,160	1,391,656
Bonds payable	-	-	-	-	22,137,000	-	22,137,000	22,642,000
Capital lease obligations	-	-	-	-	2,190,899	-	2,190,899	2,184,996
Total liabilities	\$ 9,738,454	\$ 2,522,658	\$ 9,050	\$ -	\$ 29,557,599	\$ 53,799	\$ 41,881,560	\$ 40,984,148
Fund balance:								
Current unrestricted funds:								
Allocated for:								
Working capital	\$ 2,456,745	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,456,745	\$ 1,504,631
Prior year carryovers:								
Renovation and maintenance	1,294,214	-	-	-	-	-	1,294,214	1,646,307
Departmental operations	5,276,072	-	-	-	-	-	5,276,072	5,241,995

See notes to financial statements.

MURRAY STATE UNIVERSITY
BALANCE SHEET (cont'd)
 As of June 30, 2001
 With Comparative Figures as of June 30, 2000

	Current Funds		Loan Funds	Endowment Funds	Plant Funds	Agency Funds	Totals	
	Unrestricted	Restricted					2001	2000
LIABILITIES AND FUND BALANCE (cont'd)								
Fund balance (cont'd):								
Current unrestricted funds (cont'd):								
Encumbrances	\$ 660,421	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 660,421	\$ 574,684
Reserve for general contingency	2,231,632	-	-	-	-	-	2,231,632	2,206,666
Reserve for self insurance	900,000	-	-	-	-	-	900,000	900,000
Current restricted funds	-	5,825,562	-	-	-	-	5,825,562	4,259,706
Loan funds - restricted	-	-	4,865,546	-	-	-	4,865,546	4,793,096
Endowment funds - restricted	-	-	-	25,067,950	-	-	25,067,950	17,639,990
Plant funds:								
Unexpended	-	-	-	-	8,650,336	-	8,650,336	2,865,050
Renewal and replacements	-	-	-	-	1,667,383	-	1,667,383	2,344,393
Retirement of indebtedness	-	-	-	-	3,505,980	-	3,505,980	4,511,077
Net investment in plant	-	-	-	-	206,383,432	-	206,383,432	187,830,573
Total fund balance	\$ 12,819,084	\$ 5,825,562	\$ 4,865,546	\$ 25,067,950	\$ 220,207,131	\$ -	\$ 268,785,273	\$ 236,318,168
Total liabilities and fund balance	\$ 22,557,538	\$ 8,348,220	\$ 4,874,596	\$ 25,067,950	\$ 249,764,730	\$ 53,799	\$ 310,666,833	\$ 277,302,316

See notes to financial statements.

MURRAY STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2001

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS:								
Current funds revenues	\$ 101,330,203	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grants and contracts	-	19,151,830	-	-	-	-	-	-
Private gifts	-	-	-	3,716,036	479,000	-	15,561	-
Endowment income	-	480,726	-	233,347	-	-	-	-
Expenditures for plant facilities (including \$5,024,726 charged to current fund expenditures)	-	-	-	-	-	-	-	22,021,332
Donated plant facilities	-	-	-	-	-	-	-	746,817
Additions to plant from completed projects	-	-	-	-	-	-	-	6,303,667
Retirement of indebtedness	-	-	-	-	-	-	-	2,586,092
Interest income - restricted	-	-	115,852	-	162,314	110,273	235,603	-
Increase in fair value of investments	-	-	-	346,315	-	4,326	3,533	-
Federal contributions	-	-	24,446	-	-	-	-	-
State grants and appropriations	-	-	-	2,935,751	19,539,186	-	-	-
Reduction in lease obligations	-	-	-	-	-	-	-	111,375
Adjustment for allowance for bad debts	-	-	3,318	-	-	-	-	-
Bond proceeds	-	-	-	-	1,610,000	-	-	-
Note payable proceeds	-	-	-	-	800,000	-	-	-
Other additions	-	-	99,349	-	10,808	-	-	-
Total revenues and other additions	\$ 101,330,203	\$ 19,632,556	\$ 242,965	\$ 7,231,449	\$ 22,601,308	\$ 114,599	\$ 254,697	\$ 31,769,283
EXPENDITURES AND OTHER DEDUCTIONS:								
Educational and general expenditures	\$ 81,884,754	\$ 18,512,189	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprises expenditures	14,267,926	-	-	-	-	-	-	-
Refunded to grantors	-	42,181	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	112,454	-	-	-	-	-
Administration and collection costs	-	-	58,700	-	-	-	-	-
Expended for plant facilities (including non- capitalized expenditures of \$2,415,239)	-	-	-	-	18,449,690	-	-	-
Retirement of indebtedness	-	-	-	-	-	-	2,586,092	-
Interest on indebtedness	-	-	-	-	(5,213)	-	1,161,214	-
Increase in lease obligations	-	-	-	-	-	-	-	117,278
Deletions and disposals	-	-	-	-	-	-	-	2,014,197
Completed capital projects	-	-	-	-	-	-	-	8,537,822
New bond/note indebtedness	-	-	-	-	1,610,000	-	-	919,596
Bond discount amortization	-	-	-	-	-	-	-	36,752

