

# **Murray State University**

Accountants' Report and Financial Statements

June 30, 2003 and 2002



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## **Independent Accountants' Report on Financial Statements and Supplementary Information**

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

We have audited the accompanying basic financial statements of Murray State University (University), a component unit of the state of Kentucky, as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Murray State University as of June 30, 2003 and 2002, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19, in 2003 the University changed its method of accounting for donations received by Murray State University Foundation on behalf of the University by retroactively restating prior years' financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2003, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

President F. King Alexander and  
Board of Regents  
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The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on statements the University's basic financial statements. The accompanying schedule of expenditures of federal awards required by *U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part to the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

September 3, 2003

# **Murray State University**

## **Management's Discussion and Analysis**

### ***Introduction***

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Murray State University (University) for the year ended June 30, 2003. 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 within 40 miles of Illinois, Missouri, and Tennessee. Murray State has study centers in four other cities where it offers a diverse range of degree programs from associate to master levels, through a framework of approximately 30 departmental units in 5 colleges and 1 school, and contributes to the region and state through related research and public service programs. Murray State University serves as a residential, regional university offering core programs in the liberal arts, humanities, sciences and selected high-quality professional programs for approximately 9,900 students.

Murray State University consistently ranks among the nation's best regional universities each year according to the U.S. News and World Report's America's Best Colleges rankings report. Factors considered in the rankings are reputation, retention rate, graduation rate, class size, student-faculty ratio and SAT/ACT scoring. The University was also named one of only six public Universities in the nation to be selected by Kaplan, Inc. as a "Hidden Treasure." The honor was based on the results of a Market Measurement, Inc., national survey of high school guidance counselors. Kiplinger's' Personal Finance magazine has ranked the University as one of America's Top 40 Public Universities for overall academic quality and affordable tuition. The University is a charter member of the Ohio Valley Conference and a Division I member of the NCAA. The University's commitment to academic excellence is central to the University's mission and permeates throughout the institution.

### **Financial Highlights**

- The University's financial position remained strong as of the end of the year, with assets of \$183.3 million and liabilities of \$54.5 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$128.8 million or 70% of total assets. Net assets increased by \$1.6 million from 2002 to 2003.
- Fiscal operations were in accordance with the annual operating budget of approximately \$100 million. Notwithstanding the reduction in state appropriations, the University continued to be a strong employer for the region and employed approximately 1,300 individuals, including 375 faculty members.

# **Murray State University**

## **Management's Discussion and Analysis**

- State appropriations from the Commonwealth of Kentucky fell by \$1.3 million or 2.6% from 2002 to 2003. Due to this appropriations reduction, permanent reductions in departmental operating budgets were required to balance the current year budget.
- Construction continues on a \$13 million science complex, funded by the Commonwealth in the 2000-2002 biennium budget. This is the first phase of a two phase project.
- The West Kentucky Post-Secondary Education Center in Hopkinsville, Kentucky, opened for classes in the fall 2002 semester. The University had a first semester enrollment of 311 students at this center.
- The University entered into an agreement with the City of Murray, Kentucky to sell \$10 million in bonds for the funding of a new student recreation/wellness center to be located on the University's campus. A student fee was approved the Board of Regents and by the Student Government Association to be used for the funding of this project. The project is scheduled for completion in January 2005.
- A major internal and external renovation of Winslow Cafeteria began in the summer of 2003. Internal renovations are scheduled for completion prior to the start of the fall 2003 semester and external renovations are planned to be finished before the semester is complete. This project will be funded from the sale of \$2.5 million of housing and dining system bonds in 2003-04. Winslow Cafeteria serves the north residential college complex.
- Grant funding of \$3 million was secured from state and federal agencies to construct the Western Regional Center for Emerging Technologies on the University's campus. This facility is planned for completion in the 2003-04 fiscal year. This facility will act to promote economic and technological development within the region, through the combined efforts of the University and state economic development initiatives.

# **Murray State University**

## **Management's Discussion and Analysis**

### ***Using the Financial Statements***

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

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

### **Balance Sheets**

The Balance Sheets present a financial picture of the University's financial condition at the end of the 2003 and 2002 fiscal years by reporting assets (current and noncurrent), liabilities (current and noncurrent), and net assets. Net assets, the difference between total assets and total liabilities, are an important indicator of the current financial condition, while the change in net assets is an indicator of whether the overall financial position has improved or worsened during the year.

#### ***Assets***

Total assets at the end of the fiscal year 2003 were \$183.3 million, of which capital assets, net of depreciation, represented the largest portion. This group of assets totaled approximately \$107.1 million or 58% of total assets and was primarily comprised of university-owned land, buildings, equipment and library holdings. Cash and cash equivalents amounted to \$47.5 million or 26% of total assets. Approximately half of the cash and cash equivalents total was for capital construction commitments and debt services requirements. Total assets increased by \$7.8 million during the year, which is primarily due to funding secured for future capital assets.

#### ***Liabilities***

Total liabilities at the end of the fiscal year 2003 were \$54.5 million. Debt obligations for educational buildings and the housing and dining system facilities amounted to \$30.2 million. During the year, total liabilities increased by \$6.2 million largely due to new debt to construct a student recreation/wellness center.

# Murray State University

## Management's Discussion and Analysis

### Condensed Balance Sheets

	June 30, 2003	June 30, 2002
Assets:		
Current assets	\$ 29,216,953	\$ 26,040,231
Noncurrent assets	46,974,282	41,562,542
Capital assets, net	107,147,545	107,904,063
Total assets	183,338,780	175,506,836
Liabilities:		
Current liabilities	24,961,998	22,665,907
Noncurrent liabilities	29,542,035	25,601,693
Total liabilities	54,504,033	48,267,600
Net assets:		
Invested in capital assets, net of related debt	\$ 85,104,843	\$ 85,180,207
Restricted for:		
Nonexpendable	11,380,920	11,481,418
Expendable:		
Scholarships, research, and other	2,552,561	2,118,590
Loans	4,985,017	5,002,921
Capital	4,100,350	3,895,800
Debt service	3,587,330	3,646,230
Unrestricted	17,123,726	15,914,070
Total net assets	128,834,747	127,239,236
Total liabilities and net assets	\$ 183,338,780	\$ 175,506,836

### ***Net Assets***

Net assets, which represent total equity, of the University were divided into three major categories, defined as follows:

- Invested in capital assets, net of related debt - This category represents the institution's equity in property, buildings, equipment, library holdings and other plant assets owned by the University, less related depreciation.
- Restricted - This category represents those assets subject to externally imposed restrictions governing their use and includes classifications of nonexpendable and expendable.
  - Restricted nonexpendable net assets - Restricted nonexpendable net assets consist solely of permanent endowments owned by the University. The corpus, as specified by the donor, is invested in perpetuity and may not be expended.

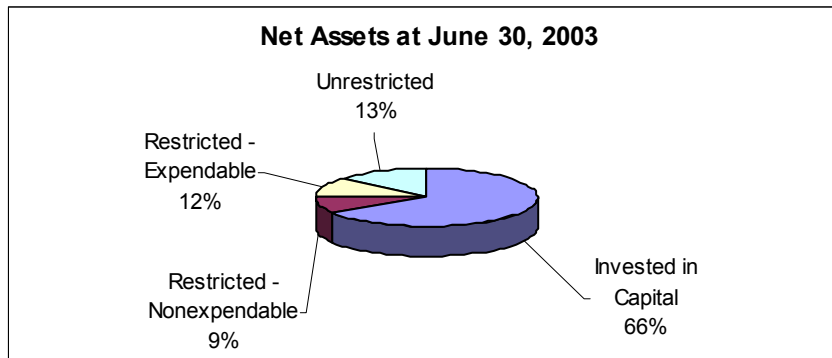


# Murray State University

## Management's Discussion and Analysis

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

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



### Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses and Changes in Net Assets, 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 assets as presented on the Statements of Net Assets are based on the activity presented in the Statements of Revenues, Expenses and Changes in Net Assets.

The Statements of Net Assets 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 non-operating 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.