See notes to financial statements.

MURRAY STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2001

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
EXPENDITURES AND OTHER DEDUCTIONS (cont'd):								
Other deductions	-	6,494	4,520	99,612	-	2,289	291,408	-
Total expenditures and other deductions	\$ 96,152,680	\$ 18,560,864	\$ 175,674	\$ 99,612	\$ 20,054,477	\$ 2,289	\$ 4,038,714	\$ 11,625,645
TRANSFERS AMONG FUNDS:								
Mandatory:								
Bond principal and interest	\$ (2,177,703)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,177,703	\$ -
Loan match	(5,159)	-	5,159	-	-	-	-	-
Total mandatory transfers	\$ (2,182,862)	\$ -	\$ 5,159	\$ -	\$ -	\$ -	\$ 2,177,703	\$ -
Non-mandatory:								
Transfer from unrestricted fund to renewal and replacement fund	\$ (1,040,100)	\$ -	\$ -	\$ -	\$ -	\$ 1,040,100	\$ -	\$ -
Transfer from unrestricted fund to unexpended plant fund	(766,704)	-	-	-	766,704	-	-	-
Transfer from renewal and replacement fund to restricted fund	-	790,287	-	-	-	(790,287)	-	-
Transfer from restricted fund to endowment fund	-	(296,123)	-	296,123	-	-	-	-
Transfer to unexpended plant fund from renewal and replacement fund	-	-	-	-	942,383	(942,383)	-	-
Transfer from unexpended plant fund to retirement of indebtedness fund	-	-	-	-	(61,411)	-	61,411	-
Transfer from renewal and replacement fund to retirement of indebtedness fund	-	-	-	-	-	(96,750)	96,750	-
Transfer from unrestricted fund to retirement of indebtedness fund	(443,056)	-	-	-	-	-	443,056	-
Transfer of bonds payable for completed construction projects	-	-	-	-	1,590,779	-	-	(1,590,779)
Total non-mandatory transfers	\$ (2,249,860)	\$ 494,164	\$ -	\$ 296,123	\$ 3,238,455	\$ (789,320)	\$ 601,217	\$ (1,590,779)
Net increase (decrease) for the year	\$ 744,801	\$ 1,565,856	\$ 72,450	\$ 7,427,960	\$ 5,785,286	\$ (677,010)	\$ (1,005,097)	\$ 18,552,859
Fund balance at beginning of year	\$ 12,074,283	\$ 4,259,706	\$ 4,793,096	\$ 17,639,990	\$ 2,865,050	\$ 2,344,393	\$ 4,511,077	\$ 187,830,573
Fund balance at end of year	\$ 12,819,084	\$ 5,825,562	\$ 4,865,546	\$ 25,067,950	\$ 8,650,336	\$ 1,667,383	\$ 3,505,980	\$ 206,383,432

See notes to financial statements.

MURRAY STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 2001
With Comparative Figures for the Year Ended June 30, 2000

	2001			2000
	Unrestricted	Restricted	Total	
REVENUES:				
Educational and general:				
Tuition and fees	\$ 30,351,183	\$ -	\$ 30,351,183	\$ 27,756,595
State appropriations	46,861,700	-	46,861,700	45,024,100
Grants and contracts	-	19,110,501	19,110,501	17,075,744
Endowment income	-	480,726	480,726	557,823
Indirect and administrative cost recoveries	475,628	-	475,628	334,505
Sales and services of educational activities	2,884,394	-	2,884,394	2,805,170
Other sources	5,033,812	-	5,033,812	3,822,606
Total educational and general	<u>\$ 85,606,717</u>	<u>\$ 19,591,227</u>	<u>\$ 105,197,944</u>	<u>\$ 97,376,543</u>
Auxiliary enterprises	<u>\$ 15,723,486</u>	<u>\$ 41,329</u>	<u>\$ 15,764,815</u>	<u>\$ 14,224,595</u>
Total revenues	<u>\$ 101,330,203</u>	<u>\$ 19,632,556</u>	<u>\$ 120,962,759</u>	<u>\$ 111,601,138</u>
EXPENDITURES AND MANDATORY TRANSFERS:				
Educational and general:				
Instruction	\$ 35,927,662	\$ 5,886,193	\$ 41,813,855	\$ 38,791,397
Research	724,118	1,419,657	2,143,775	1,909,420
Public service	3,696,594	985,370	4,681,964	4,537,093
Libraries	2,639,668	61,003	2,700,671	2,616,357
Academic support	4,007,192	518,172	4,525,364	4,543,256
Student services	7,970,918	930,532	8,901,450	8,067,014
Institutional support	9,887,612	175,926	10,063,538	9,108,417
Operation and maintenance of plant	9,739,333	263,895	10,003,228	9,575,574
Student financial aid	7,291,657	8,230,112	15,521,769	13,862,139
Educational and general expenditures	<u>\$ 81,884,754</u>	<u>\$ 18,470,860</u>	<u>\$ 100,355,614</u>	<u>\$ 93,010,667</u>
Mandatory transfers for:				
Bond principal and interest	\$ 1,164,000	\$ -	\$ 1,164,000	\$ 1,546,000
Loan fund matching grant	5,159	-	5,159	2,725
Total mandatory transfers	<u>\$ 1,169,159</u>	<u>\$ -</u>	<u>\$ 1,169,159</u>	<u>\$ 1,548,725</u>
Total educational and general	<u>\$ 83,053,913</u>	<u>\$ 18,470,860</u>	<u>\$ 101,524,773</u>	<u>\$ 94,559,392</u>

See notes to financial statements.

MURRAY STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 2001
With Comparative Figures for the Year Ended June 30, 2000

	2001			2000
	Unrestricted	Restricted	Total	
EXPENDITURES AND MANDATORY TRANSFERS (cont'd):				
Auxiliary enterprises:				
Expenditures	\$ 14,267,926	\$ 41,329	\$ 14,309,255	\$ 12,725,655
Mandatory transfers for bond principal and interest	1,013,703	-	1,013,703	943,827
Total auxiliary enterprises	<u>\$ 15,281,629</u>	<u>\$ 41,329</u>	<u>\$ 15,322,958</u>	<u>\$ 13,669,482</u>
 Total expenditures and mandatory transfers	 <u>\$ 98,335,542</u>	 <u>\$ 18,512,189</u>	 <u>\$ 116,847,731</u>	 <u>\$ 108,228,874</u>
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):				
Refunded to grantors	\$ -	\$ (42,181)	\$ (42,181)	\$ (95,270)
Non-mandatory transfers and other changes:				
Transfer to renewal and replacement fund	(1,040,100)	-	(1,040,100)	(141,360)
Transfer from renewal and replacement fund	-	790,287	790,287	-
Transfer to unexpended plant funds	(766,704)	-	(766,704)	(475,031)
Transfer to endowment fund from restricted fund	-	(296,123)	(296,123)	(378,617)
Transfer to retirement of indebtedness fund	(443,056)	-	(443,056)	(354,064)
Other additions (deductions)	<u>-</u>	<u>(6,494)</u>	<u>(6,494)</u>	<u>(4,535)</u>
Total other transfers and additions (deductions)	<u>\$ (2,249,860)</u>	<u>\$ 445,489</u>	<u>\$ (1,804,371)</u>	<u>\$ (1,448,877)</u>
 Net increase in fund balance	 <u>\$ 744,801</u>	 <u>\$ 1,565,856</u>	 <u>\$ 2,310,657</u>	 <u>\$ 1,923,387</u>

See notes to financial statements.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001

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

Nature of Entity

Murray State University (the University) is a state supported institution of higher education located in Murray, Kentucky and is accredited by the Southern Association of Colleges and Schools. The University awards graduate and undergraduate degrees and serves a student population in excess of 9,100. The University is a component unit of the Commonwealth of Kentucky.

Basis of Accounting

The financial statements of the University have been prepared in accordance with the AICPA Industry Audit Guide "Audits of Colleges and Universities". The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization, interest and equipment renewal and replacement; and (3) transfers of a non-mandatory nature for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained in accordance with the principles of "fund accounting". This is the procedure by which resources for various activities are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined and reported as five balanced fund groups: current funds, loan funds, endowment funds, plant funds, and agency funds. Accordingly, all financial transactions have been recorded and reported by fund group. Within each group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the University's Board of Regents. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the University retains control to use in achieving its institutional purposes.