# Murray State University

## Management's Discussion and Analysis

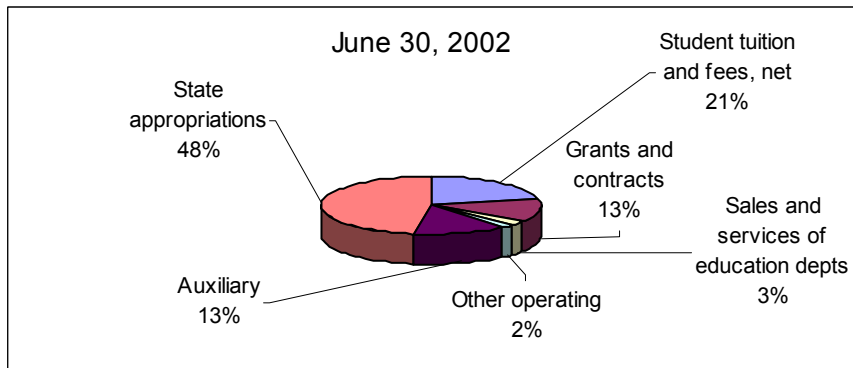
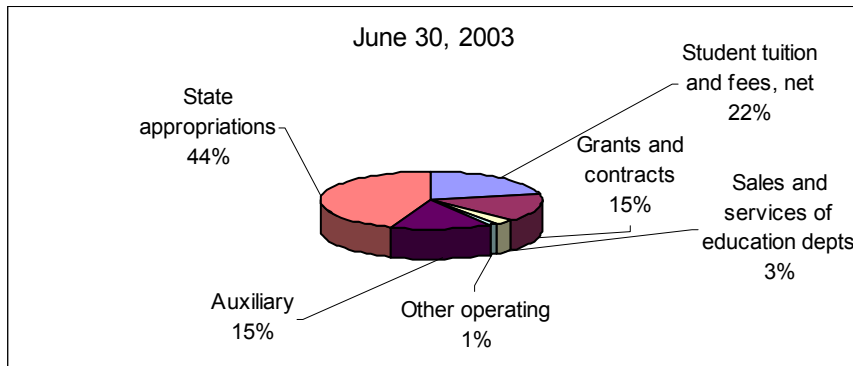
### *Revenues*

Total operating revenues, which exclude state appropriations, for the 2003 fiscal year were \$63.4 million, including student tuition and fees, net of related discounts and allowances, of \$25 million, operating grants and contracts revenues of \$17.2 million, and auxiliary services net revenue of \$16.5 million.

Operating revenues increased during the year by \$6.4 million. This increase is comprised of \$3.6 million from net student tuition and fees, driven by increased student enrollment and on campus residency, and \$3.1 million from federal and state student aid.

The University received \$50.4 million of state appropriations, a decrease from 2002 of \$1.3 million or 2.6%, in state support. 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 charts:



# Murray State University

## Management's Discussion and Analysis

### *Expenses*

Total operating expenses for the 2003 fiscal year were \$121.1 million. Of this amount, \$99.9 million were for educational and general expenses, including instruction, academic support, and operation and maintenance. Instructional program expenses represent the most significant portion of the educational and general operating expenses, totaling \$45.8 million or 46% of the total educational and general portion. Remaining operating expenses were for depreciation and auxiliary services, which amounted to \$6.5 million and \$14.8 million respectively. Depreciation was not allocated to each program group, but presented as a single expense item representing depreciation for all areas of the University.

Operating expenses increased for the year ended June 30, 2003 by \$8.3 million. This change is largely due to increases in salaries, fringe benefits, including the self-insured health insurance fund, utilities, property insurance and other fixed costs.

The net loss from operations for the year ended June 30, 2003, was \$57.7 million. Nonoperating revenues, net of expenses, amounted to \$55.4 million and non-debt related capital funding amounted to \$3.9 million, resulting in an increase in net assets of \$1.6 million for the year ended June 30, 2003.

### **Condensed Statements of Revenues, Expenses and Changes in Net Assets**

	2003	2002
Operating revenues:		
Student tuition and fees, net	\$ 25,049,932	\$ 23,265,495
Grants and contracts	17,208,964	14,114,922
Other	4,673,883	4,892,261
Auxiliary, net	16,500,239	14,729,270
Total operating revenues	63,433,018	57,001,948
Operating expenses:		
Instruction	45,804,242	42,995,278
Other educational and general	54,072,308	49,867,105
Depreciation	6,459,422	6,144,645
Auxiliary	14,769,901	13,772,777
Total operating expenses	121,105,873	112,779,805
Operating loss	(57,672,855)	(55,777,857)
Nonoperating revenues (expenses):		
State appropriations	50,388,100	51,673,740
Other nonoperating revenues (expenses)	8,880,266	8,719,512
Total nonoperating revenues (expenses)	59,268,366	60,393,252
Increase in net assets	1,595,511	4,615,395
Net assets -beginning of year, as previously reported	127,239,236	140,510,063
Adjustment applicable to prior years	-	(17,886,222)
Net assets - beginning of year, as restated	127,239,236	122,623,841
Net assets - end of year	\$ 128,834,747	\$ 127,239,236

# Murray State University

## Management's Discussion and Analysis

### Statements of Cash Flows

The Statements of Cash Flows provide a summary of the sources and uses of cash by defined categories. The primary 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.

The net cash used in operating activities reflect the net cash used for general operations of the University, which changed by \$1.5 million. This change was primarily due to more receipts from tuition and fees from enrollment and tuition rate increases.

The cash flows from noncapital financing activities, which changed by \$3 million from 2002 to 2003, reflect cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. This change includes a \$1.3 million reduction in appropriations from the Commonwealth of Kentucky and \$1.5 million in 2001-02 Regional University Endowment Trust Fund receipts not yet available in 2002-03.

The net cash flows used in capital and related financing activities represent cash received and used for the acquisition, construction, and renovation of capital assets, which changed by \$1.4 million. This change is due to a variety of cash transactions related to the student recreation/wellness center. The most significant source of cash is from debt proceeds of \$10 million for the construction of the student recreation/wellness center.

The cash flows provided by investing activities represent the cash activities of investments related to bond reserve funds and endowment assets. Minimal changes in debt service reserve requirements were required for the year ended June 30, 2003.

### Condensed Statements of Cash Flows

	2003	2002
<b>Cash provided by/(used in):</b>		
Operating activities	\$ (48,819,153)	\$ (50,291,745)
Noncapital financing activities	54,649,377	57,652,446
Capital and related financing activities	(6,817)	(1,410,015)
Investing activities	1,483,471	1,472,290
Net increase in cash	7,306,878	7,422,976
<b>Cash and cash equivalents - beginning of year</b>	40,221,421	32,798,445
<b>Cash and cash equivalents - end of year</b>	\$ 47,528,299	\$ 40,221,421



# **Murray State University**

## **Management's Discussion and Analysis**

### **Infrastructure Assets**

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

### **Economic Factors Affecting Future Periods**

- General state appropriations from the Commonwealth of Kentucky are not expected to increase over the next period; reductions are possible due to shortfalls in state revenue projections. In early discussions, state officials have indicated potential state revenue shortfalls of approximately \$274 million. If this occurred, it would be a 3.5% overall reduction of the \$7 billion state budget. The specific impact to the University's financial condition is not known at this time.
- The University provides health insurance to employees through a self-funded program. As reflected in national trends, significant increases in the costs of health claims are expected.
- Housing and dining system series P bonds will be issued in the amount of \$2.5 million for the renovation of Winslow Cafeteria. Repayment of these bonds will be provided by revenues from the housing and dining system.
- Consolidated Educational Buildings Revenue Bonds Series H will be refunded, for the entire balance outstanding, in September 2003. This refunding will result in an annual savings of approximately \$35,000 in debt service payments for the University. This bond series was originally issued to fund the underground condensate lines for the Old Fine Arts building.
- The Murray State Campus Improvement Corporation is expected to offer industrial revenue bond funds for the construction of new residential college facilities on the University's campus.
- The University has requested \$22.3 million in funding for the second phase of the science complex project. This project is the University's top priority in its capital projects request submitted to the Commonwealth for the 2004-06 capital budget.
- It is anticipated that the University will receive \$3,259,000 in funding, by December 2004, from the Kentucky Council on Postsecondary Education through the Regional Universities Endowment Trust Fund program. The awarding of these funds will be contingent upon the University's ability to generate endowment funding from external donors.

**Murray State University**  
**Balance Sheets**  
**June 30, 2003 and 2002**

**Assets**

	<b>2003</b>	<b>As Restated (See Note 19) 2002</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 21,252,159	\$ 18,730,404
Accounts receivable, net	3,901,663	3,848,356
Inventories	1,873,969	1,607,532
Prepaid expenses	585,783	480,856
Loans receivable, net	716,695	686,620
Interest receivable	<u>886,684</u>	<u>686,463</u>
Total current assets	<u>29,216,953</u>	<u>26,040,231</u>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	26,276,140	21,491,017
Investments	16,289,307	15,853,474
Accounts receivable, net	275,100	329,300
Loans receivable, net	3,666,822	3,769,712
Capital assets	223,643,563	218,305,566
Accumulated depreciation	(116,496,018)	(110,401,503)
Debt issuance costs, net	<u>466,913</u>	<u>119,039</u>
Total noncurrent assets	<u>154,121,827</u>	<u>149,466,605</u>
Total assets	<u>\$ 183,338,780</u>	<u>\$ 175,506,836</u>

**Murray State University**  
**Balance Sheets**  
**June 30, 2003 and 2002**

**Liabilities and Net Assets**

	<b>2003</b>	<b>As Restated (See Note 19) 2002</b>
<b>Current Liabilities</b>		
Accounts payable	\$ 5,437,344	\$ 5,887,132
Self-insured health liability	1,140,643	1,135,878
Accrued payroll	3,289,924	3,094,089
Interest payable	251,684	229,551
Deposits	208,365	398,205
Deferred revenue	11,688,150	8,985,195
Current maturities of long-term liabilities	<u>2,945,888</u>	<u>2,935,857</u>
Total current liabilities	<u>24,961,998</u>	<u>22,665,907</u>
<b>Noncurrent Liabilities</b>		
Deposits	191,556	159,212
Deferred revenue	—	4,997,748
Revenue bonds, notes payable, and capital leases	<u>29,350,479</u>	<u>20,444,733</u>
Total noncurrent liabilities	<u>29,542,035</u>	<u>25,601,693</u>
Total liabilities	<u>54,504,033</u>	<u>48,267,600</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	85,104,843	85,180,207
Restricted for		
Nonexpendable – permanent endowments	11,380,920	11,481,418
Expendable		
Scholarships, research, instruction and other	2,552,561	2,118,590
Loans	4,985,017	5,002,921
Capital assets	4,100,350	3,895,800
Debt service	3,587,330	3,646,230
Unrestricted	<u>17,123,726</u>	<u>15,914,070</u>
Total net assets	<u>128,834,747</u>	<u>127,239,236</u>
Total liabilities and net assets	<u>\$ 183,338,780</u>	<u>\$ 175,506,836</u>



**Murray State University**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2003 and 2002**

	<b>2003</b>	<b>As Restated (See Note 19) 2002</b>
<b>Revenues</b>		
Operating revenues		
Student tuition and fees	\$ 37,609,354	\$ 33,937,341
Less discounts and allowances	<u>12,559,422</u>	<u>10,671,846</u>
Net tuition and fees	<u>25,049,932</u>	<u>23,265,495</u>
Federal grants and contracts	11,379,257	10,470,997
State grants and contracts	5,693,083	3,553,022
Local and private grants and contracts	<u>136,624</u>	<u>90,903</u>
Total grants and contracts	<u>17,208,964</u>	<u>14,114,922</u>
Sales and services of educational departments	3,240,732	2,874,654
Other operating revenues	<u>1,433,151</u>	<u>2,017,607</u>
Total sales, services, and other revenues	<u>4,673,883</u>	<u>4,892,261</u>
Auxiliary enterprises revenues (Revenues are pledged as security for the Housing and Dining Revenue System Bond Series A – O)	17,381,284	15,652,036
Less discounts and allowances	<u>881,045</u>	<u>922,766</u>
Net auxiliary revenue	<u>16,500,239</u>	<u>14,729,270</u>
Total operating revenues	<u>63,433,018</u>	<u>57,001,948</u>
<b>Expenses</b>		
Operating expenses		
Instruction	45,804,242	42,995,278
Research	2,196,693	1,785,985
Public service	5,104,918	5,017,333
Libraries	1,350,674	1,434,689
Academic support	5,065,370	5,636,194
Student services	10,004,465	9,535,959
Institutional support	9,979,144	9,500,157
Operational and maintenance of plant	14,117,697	11,320,036
Student financial aid	6,253,347	5,636,752
Depreciation	6,459,422	6,144,645
Auxiliary enterprises	<u>14,769,901</u>	<u>13,772,777</u>
Total operating expenses	<u>121,105,873</u>	<u>112,779,805</u>
<b>Operating Loss</b>	<u>\$ (57,672,855)</u>	<u>\$ (55,777,857)</u>

**Murray State University**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2003 and 2002**

	<b>2003</b>	<b>As Restated (See Note 19) 2002</b>
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations	\$ 50,388,100	\$ 51,673,740
State endowment match	—	1,521,786
Restricted student fees (Revenues are pledged as security for the City of Murray debt agreement)	562,684	—
Federal grants and contracts	1,361,508	1,403,332
State grants and contracts	1,462,278	1,845,650
Local and private grants and contracts	1,336,810	1,238,341
Endowment income	310,315	293,671
Gifts	219,173	560,891
Investment income	2,091,962	1,016,312
Interest on capital asset-related debt	(1,370,662)	(1,066,839)
Loss on deletion and disposal of capital assets	(930,664)	(851,904)
Bond amortization	<u>(39,442)</u>	<u>(39,442)</u>
Net nonoperating revenues (expenses)	<u>55,392,062</u>	<u>57,595,538</u>
<b>Income (Loss) before Other Revenues, Expenses, Gains or Losses</b>	(2,280,793)	1,817,681
State capital appropriations	3,242,194	1,818,336
Capital grants	171,365	—
Capital gifts	444,905	679,378
Insurance proceeds on capital asset loss	<u>17,840</u>	<u>300,000</u>
<b>Increase in Net Assets</b>	<u>1,595,511</u>	<u>4,615,395</u>
<b>Net Assets, Beginning of Year, as previously reported</b>	127,239,236	140,510,063
<b>Adjustment Applicable to Prior Years</b>	<u>—</u>	<u>(17,886,222)</u>
<b>Net Assets, Beginning of Year, as restated</b>	<u>127,239,236</u>	<u>122,623,841</u>
<b>Net Assets, End of Year</b>	<u>\$ 128,834,747</u>	<u>\$ 127,239,236</u>

**Murray State University**  
**Statements of Cash Flows**  
**Years Ended June 30, 2003 and 2002**

	2003	Restated (See Note 19) 2002
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$ 26,153,761	\$ 23,710,913
Grants and contracts	18,323,465	14,499,830
Payment to employees	(69,483,846)	(66,378,954)
Payments to suppliers	(23,698,468)	(22,247,033)
Payments to students for financial aid	(6,253,347)	(5,636,752)
Loans issued to employees	(62,116)	(55,084)
Collection of loans to employees	63,188	103,224
Loans issued to students	(958,109)	(1,035,421)
Collection of loans to students	923,488	777,981
Sales and services	3,026,389	2,892,727
Other operating revenues	1,435,690	2,018,033
Auxiliary enterprises revenues		
Food service	5,301,220	4,891,118
Housing	6,165,546	5,316,049
Book store	4,764,159	4,326,644
Other	226,228	289,441
Auxiliary enterprises payments		
Payment to employees	(4,734,727)	(4,653,266)
Payment to suppliers	<u>(10,011,674)</u>	<u>(9,111,195)</u>
Net cash used in operating activities	<u>(48,819,153)</u>	<u>(50,291,745)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	50,388,100	51,673,740
State endowment match	—	1,521,787
Grants and contracts	4,331,961	4,437,232
Endowment transactions to MSU Foundation	(234,622)	(528,366)
Gifts for other than capital purposes	165,935	560,891
Agency transactions	<u>(1,997)</u>	<u>(12,822)</u>
Net cash provided by noncapital financing activities	<u>54,649,377</u>	<u>57,652,446</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from capital debt	11,570,426	398,865
Loan issued for capital project	—	(383,500)
Payment receipt for loan issued for capital project	54,200	—
Restricted student fees pledged for debt service	562,684	—
Insurance proceeds	17,843	300,000
State capital appropriations	—	13,717,734
Purchases of capital assets	(7,860,915)	(11,265,378)
Principal paid on capital debt and leases	(3,002,526)	(2,926,568)
Interest paid on capital debt and leases	<u>(1,348,529)</u>	<u>(1,251,169)</u>
Net cash used in capital and related financing activities	\$ <u>(6,817)</u>	\$ <u>(1,410,015)</u>