Current funds are used primarily to account for the transactions affecting the general operation of the University. These resources are expendable for performing the primary and support objectives of the University. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds received from non-exchange transactions are reported as revenues and expenditures in the period received provided all recognition criteria are met. Restricted current funds received from exchange transactions are reported as revenues and expenditures when expended for current period operating purposes.

The loan funds group is used to account for loan programs available to students and financed primarily by the Federal government.

Endowment funds are those for which donors, the Commonwealth, or other external agencies have stipulated, under the terms of the instrument creating the fund, that the principal is not expendable. That is, it is to be maintained inviolate and in perpetuity, and is to be invested for the purpose of producing current and future income which may be expended or added to principal.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001

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

Plant fund groups are used to account for the transactions relating to investment in University property. Plant fund subgroups include (1) unexpended plant, (2) renewals and replacements, (3) retirement of indebtedness, and (4) investment in plant. The unexpended plant subgroup consists of funds to be used for the acquisition and/or construction of physical properties for institutional purposes but unexpended at the reporting date. The renewals and replacements subgroup consists of funds to be expended for renewals and replacements of plant fund assets, including some renewals and replacements of a type not ordinarily capitalized in the investment in plant subgroup. The retirement of indebtedness subgroup consists of funds set aside for debt service reserves and charges, and for retirement of indebtedness on institutional properties. The investment in plant subgroup consists of funds expended for and thus invested in institutional properties and the bond indebtedness incurred to finance plant acquisitions and construction. Physical plant and equipment are stated at cost at the date of acquisition or at fair market value at the date of donation for gifts.

Agency funds are used to account for assets held by the University as custodian or fiscal agent for others and used for certain organized activities.

All gains and losses arising from the sale, collection or other disposition of investments and other noncash assets are accounted for in the funds which owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment funds, which income is accounted for in the fund to which it is restricted.

Cash and Cash Equivalents

The University's policy is to treat cash in local checking accounts and cash held by the Commonwealth for the University as cash and cash equivalents.

Investments

Equity securities with readily determinable fair values and debt securities are reported at fair value.

Inventories

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

Assets Held by Murray State University Foundation

Assets held by the Murray State University Foundation (the "Foundation") represent resources neither in the possession nor the control of the University, but are held and administered by the Foundation. The Foundation is governed by an independent board. The University recognizes gifts and donations made to the Foundation for the exclusive use and benefit of the University as assets and revenues of the University. The University recognizes the assets held by the Foundation at the estimated fair value of the assets or the present value of the future cash flows when the University is notified of the existence of the gift or the endowment.

Nonexchange Transactions

Effective July 1, 2000, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues". These Statements established accounting and financial reporting standards for nonexchange transactions involving financial or capital resources (for example, grants and private donations). The principal issue addressed in these statements is the timing of recognition of nonexchange transactions. The adoption of these Statements did not have a significant impact on the University's financial statement.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001

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

Deferred Revenue

Revenues of summer school academic terms are reported in the fiscal year in which the programs are predominantly conducted. Therefore, deferred tuition revenue is recorded for terms which have not begun at fiscal year end. Revenues of exchange or exchange-like transactions (for example, grants and private contracts) are reported in the fiscal year in which the terms of the grant or contract award is met. Therefore, deferred revenue is recorded pending completion of the award terms.

Use of Estimates

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

Recent Accounting Pronouncements

In November 1999, the GASB issued Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities." This statement establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" as amended by GASB No. 37, "Basic Financial Statements and Managements' Discussion and Analysis – for State and Local Governments: Omnibus" and GASB No 38, "Certain Financial Statement Note Disclosures". GASB No. 35 has the effect of changing the financial reporting requirements for basic financial statements for public colleges and universities under accounting principles generally accepted in the United States of America.

This statement is effective for financial statements for fiscal years beginning after June 15, 2001. It is expected that the adoption of Statement No. 35 will have a material effect on the University's financial statements. Among other things, net assets (currently referred to as fund balances) will be reduced due to the requirement of this Statement to recognize depreciation on all capital assets. Additionally, the content and presentation of the basic financial statements will be significantly revised under this Statement, including the addition of management's discussion and analysis as required supplementary information.

Reclassifications

Certain reclassifications have been made to the 2000 amounts to conform to the 2001 presentation.