**Murray State University**  
**Statements of Cash Flows**  
**Years Ended June 30, 2003 and 2002**

	<b>2003</b>	<b>Restated (See Note 19) 2002</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	\$ 3,257,144	\$ 3,258,774
Purchase of investments	(3,203,808)	(3,385,611)
Interest receipts on investments	<u>1,430,135</u>	<u>1,599,127</u>
Net cash provided by investing activities	<u>1,483,471</u>	<u>1,472,290</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>7,306,878</b>	<b>7,422,976</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u><b>40,221,421</b></u>	<u><b>32,798,445</b></u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><b>\$ 47,528,299</b></u>	<u><b>\$ 40,221,421</b></u>
<b>Reconciliation of Operating Loss to Net Cash Used by</b>		
<b>Operating Activities</b>		
Operating loss	\$ (57,672,855)	\$ (55,777,857)
Depreciation	6,459,422	6,144,645
Bad debt	113,914	140,825
Changes in assets and liabilities		
Receivables, net	(135,955)	(1,524,296)
Inventories	(266,437)	12,814
Prepaid expenses	(104,927)	(124,288)
Accounts payable	449,788	(200,185)
Health insurance liability	4,765	(64,102)
Payroll withholding liability	195,835	293,136
Deposits	(157,496)	9,819
Deferred revenues	<u>2,294,793</u>	<u>797,744</u>
Net cash used in operating activities	<u><b>\$ (48,819,153)</b></u>	<u><b>\$ (50,291,745)</b></u>
<b>Supplemental Cash Flows Information</b>		
Gift of capital assets	\$ 444,905	\$ 679,378
Accounts payable incurred for capital assets	\$ 0	\$ 562,507

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

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

***Nature of Operations***

Murray State University (University) is a state-supported institution of higher education located in Murray, Kentucky, and is accredited by the Southern Association of Colleges and Schools. The University awards graduate and undergraduate degrees from five colleges and one school and serves a student population of approximately 9,900. The University is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statements of the Commonwealth.

***Basis of Accounting and Financial Statement Presentation***

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

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

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

***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.

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.

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Restricted Cash and Investments***

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

***Investments***

The University accounts for its investments at fair value. 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 assets.

Assets held by the Murray State University Foundation, Inc. (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 Foundation spending policy. 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*.

***Accounts Receivable***

Accounts receivable consists of tuition and fee charges, other operational activities, and auxiliary enterprise services. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, for non-exchange type agreements defined in accordance with GASB No. 33 or in connection with reimbursement of allowable expenditures made pursuant to the University's grant 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**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

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

<b><u>Asset</u></b>	<b><u>Estimated Life</u></b>
Buildings	40 years
Non-building improvements	10-20 years
Equipment	5-15 years
Library holdings	10 years
Livestock	12 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 \$0 and \$180,491 for the years ended June 30, 2003 and June 30, 2002, 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 purchase rather than capitalized.

***Debt Issuance Costs***

Debt issuance costs incurred have been deferred and are being amortized over the life of the debt using the straight line method. Total amortization for both years ended June 30, 2003 and 2002, was \$12,226.

***Compensated Absences***

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are included at year-end with accrued payroll, and as a component of compensation and benefit expense. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized.

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Deferred Revenue***

Deferred 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. Deferred 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.

***Net Assets***

The University's net assets are classified as follows:

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

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

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

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

***Release of Restricted Net Assets***

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



**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Classification of Revenues***

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

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

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

***Tuition Discounts and Allowances***

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

***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.

***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.

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Recent Accounting Pronouncements**

The Governmental Accounting Standards Board recently issued its Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14*. The new statement provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units in the University's financial statements based on the nature and significance of their relationship with the University. It generally requires reporting, as component units, organizations that raise and hold economic resources for the direct benefit of the University. The University expects to first apply the new statement during the year of June 30, 2004. The impact of applying the new statement has not yet been determined.

The Governmental Accounting Standards Board recently issued its Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No.3*. This Statement provides guidance in common deposit and investment risks related to credit risk. The University expects to first apply the new statement for the year ended June 30, 2005. The University does not expect GASB No. 40 to significantly impact its financial statements footnote disclosures.

**Reclassification**

Certain prior year amounts have been reclassified to conform to current year presentation.

**Note 2: Accounts Receivable**

Accounts receivable consisted of:

	<u>2003</u>	<u>2002</u>
Current accounts receivable:		
Student tuition and fees	\$ 1,210,898	\$ 1,381,436
Grants and contracts	1,919,717	1,997,089
Auxiliary fees	504,506	285,937
Employee		
Travel advances	—	198
Computer loans	23,912	24,786
Outside sales	817,911	715,585
State agencies	99,717	67,201
Vendor receivables	—	40,793
Capital construction receivable	54,200	54,200
Allowance for doubtful accounts	<u>(729,198)</u>	<u>(718,869)</u>
Total current accounts receivable	<u>3,901,663</u>	<u>3,848,356</u>
Noncurrent accounts receivable:		
Capital construction receivable	<u>275,100</u>	<u>329,300</u>
Total accounts receivable	<u>\$ 4,176,763</u>	<u>\$ 4,177,656</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 3: Inventories**

Inventories consisted of:

	<b>2003</b>	<b>2002</b>
Inventories		
University bookstore – resale	\$ 1,398,288	\$ 1,146,430
Physical plant – supplies	334,238	317,774
Food services – resale and supplies	118,478	127,521
Central stores – supplies	<u>22,965</u>	<u>15,807</u>
Total inventories	<u>\$ 1,873,969</u>	<u>\$ 1,607,532</u>

**Note 4: Loans Receivable, Net**

Student loans made through the Federal Perkins Loan Program (the Program) comprise substantially all of the loans receivable at June 30, 2003 and 2002. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for 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. At June 30, 2003, the allowance for uncollectible loans was \$221,313, and at June 30, 2002, the allowance for uncollectible loans was \$240,932.

Loans receivable consisted of:

	<b>2003</b>	<b>2002</b>
Current loans receivable		
University loan programs	\$ 44,131	\$ 39,403
Federal nursing program	67,213	58,572
Federal Perkins program	<u>605,351</u>	<u>588,645</u>
Total current loans receivable, net	<u>716,695</u>	<u>686,620</u>
Noncurrent loans receivable		
Federal nursing program	331,605	305,406
Federal Perkins program	<u>3,335,217</u>	<u>3,464,306</u>
Total noncurrent loans receivable, net	<u>3,666,822</u>	<u>3,769,712</u>
Total loans receivable, net	<u>\$ 4,383,517</u>	<u>\$ 4,456,332</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 5: Investments**

Investments consisted of:

	<b>June 30, 2003</b>		<b>June 30, 2002</b>	
	<b>Fair Value</b>	<b>Cost Basis</b>	<b>Fair Value</b>	<b>Cost Basis</b>
Money market funds	\$ 2,568,507	\$ 2,568,507	\$ 2,389,840	\$ 2,389,840
U. S. government securities	—	—	232,006	233,848
Repurchase agreements	<u>2,003,615</u>	<u>2,003,615</u>	<u>2,003,615</u>	<u>2,003,615</u>
Restricted for capital purposes	<u>4,572,122</u>	<u>4,572,122</u>	<u>4,625,461</u>	<u>4,627,303</u>
Restricted assets held by Murray State University Foundation	<u>11,717,185</u>	<u>11,717,185</u>	<u>11,228,013</u>	<u>11,228,013</u>
Total investments	<u>\$ 16,289,307</u>	<u>\$ 16,289,307</u>	<u>\$ 15,853,474</u>	<u>\$ 15,855,316</u>

Restricted investments for capital purposes are comprised of those 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.

Investments held by the Murray State University Foundation are comprised of private donations received directly by the University and consist of expendable restricted funds as well as endowments. 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 pool are invested as follows: securities of the U.S. government and its agencies, 1%; mutual funds invested in equity securities, 45%; mutual funds invested in fixed income securities, 47%; certificates of deposit, 1% and other 6%.

**Investment Income**

Investment income for the years ended June 30, 2003 and 2002, consisted of:

	<b>2003</b>	<b>2002</b>
Interest and dividend income	\$ 1,394,656	\$ 1,634,126
Net increase in fair value of investments	<u>697,306</u>	<u>(617,814)</u>
	<u>\$ 2,091,962</u>	<u>\$ 1,016,312</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 6: Regional University Excellence Trust Fund**

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

The following is a summary of the funding for the RUETF as of June 30, 2003:

<b>Funding Period</b>	<b>CPE Funding Available</b>	<b>CPE Funding Received</b>	<b>External Match Receipts</b>			<b>University External Match Pledge</b>
			<b>Held By University</b>	<b>Held By Foundation</b>	<b>Total</b>	
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 882,009	\$ 810,491	\$ 1,692,500	\$ 17,500
2000-2002	<u>3,521,787</u>	<u>3,521,787</u>	<u>—</u>	<u>1,909,642</u>	<u>1,909,642</u>	<u>1,612,145</u>
Total	\$ <u>5,231,787</u>	\$ <u>5,231,787</u>	\$ <u>882,009</u>	\$ <u>2,720,133</u>	\$ <u>3,602,142</u>	\$ <u>1,629,645</u>

The following is a summary of the funding for the RUETF as of June 30, 2002:

<b>Funding Period</b>	<b>CPE Funding Available</b>	<b>CPE Funding Received</b>	<b>External Match Receipts</b>			<b>University External Match Pledge</b>
			<b>Held By University</b>	<b>Held By Foundation</b>	<b>Total</b>	
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 857,509	\$ 804,991	\$ 1,662,500	\$ 47,500
2000-2002	<u>3,521,787</u>	<u>3,521,787</u>	<u>—</u>	<u>1,247,243</u>	<u>1,247,243</u>	<u>2,274,544</u>
Total	\$ <u>5,231,787</u>	\$ <u>5,231,787</u>	\$ <u>857,509</u>	\$ <u>2,052,234</u>	\$ <u>2,909,743</u>	\$ <u>2,322,044</u>

The University's external match pledges have not been recorded for financial reporting purposes in accordance with GASB No. 33. The above pledges must be fulfilled within a five year period of time due to the guidelines of the funding program.

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 7: Capital Assets**

Capital asset activity for the year ended June 30, 2003, was:

	<b>Balance June 30, 2002</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deletions/ Retirements</b>	<b>Balance June 30, 2003</b>
Land	\$ 5,545,982	\$ —	\$ 804,442	\$ —	\$ 6,350,424
Construction in progress	19,692,597	4,003,171	(9,678,414)	(789,847)	13,227,507
Museum and collectibles	<u>92,864</u>	<u>334,905</u>	<u>—</u>	<u>—</u>	<u>427,769</u>
Total capital assets not being depreciated	<u>25,331,443</u>	<u>4,338,076</u>	<u>(8,873,972)</u>	<u>(789,847)</u>	<u>20,005,700</u>
Buildings	146,180,955	35,376	7,753,200	—	153,969,531
Non-building improvements	7,214,230	—	1,099,171	—	8,313,401
Equipment	16,637,378	1,038,988	21,601	(307,295)	17,390,672
Library holdings	22,897,310	1,127,187	—	(104,488)	23,920,009
Livestock	<u>44,250</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>44,250</u>
Total other capital assets	<u>192,974,123</u>	<u>2,201,551</u>	<u>8,873,972</u>	<u>(411,783)</u>	<u>203,637,863</u>
Total capital assets before depreciation	<u>218,305,566</u>	<u>6,539,627</u>	<u>—</u>	<u>(1,201,630)</u>	<u>223,643,563</u>
Less accumulated depreciation					
Buildings	78,343,563	3,863,330	—	—	82,206,893
Improvements other than buildings	3,468,865	370,967	—	—	3,839,832
Equipment	11,562,488	1,216,186	—	(265,644)	12,513,030
Library holdings	17,022,308	1,004,660	—	(99,263)	17,927,705
Livestock	<u>4,279</u>	<u>4,279</u>	<u>—</u>	<u>—</u>	<u>8,558</u>
Total accumulated depreciation	<u>110,401,503</u>	<u>\$ 6,459,422</u>	<u>\$ —</u>	<u>\$ (364,907)</u>	<u>116,496,018</u>
Capital assets, net	<u>\$ 107,904,063</u>				<u>\$ 107,147,545</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 7: Capital Assets (Continued)**

Capital asset activity for the year ended June 30, 2002, was:

	<b>Balance June 30, 2001</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deletions/ Retirements</b>	<b>Balance June 30, 2002</b>
Land	\$ 4,997,755	\$ —	\$ 548,227	\$ —	\$ 5,545,982
Construction in progress	28,118,854	9,539,133	(17,965,390)	—	19,692,597
Museum and collectibles	<u>—</u>	<u>92,864</u>	<u>—</u>	<u>—</u>	<u>92,864</u>
Total capital assets not being depreciated	<u>33,116,609</u>	<u>9,631,997</u>	<u>(17,417,163)</u>	<u>—</u>	<u>25,331,443</u>
Buildings	128,289,157	474,635	17,417,163	—	146,180,955
Non-building improvements	6,931,536	282,694	—	—	7,214,230
Equipment	16,012,336	882,831	—	(257,789)	16,637,378
Library holdings	21,743,175	1,190,871	—	(36,736)	22,897,310
Livestock	<u>—</u>	<u>44,250</u>	<u>—</u>	<u>—</u>	<u>44,250</u>
Total other capital assets	<u>172,976,204</u>	<u>2,875,281</u>	<u>17,417,163</u>	<u>(294,525)</u>	<u>192,974,123</u>
Total capital assets before depreciation	<u>206,092,813</u>	<u>12,507,278</u>	<u>—</u>	<u>(294,225)</u>	<u>218,305,566</u>
Less accumulated depreciation					
Buildings	74,687,280	3,656,283	—	—	78,343,563
Improvements other than buildings	3,152,857	316,008	—	—	3,468,865
Equipment	10,353,059	1,209,429	—	—	11,562,488
Library holdings	16,063,662	958,646	—	—	17,022,308
Livestock	<u>—</u>	<u>4,279</u>	<u>—</u>	<u>—</u>	<u>4,279</u>
Total accumulated depreciation	<u>104,256,858</u>	<u>\$ 6,144,645</u>	<u>\$ —</u>	<u>\$ —</u>	<u>110,401,503</u>
Capital assets, net	<u>\$ 101,835,955</u>				<u>\$ 107,904,063</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 8: Accounts Payable**

Accounts payable consisted of:

	<b>2003</b>	<b>2002</b>
Current accounts payable		
Vendors	\$ 3,811,442	\$ 4,311,057
Employee payroll, benefits and withholdings	1,625,435	1,574,927
Loans	467	1,148
Total accounts payable	\$ 5,437,344	\$ 5,887,132

**Note 9: Employee Benefits**

***Kentucky Teachers Retirement System***

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

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

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. Kentucky Revised Statutes and the KTRS Board of Trustees establish contribution requirements of the plan members and the University. The University's contributions to KTRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$3,630,784, \$3,514,432, and \$3,476,325, respectively, and were equal to the required contributions.