Note 2. **Deposits and Investments**

The University currently uses commercial banks and the Commonwealth of Kentucky as depositories. Deposits with commercial banks are covered by Federal depository insurance or collateral held by the banks in the University's name. At the Commonwealth level, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth pooled deposits are substantially covered by Federal depository insurance or by collateral held by the bank in the Commonwealth's name. The investments of the University not held in the Commonwealth investment pool are insured or registered, or are held by the University or by an agent in the University's name.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
Year Ended June 30, 2001

Note 2. Deposits and Investments (cont'd)

Below is a summary of investments:

	June 30, 2001		June 30, 2000	
	Cost	Fair Value	Cost	Fair Value
U. S. government securities	\$ 4,496,940	\$ 4,498,624	\$ 4,515,336	\$ 4,506,014
Certificates of deposit	-	-	802,362	802,362
Total	<u>\$ 4,496,940</u>	<u>\$ 4,498,624</u>	<u>\$ 5,317,698</u>	<u>\$ 5,308,376</u>

Note 3. Inventories

Inventories at June 30, consisted of:

	June 30, 2001	June 30, 2000
Current unrestricted funds- Inventories:		
University bookstore	\$ 1,120,831	\$ 1,022,644
Physical plant	324,643	320,753
Food and food service supplies	163,576	109,725
Central stores - supplies	11,296	20,274
Total	<u>\$ 1,620,346</u>	<u>\$ 1,473,396</u>

Note 4. Accounts and Loans Receivable

Below is a summary of accounts and loans receivable:

	June 30, 2001	June 30, 2000
Current unrestricted funds - Accounts receivable:		
Student	\$ 1,339,961	\$ 1,214,142
Employee:		
Travel advances	27,359	25,339
Computer loans	45,765	43,159
Outside sales	701,760	474,198
State agencies	18,988	57,638
Allowance for doubtful accounts	(609,308)	(530,156)
Subtotal	<u>\$ 1,524,525</u>	<u>\$ 1,284,320</u>
Current restricted funds - Accounts receivable:		
Grants and contracts	\$ 2,342,438	\$ 1,973,264
Loan funds -		
Student loans	\$ 4,534,362	\$ 4,461,317
Allowance for doubtful accounts	(226,485)	(225,284)
Subtotal	<u>\$ 4,307,877</u>	<u>\$ 4,236,033</u>
Plant funds - Vendor receivable	<u>\$ 610</u>	<u>\$ -</u>
Total	<u>\$ 8,175,450</u>	<u>\$ 7,493,617</u>

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001

Note 5. Assets Held by MSU Foundation

Assets held by the Murray State University Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair market value. The assets in the pool are invested as follows: securities of the U.S. government and its agencies, 3%; mutual funds invested in equity securities, 45%; mutual funds invested in fixed income securities, 44%; certificates of deposit, 2% and other 6%.

Note 6. Property, Plant, and Equipment

Below is a summary of property, plant, and equipment:

	June 30, 2001	June 30, 2000
Land	\$ 4,997,755	\$ 4,070,193
Buildings	128,456,170	125,508,912
Improvements other than buildings	12,023,768	9,702,081
Equipment	34,348,890	31,258,855
Library holdings	21,743,175	20,881,279
Construction in progress	28,118,854	19,747,494
Total	\$ 229,688,612	\$ 211,168,814

During the year ended June 30, 2001, the University capitalized interest cost of approximately \$132,000.

The University purchased 28.0 acres of real estate from Murray State University Athletic Foundation, Inc. in November 1999, with a total purchase price of \$665,000. In December 2000, the University received the deed from The Murray State University Athletic Foundation, Inc. for donated real estate of 51.16 acres with a fair market value of \$545,000. The University also purchased 3.5 acres of real estate from Murray State University Foundation, Inc. in June 2001, with a total purchase price of \$330,000.

Note 7. Employee Benefits

A. Kentucky Teachers Retirement System:

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

The Kentucky Teachers Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3800 or by calling (502) 573-3266.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001

Note 7. Employee Benefits (cont'd)

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

B. 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 sixty-five or has less than twenty-seven years of service. The plan also provides for disability, death and survivor benefits and medical insurance.

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

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

C. University Health Self-Insurance Program:

The University maintains a self-insurance program for employees' health insurance. The University pays approximately 80% of the expenses of the plan for permanent full-time employees and their families. Expenses incurred to cover claims paid by the University under the plan for year ending June 30, 2001 and 2000 totaled \$3,525,859 and \$3,145,808, respectively, excluding administrative and stop-loss fees.

Note 8. Notes Payable

Notes payable at June 30, 2001 consist of the following:

Commonwealth of Kentucky note issued for expenditures related to the Regional Special Events Center, matures June 2002, interest rate 6.70%	\$ 90,685
Bank master lease agreement to finance the campus networking project, matures February 2004, interest rates 4.23% to 4.35%; collateralized by network infrastructure equipment	779,194
Ohio Valley Conference note issued for assessment program, matures September 2003, interest rate 6.00%	32,138

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001

Note 8. Notes Payable (cont'd)

Murray State University Foundation notes issued for various departmental capital expenditures, with maturities to April 2008, interest rates 7.00% to 8.50%.	182,787
Bank master lease agreement to finance computer equipment, matures July 2001, interest rate 4.93%	3,260
Bank master lease agreement to finance vehicles, Matures August 2002, interest rate 4.93%	10,154
Bank master lease agreement to finance residential college networking project, matures August 2007, interest rates of 5.20% to 5.59%	741,942
Total	<u><u>\$ 1,840,160</u></u>

A schedule of the mandatory principal and interest payments for the next five fiscal years and thereafter is presented below:

Year Ending June 30	Principal	Interest
2002	\$ 533,784	\$ 87,179
2003	451,302	59,589
2004	354,652	37,944
2005	146,800	26,123
2006	155,011	16,375
Thereafter	198,611	9,056
Total	\$ 1,840,160	\$ 236,266

Note 9. Bonds Payable

Bonds payable at June 30, 2001 consist of the following:

	Outstanding
Consolidated Educational Building Revenue Bonds, issued 1971 to 1993, with maturities to 2012, interest rates 3.0% to 6.20%	\$ 11,120,000
Consolidated Housing and Dining System Revenue Bonds, issued 1965 to 2001, with maturities to 2022, interest rates 2.88% to 5.40%	11,017,000
Total	<u><u>\$ 22,137,000</u></u>

Revenues from student housing and dining facilities, certain other auxiliary enterprises and student fees are pledged for the retirement of the bonds. All bonds are collateralized by land and buildings.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001

Note 9. Bonds Payable (cont'd)

A schedule of the mandatory principal payments for the next five fiscal years and thereafter is presented below:

Year Ending June 30	Consolidated Educational Building Revenue Bonds		Consolidated Housing and Dining System Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 1,365,000	\$ 609,960	\$ 840,000	\$ 437,425	\$ 2,205,000	\$ 1,047,385
2003	1,430,000	538,374	855,000	414,842	2,285,000	953,216
2004	1,510,000	461,106	600,000	383,655	2,110,000	844,761
2005	1,600,000	377,525	602,000	361,072	2,202,000	738,597
2006	1,690,000	288,321	520,000	339,294	2,210,000	627,615
Thereafter	3,525,000	508,245	7,600,000	2,458,576	11,125,000	2,966,821
Total	\$ 11,120,000	\$ 2,783,531	\$ 11,017,000	\$ 4,394,864	\$ 22,137,000	\$ 7,178,395

The required minimum reserves of \$2,003,615 and \$1,272,192 for the Consolidated Educational Sinking Fund and the Housing and Dining Sinking Fund, respectively, are on deposit with the trustee and are included in the "Cash" and "Investments" amounts in Plant Funds in the accompanying balance sheet.

Note 10. Capitalized Lease Obligations

The University leases certain equipment and facilities, under capital lease agreements. Remaining minimum annual lease payments pursuant to these leases are as follows:

Year Ending June 30	
2002	\$ 277,379
2003	261,637
2004	258,249
2005	231,931
2006	178,974
Thereafter	1,972,464
	<u>3,180,634</u>
Less amount representing interest	(989,735)
Present value of capital lease obligations	<u>\$ 2,190,899</u>

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001

Note 11. Contingencies

The University has been named as 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.

On September 18, 1998, a fire damaged one of the University's student housing units and one student resident was fatally injured and another student seriously injured. Litigation is pending; however, at this time University management, although it believes it is not at fault, is unable to estimate the ultimate outcome of this litigation or its impact on the University's financial position or results of operation.

Note 12. Murray State University Foundation, Inc.

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

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

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

Note 13. Murray State University Athletic Foundation, Inc.

Murray State University Athletic Foundation, Inc. (Racer Foundation) is a Kentucky non-for-profit corporation formed to enhance the academic and athletic experience of the Murray State University student-athlete.

The Racer Foundation has a Board of Directors separate from that of the University and prepares and issues its own financial statements.