***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



**Murray State University**  
**Notes to Financial Statements**  
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**Note 9: Employee Benefits (Continued)**

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

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

Funding of the plan is from eligible employees who contribute 5.00% of their salary through payroll deductions and the University, which also contributes 5.89% of current eligible employees' salaries to the non-hazardous KERS fund. Employees covered by the hazardous KERS fund contribute 8.00% of gross salary and the University contributes 18.84 % of gross salaries. The Kentucky Revised Statutes and the Board of Trustees of the Kentucky Retirement Systems determine contribution rates each biennium. The University's contributions to KERS for the years ended June 30, 2003, 2002, and 2001 were \$787,271, \$789,453 and \$732,688, respectively, and were equal to the required contributions.

***University Health Self-Insurance Program***

The University maintains a self-insurance program for employees' health insurance. The University pays approximately 88% of the expenses of the plan for permanent full-time employees and their families. Expenses incurred to cover claims paid by the University under the plan for years ended June 30, 2003 and 2002 totaled \$4,571,975 and \$4,114,886, respectively, excluding administrative and stop-loss fees. Stop-loss and administrative fees incurred for the years ended June 30, 2003 and 2002 were \$570,183 and \$508,198, respectively. The University's stop-loss insurance limits its exposure for claims to \$100,000 per individual.

Changes in the liability for self insurance are follows:

	<u>2003</u>	<u>2002</u>
Liability, beginning of year	\$ 1,135,878	\$ 1,152,471
Accruals for current year claims and changes in estimate	5,800,079	5,285,294
Other costs	(570,183)	(508,198)
Claims paid	<u>(5,225,131)</u>	<u>(4,793,689)</u>
Liability, end of year	<u>\$ 1,140,643</u>	<u>\$ 1,135,878</u>

**Murray State University**  
**Notes to Financial Statements**  
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**Note 10: Deferred Revenue**

Deferred revenue consisted of:

	<b>2003</b>	<b>2002</b>
Current deferred revenue		
Prepaid tuition and fees	\$ 1,222,029	\$ 1,180,427
International studies programs	393,954	523,374
Grants and contracts	1,403,025	365,896
Auxiliary enterprises	11,937	13,847
Capital state appropriation – science complex	8,657,205	6,901,651
Total current deferred revenue	11,688,150	8,985,195
Noncurrent deferred revenue		
Capital state appropriation – science complex	—	4,997,748
Total deferred revenue	\$ 11,688,150	\$ 13,982,943

**Note 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, 2003:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long Term Portion
Bonds payable	\$ 19,932,000	\$ —	\$ (2,285,000)	\$ 17,647,000	\$ 2,110,000	\$ 15,537,000
Less bond discounts	(259,764)	—	27,217	(232,547)	(27,216)	(205,331)
Bonds payable, net of discounts	19,672,236	—	(2,257,783)	17,414,453	2,082,784	15,331,669
City of Murray payable	—	10,000,000	—	10,000,000	—	10,000,000
Capital leases	2,024,589	—	(158,457)	1,866,132	162,938	1,703,194
Master lease notes payable	1,524,347	1,592,186	(511,474)	2,605,059	605,545	1,999,514
Notes payable	27,284	294,400	(15,916)	305,768	71,368	234,400
MSU Foundation notes payable	132,134	4,500	(31,679)	104,955	23,253	81,702
Total bonds, notes and capital leases	\$ 23,380,590	\$ 11,891,086	\$ (2,975,309)	\$ 32,296,367	\$ 2,945,888	\$ 29,350,479

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

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

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2002:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long Term Portion
Bonds payable	\$ 22,137,000	\$ —	\$ (2,205,000)	\$ 19,932,000	\$ 2,285,000	\$ 17,647,000
Less bond discounts	<u>(286,980)</u>	<u>—</u>	<u>27,216</u>	<u>(259,764)</u>	<u>(27,216)</u>	<u>(238,548)</u>
Bonds payable, net of discounts	21,850,020	—	(2,177,784)	19,672,236	2,257,784	17,414,452
Capital leases	2,190,899	—	(166,310)	2,024,589	158,457	1,866,132
Master lease notes payable	1,521,136	395,000	(391,789)	1,524,347	475,919	1,048,428
Notes payable	136,237	—	(108,953)	27,284	15,917	11,367
MSU Foundation notes payable	<u>182,786</u>	<u>3,865</u>	<u>(54,517)</u>	<u>132,134</u>	<u>27,780</u>	<u>104,354</u>
Total bonds, notes and capital leases	<u>\$ 25,881,078</u>	<u>\$ 398,865</u>	<u>\$ (2,899,353)</u>	<u>\$ 23,380,590</u>	<u>\$ 2,935,857</u>	<u>\$ 20,444,733</u>

**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
2004	\$ 2,110,000	\$ 863,104	\$ 2,973,104	\$ 1,500,018	\$ 4,473,122
2005	2,202,000	681,102	2,883,102	1,362,356	4,245,458
2006	2,210,000	796,228	3,006,228	1,224,742	4,230,970
2007	2,335,000	672,537	3,007,537	1,078,304	4,085,841
2008	870,000	509,540	1,379,540	942,882	2,322,422
2009-2013	3,800,000	1,885,402	5,685,402	3,838,301	9,523,703
2014-2018	2,730,000	1,964,000	4,694,000	2,656,273	7,350,273
2019-2023	1,390,000	1,930,000	3,320,000	1,687,374	5,007,374
2024-2028	—	2,465,000	2,465,000	1,117,113	3,582,113
2029-2033	<u>—</u>	<u>3,115,000</u>	<u>3,115,000</u>	<u>437,542</u>	<u>3,552,542</u>
Total	<u>\$ 17,647,000</u>	<u>\$ 14,881,913</u>	<u>\$ 32,528,913</u>	<u>\$ 15,844,905</u>	<u>\$ 48,373,818</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

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

Long-term liability activity for the year ended June 30, 2003, was as follows:

	<b>Original Issue</b>	<b>Balance Due June 30, 2003</b>	<b>Interest Expense, Current Year</b>	<b>Bonds/Notes Maturing 2003-2004</b>
<b>Housing and Dining System Revenue Bonds Payable</b>				
Series H bonds dated September 1, 1965, with interest at 3 3/8%; final principal payment date September 1, 2003; Elizabeth Hall and Springer Hall	\$ 1,845,000	\$ 50,000	\$ 2,417	50,000
Series I bonds dated September 1, 1965, with interest at 3 5/8%; final principal payment date September 1, 2004; Hart Hall	2,250,000	172,000	6,805	95,000
Series J bonds dated September 1, 1965, with interest of 3.34%; final principal payment date September 1, 2005; College Court III.	510,000	40,000	1,624	20,000
Series K bonds dated September 1, 1965, with interest at 3.00%; final principal payment date September 1, 2002; Hester Hall and White Hall	3,280,000	—	2,347	—
Series L bonds dated September 1, 1968, with interest at 3.00%; final principal payment date September 1, 2008; Regents Hall	2,000,000	1,045,000	32,096	160,000
Series M bonds dated June 26, 1997, with interest from 4.00% to 5.40%; final principal payment date September 1, 2017; Winslow Cafeteria	825,000	685,000	34,850	30,000
Series N bonds dated May 12, 1999, with interest from 4.35% to 4.90%; final principal payment date September 1, 2018; fire safety for residence halls	6,370,000	5,725,000	253,478	235,000
Series O bonds dated June 1, 2001, with interest from 4.00% to 5.00%; final principal payment date September 1, 2021; Hart Hall	<u>1,610,000</u>	<u>1,605,000</u>	<u>81,225</u>	<u>10,000</u>
Total housing and dining system revenue bonds payable	<u>\$ 18,690,000</u>	<u>\$ 9,322,000</u>	<u>\$ 414,842</u>	<u>\$ 600,000</u>

**Murray State University**  
**Notes to Financial Statements**  
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**Note 11: Revenue Bonds, Notes Payable and Capital Leases (Continued)**

	Original Issue	Balance Due June 30, 2003	Interest Expense, Current Year	Bonds/Notes Maturing 2003-2004
<b>Consolidated Educational Buildings</b>				
<b>Revenue Bonds Payable</b>				
Series G (second series) dated March 1, 1993, with interest from 3.10% to 5.60%; final principal payment date May 1, 2007; I&T building	\$ 11,660,000	\$ 5,560,000	359,018	\$ 1,275,000
Series H bonds dated March 1, 1992, with interest from 3.50% to 6.20%; final principal payment date May 1, 2012; Underground condensate lines for Old Fine Arts building	<u>4,625,000</u>	<u>2,765,000</u>	<u>179,356</u>	<u>235,000</u>
Total consolidated educational buildings revenue bonds payable	<u>16,285,000</u>	<u>8,325,000</u>	<u>538,374</u>	<u>1,510,000</u>
Bonds payable before discount	34,975,000	17,647,000	953,216	2,110,000
Less bonds discount	<u>—</u>	<u>(232,547)</u>	<u>—</u>	<u>(27,216)</u>
Total bonds payable	<u>\$ 34,975,000</u>	<u>\$ 17,414,453</u>	<u>\$ 953,216</u>	<u>\$ 2,082,784</u>
<b>City of Murray Payable</b>				
Agreement dated 12/30/02 with interest of 2.50% to 4.85%. Final principal payment due 6/01/33.	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>	<u>\$ 228,237</u>	<u>\$ —</u>
<b>Master Lease Payable</b>				
Residential networking – Master lease dated August 18, 2000, with interest from 5.20% to 5.59%; final principal payment due August 18, 2007	\$ 800,000	\$ 527,862	\$ 31,894	\$ 116,050
Deferred Maintenance – Master lease dated May 10, 2002, with interest at 4.79%; final principal payment due May 10, 2007	1,987,186	1,874,001	26,843	286,299
Campus Backbone Networking – Master lease dated January 25, 1998, with interest from 4.23% to 4.35%; final principal payment due February 25, 2004	<u>1,500,000</u>	<u>203,196</u>	<u>15,580</u>	<u>203,196</u>
Total Master lease payable	<u>\$ 4,287,186</u>	<u>\$ 2,605,059</u>	<u>\$ 74,317</u>	<u>\$ 605,545</u>

**Murray State University**  
**Notes to Financial Statements**  
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**Note 11: Revenue Bonds, Notes Payable and Capital Leases (Continued)**

	<b>Original Issue</b>	<b>Balance Due June 30, 2003</b>	<b>Interest Expense, Current Year</b>	<b>Bonds/Notes Maturing 2003-2004</b>
<b>Notes Payable</b>				
Kentucky Virtual University dated July 30, 2002, with interest rate at 0%; final principal payment Date December 1, 2005.	\$ 294,400	\$ 294,400	\$ —	\$ 60,000
Ohio Valley Conference dated September 8, 1999, with interest at 6.00%; final principal payment date September 3, 2003	56,625	11,366	1,177	11,368
GE Capital Public Finance, Inc. dated June 22, 2000, with interest at 5.86%; final principal payment date August 1, 2002	<u>15,603</u>	<u>—</u>	<u>306</u>	<u>—</u>
Total notes payable	<u>\$ 366,628</u>	<u>\$ 305,766</u>	<u>\$ 1,483</u>	<u>\$ 71,368</u>
<b>MSU Foundation Payable</b>				
Other liabilities – MSU Foundation; various notes for purchase of academic equipment; final principal date April 2, 2008	<u>\$ 159,405</u>	<u>104,955</u>	<u>10,248</u>	<u>23,253</u>
Total MSU Foundation payable	<u>\$ 159,405</u>	<u>\$ 104,955</u>	<u>\$ 10,248</u>	<u>\$ 23,253</u>
<b>Capital Leases</b>				
University of Kentucky dated June 25, 1998, with interest rate at 5.14%; final principal payment date January 1, 2017	\$ 2,200,000	\$ 1,741,000	\$ 94,565	\$ 89,000
Equipment leases	<u>715,285</u>	<u>125,132</u>	<u>16,509</u>	<u>73,938</u>
Total capital leases	<u>\$ 2,915,285</u>	<u>\$ 1,866,132</u>	<u>\$ 111,074</u>	<u>\$ 162,938</u>
<b>Total all Bond Issues, Notes Payable and Capital Leases</b>	<u>\$ 52,703,504</u>	<u>\$ 32,296,365</u>	<u>\$ 1,378,575</u>	<u>\$ 2,945,888</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

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

**Capital Leases**

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

	<u>2003</u>	<u>2002</u>
Capital lease assets, at cost	\$ 2,915,285	\$ 2,915,285
Less accumulated depreciation	<u>(1,897,513)</u>	<u>(1,798,126)</u>
Net book value	<u>\$ 1,017,772</u>	<u>\$ 1,117,159</u>

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

<u>Year Ending June 30</u>	<u>Equipment</u>	<u>Buildings</u>	<u>Total</u>
2004	\$ 78,628	\$ 179,629	\$ 258,257
2005	52,503	179,428	231,931
2006	—	178,974	178,974
2007	—	179,259	179,259
2008	—	179,231	179,231
2009-2013	—	897,126	897,126
2014-2017	<u>—</u>	<u>716,867</u>	<u>716,867</u>
	131,131	2,510,514	2,641,645
Less amount representing interest	<u>(5,999)</u>	<u>(769,514)</u>	<u>(775,513)</u>
Present value of capital lease obligations	<u>\$ 125,132</u>	<u>\$ 1,741,000</u>	<u>\$ 1,866,132</u>

**Note 12: Unrestricted Net Assets**

The University's designations of unrestricted net assets consisted of:

	<u>2003</u>	<u>2002</u>
Unrestricted net assets		
Allocated for		
Prior year carryovers		
Renovation and maintenance	\$ 638,989	\$ 1,116,259
Departmental operations	7,550,494	6,218,467
Encumbrances	420,200	835,867
Working capital	2,569,451	2,342,955
General contingency	5,044,592	4,500,522
Self insurance	<u>900,000</u>	<u>900,000</u>
Total unrestricted net assets	<u>\$ 17,123,726</u>	<u>\$ 15,914,070</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 13: Nonaffiliated Organizations**

***Murray State University Foundation, Inc.***

Murray State University Foundation, Inc. (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 owns and operates the Francis E. Miller Golf Course, 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.

The Murray State Campus Improvement Corporation, a non-profit non-stock corporation, was created in May 2003 for the exclusive benefit and support of the Murray State University Foundation, Inc., to perform functions of or carry out the purposes of the Foundation, and to handle real and personal property activity for Murray State University.

***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.

**Note 14: 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 state of Kentucky self-insures workers' compensation benefits for all state employees, including University employees. Claims are administered by the Risk Management Services Corporation.



**Murray State University**  
**Notes to Financial Statements**  
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**Note 15: Contingencies and Commitments**

***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 \$10,013,000 and \$4,600,000 as of June 30, 2003 and 2002, 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.

**Note 16: Natural Expense Classifications with Functional Classifications**

The University's operating expenses by functional classification for the year ended June 30, 2003 were as follows:

Fund Classification	Year Ended June 30, 2003						
	Natural Classification						
	Compensation and Benefits	Operations	Utilities	Non-capitalized Equipment	Scholarships	Depreciation	Total
Instruction	\$ 39,249,185	\$ 5,678,761	\$ —	\$ 854,932	\$ 21,364	\$ —	\$45,804,242
Research	1,261,431	791,454	—	143,808	—	—	2,196,693
Public service	3,932,924	1,025,848	—	146,146	—	—	5,104,918
Libraries	1,262,305	69,865	—	18,504	—	—	1,350,674
Academic support	3,404,387	1,463,777	—	195,612	1,594	—	5,065,370
Student services	6,446,145	3,482,316	—	58,068	17,936	—	10,004,465
Institutional support	9,168,245	509,199	—	301,700	—	—	9,979,144
Operations and maintenance	5,055,247	3,780,070	5,184,606	97,774	—	—	14,117,697
Financial aid	29,786	5,551	—	799	6,217,211	—	6,253,347
Depreciation	—	—	—	—	—	6,459,422	6,459,422
Auxiliary	4,773,111	9,730,334	—	164,635	101,821	—	14,769,901
Total expenses	<u>\$ 74,582,766</u>	<u>\$ 26,537,175</u>	<u>\$ 5,184,606</u>	<u>\$ 1,981,978</u>	<u>\$ 6,359,926</u>	<u>\$ 6,459,422</u>	<u>\$121,105,873</u>

**Murray State University**  
**Notes to Financial Statements**  
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**Note 16: Natural Expense Classifications with Functional Classifications (Continued)**

The University's operating expenses by functional classification for the year ended June 30, 2002 were as follows:

Fund Classification	Year Ended June 30, 2002						
	Natural Classification						
	Compensation and Benefits	Operations	Utilities	Non-capitalized Equipment	Scholarships	Depreciation	Total
Instruction	\$ 37,071,237	\$ 5,217,324	\$ —	\$ 664,659	\$ 42,058	\$ —	\$ 42,995,278
Research	1,131,339	573,571	—	80,775	300	—	1,785,985
Public service	3,844,178	982,712	—	190,443	—	—	5,017,333
Libraries	1,410,791	2,751	—	21,147	—	—	1,434,689
Academic support	3,342,451	1,652,426	—	640,767	550	—	5,636,194
Student services	6,136,446	3,349,259	—	47,313	2,941	—	9,535,959
Institutional support	8,767,086	470,103	—	262,968	—	—	9,500,157
Operations and maintenance	4,877,175	1,959,436	4,396,413	87,012	—	—	11,320,036
Financial aid	35,205	48,945	—	855	5,551,747	—	5,636,752
Depreciation	—	—	—	—	—	6,144,645	6,144,645
Auxiliary	4,693,852	8,954,210	—	62,813	61,902	—	13,772,777
Total expenses	<u>\$ 71,309,760</u>	<u>\$ 23,210,737</u>	<u>\$ 4,396,413</u>	<u>\$ 2,058,752</u>	<u>\$ 5,659,498</u>	<u>\$ 6,144,645</u>	<u>\$ 112,779,805</u>

**Note 17: Segment Information**

***Housing and Dining System***

The University's Housing and Dining System was established by the 1965 Trust Indenture. The Housing and Dining System, as defined by this trust indenture, includes all student housing, dining and student center facilities, and related enterprises facilities that now exist at the main campus in Murray, Kentucky. The University issues revenue bonds for this system to finance certain of its housing and dining auxiliary enterprise activities. These bonds will be payable from and will constitute a charge upon the gross revenue to be derived by the University from the operation of its Housing and Dining System. The revenues of the system consist of the gross amount of rentals received by the University for the use and occupancy of the facilities of the housing system and the net income from dining operations. These revenues do not include those generated by the University bookstore.

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 17: Segment Information (Continued)**

Condensed financial information of the University's Housing and Dining segment is as follows:

***Condensed Balance Sheets***

	<b>2003</b>	<b>2002</b>
Assets		
Current assets	\$ 3,014,364	\$ 2,878,314
Noncurrent assets	2,730,503	2,859,330
Capital assets, net of accumulated depreciation	<u>8,572,547</u>	<u>4,839,634</u>
Total assets	<u>14,317,414</u>	<u>10,577,278</u>
Liabilities		
Current liabilities	6,131,577	5,975,382
Noncurrent liabilities	<u>9,456,050</u>	<u>10,313,400</u>
Total liabilities	<u>15,587,627</u>	<u>16,288,782</u>
Net assets		
Invested in capital assets, net of related debt	(561,251)	(5,137,199)
Restricted		
Expendable capital	938,967	931,634
Expendable debt service	1,469,283	1,591,128
Unrestricted	<u>(3,117,212)</u>	<u>(3,097,067)</u>
Total net assets	<u>(1,270,213)</u>	<u>(5,711,504)</u>
Total liabilities and net assets	<u>\$ 14,317,414</u>	<u>\$ 10,577,278</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 17: Segment Information (Continued)**

***Condensed Statements of Revenues, Expenses  
and Changes in Net Assets***

	<b>2003</b>	<b>2002</b>
Operating revenues	\$ 11,505,847	\$ 10,230,555
Operating expenses	(10,326,969)	(9,722,930)
Depreciation expense	(843,488)	(575,828)
Operating loss	335,390	(68,203)
Nonoperating revenues (expenses)	4,105,901	(1,592,081)
Change in net assets	4,441,291	(1,660,284)
Net assets, beginning of year	(5,711,504)	(4,051,220)
Net assets, end of year	\$ (1,270,213)	\$ (5,711,504)

***Condensed Statements of Cash Flows***

	<b>2003</b>	<b>2002</b>
Cash flows from		
Operating activities	\$ 1,340,857	\$ 1,479,981
Noncapital financing activities	(120,125)	79,298
Capital and related financing activities	(1,272,192)	(1,300,676)
Investing activities	194,230	3,278
Net increase in cash	142,770	261,881
Cash, beginning of year	2,589,915	2,328,034
Cash, end of year	\$ 2,732,685	\$ 2,589,915

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 17: Segment Information (Continued)**

***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.

There was no financial activity of the University's Wellness Center in 2002. Condensed financial information as of and for the year ended June 30, 2003 of the University's Wellness Center segment is as follows:

***Condensed Balance Sheet***

	<b>2003</b>
Assets	
Current assets	\$ 276,524
Noncurrent assets	9,608,372
Capital assets, net of accumulated depreciation	836,949
Total assets	<u>10,721,845</u>
Liabilities	
Current liabilities	163,280
Noncurrent liabilities	10,037,401
Total liabilities	<u>10,200,681</u>
Net assets	
Restricted	
Expendable capital	558,565
Expendable debt service	(37,401)
Total net assets	<u>521,164</u>
Total liabilities and net assets	<u>\$ 10,721,845</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 17: Segment Information (Continued)**

***Condensed Statement of Revenues, Expenses  
and Changes in Net Assets***

	<b>2003</b>
Nonoperating revenues	
Restricted student fees	\$ 562,684
Investment income	186,716
Interest on capital asset-related debt	228,236
Nonoperating revenues	521,164
Change in net assets	521,164
Net assets, beginning of year	—
Net assets, end of year	\$ 521,164

***Condensed Statement of Cash Flows***

	<b>2003</b>
Cash flows from	
Capital and related financing activities	\$ 9,338,481
Investing activities	70,071
Net increase in cash	9,408,552
Cash, beginning of year	—
Cash, end of year	\$ 9,408,552

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2003 and 2002**

**Note 18: Subsequent Events**

***Housing and Dining Series P Bond Issuance***

The University received proceeds from the issuance of Series P of the Housing and Dining Bond Series on July 2, 2003. The face amount of the debt was \$2,500,000, at 3.71% interest, with the maturity date of September 1, 2023.

***Consolidated Educational Buildings Refunding Revenue Series H (2<sup>nd</sup>) Bond Issuance***

The University issued Series H (second series) of the Consolidated Educational Building Refunding Revenue Bonds on September 1, 2003. The face amount of the debt was \$2,855,000, at 3.27% interest, with the maturity date of May 1, 2012. This issuance refunds \$2,765,000 in outstanding bonds.

**Note 19: Adjustment Applicable to Prior Years**

During 2003, as part of the ongoing evaluation of its application of GASB No. 33 and in preparation for the implementation of GASB No. 39, the University determined that donations received by the Foundation on behalf of the University were not to be recorded as assets of the University. The University will continue to report as assets those private donations received directly by the University and held by the Foundation for investment purposes on behalf of the University. This change in the method of accounting for donations was recognized by restating the June 30, 2001 beginning net assets.

The cumulative effect of the adjustment is as follows:

Reduction of restricted University assets previously reported as held by the Foundation	\$ 3,502,630
Reduction of endowment University assets previously reported as held by the Foundation	<u>14,383,592</u>
Total	\$ <u>17,886,222</u>

This change also required a restatement of the year ended June 30, 2002 Statement of Revenues, Expenses, and Changes in Net Assets, which resulted in a reduction in the amount of \$1,550,885 to the previously reported increase in net assets.