

**Murray State University**  
**Accountants' Report and Financial Statements**  
June 30, 2004 and 2003



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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) and its aggregate discretely presented component units, collectively a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2004 and 2003, 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. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, in 2004 the University changed its method of financial statement presentation and disclosure by retroactively restating prior years' financial statements.

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Success**

President F. King Alexander and  
Board of Regents  
Page Two

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.

September 16, 2004

BKD LLP

# 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, 2004. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes, and this discussion and analysis are the responsibility of management.

The University is a comprehensive public institution of higher learning located in western Kentucky and primarily serves students in Kentucky, Illinois, Missouri, Tennessee, and Indiana. Murray State has study centers in four other cities where it offers a diverse range of degree programs from associate to master levels, through a framework of approximately 30 departmental units in 5 colleges and 1 school, and contributes to the region and state through related research and public service programs. The University is a charter member of the Ohio Valley Conference and a Division I member of the NCAA. Murray State University serves as a residential, regional university offering core programs in the liberal arts, humanities, sciences and selected high-quality professional programs for approximately 10,000 students. The University has not only posted record enrollment figures for the past nine years, it has increased its graduation rate to an impressive 56.3 percent. This graduation rate places the University in the top 30th percentile of public universities nationally.

The tuition and fees for the 2004-05 academic year have increased by \$274 per semester for a full time resident undergraduate student. Tuition and fees at the University continues to be significantly less than the national average and was one of only three of our 25 competitor schools with tuition and fees of less than \$2,000 per semester per student.

Murray State University consistently ranks among the nation's best regional universities each year and has been recognized by Kaplan, Inc., Kiplinger and U.S. News and World Report for its academic quality and affordability. The University has been recognized for many years as a great collegiate value by U.S. News and World Report's America's Best Colleges rankings report. This publication recently ranked the University as the South's best public master's university in the "Great Schools at a Great Price" category for the 2005 edition. In the 2005 edition of the publication, the University is ranked sixth overall in the South when compared to public master's universities and ranked 18<sup>th</sup> best public master's university in the nation. MSU remains the top ranked public university in the state, and the only Kentucky university ranked as a "Great School at a Great Price". Factors considered in the rankings are reputation, retention rate, graduation rate, class size, student-faculty ratio and SAT/ACT scoring.

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

### **Financial Highlights**

- The University's financial position remained strong as of the end of the year, with assets of \$194.1 million and liabilities of \$50.4 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$143.7 million or 74% of total assets. Net assets increased by \$14.8 million from 2003 to 2004.

# **Murray State University**

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

- Fiscal operations were in accordance with the annual operating budget of approximately \$102 million. Notwithstanding a reduction in state appropriations, the University continued to be a strong employer for the region and employed approximately 3,800 individuals, including 570 faculty and 1,080 staff members and 2,150 students. These amounts include 1,350 regular and full time faculty and staff.
- State appropriations from the Commonwealth of Kentucky fell by \$1.3 million or 2.6% in 2004. Departmental reserves from the prior year were utilized to cover this appropriations reduction.
- Construction of a new biology building has been substantially completed. This building is the first phase of a multi-phase science complex. The first phase was funded with \$13 million from the Commonwealth of Kentucky in the 2000-2002 biennium budget. Development efforts are underway to complete the first phase.
- Construction began on a new student recreation/wellness center and is approximately 75% complete. Funding for this facility was secured in 2003 by a \$10 million bond sale by the City of Murray, Kentucky. A student fee was approved by the Board of Regents and the Student Government Association to be used for the funding of this project. The project is scheduled for completion by January 2005.
- A major internal and external renovation of Winslow Cafeteria was completed before the fall 2003 semester began and the facility was opened to serve the north residential college complex. This project was funded from the sale of \$2.5 million of Housing and Dining System Series P Bonds in July 2003.
- Land site preparation began for the construction of the Western Regional Center for Emerging Technologies, located on the north edge of the main campus, which is scheduled for completion in the summer 2005. Funding of \$3 million was secured in 2002-03 from state and federal agencies to construct this facility. 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.
- The University received \$3,259,000 from the Kentucky Council on Postsecondary Education's Endowment Match Program. As a requirement for receiving this award, the University matched this funding at a 100% level with endowment funding from external donors. Investment proceeds generated from these state and private endowments will be used for student scholarships and academic enhancement.
- Consolidated Educational Buildings Revenue Bonds Series H was refunded, for the entire balance outstanding, in September 2003. This refunding resulted 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.

# Murray State University

## Management's Discussion and Analysis

- The University is conducting a fund raising campaign for the revitalization of Waterfield Library. Proceeds from this campaign are planned to be used for deferred maintenance, technology improvements and enhancements in library holdings.
- The University changed the term of faculty academic year contracts to nine months from ten months. This change will allow faculty more time to obtain and work on externally funded grants and contracts, which provide additional financial resources for academic enhancement, faculty development and research.

### Using the Financial Statements

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

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

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

### Balance Sheets

The Balance Sheets present a financial picture of the University's financial condition at the end of the 2004 and 2003 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 2004 were \$194.1 million, of which capital assets, net of depreciation, represented the largest portion. This group of assets totaled approximately \$117.5 million or 61% of total assets and was primarily comprised of university-owned land, buildings, equipment, and library holdings. Cash and cash equivalents amounted to \$43.3 million or 22% of total assets. Approximately half of the cash and cash equivalents total were for capital construction commitments and debt service requirements. Total assets increased by \$10.7 million during 2004, which was primarily due to \$3.3 million received for the Endowment Matching Program, the capitalization of Winslow Cafeteria, and construction costs of various projects.

# Murray State University

## Management's Discussion and Analysis

Total assets increased by \$7.8 million during 2003, which was primarily due to funding secured for future capital assets.

### *Liabilities*

Total liabilities at the end of the fiscal year 2004 were \$50.4 million. Total long-term debt obligations amounted to \$32.9 million. These debt obligations increased by only \$.6 million during 2004. During 2004, total liabilities decreased by \$4.1 million due to the use of deferred revenues, recorded in 2003, for the Science Complex construction project. These deferred revenues were recognized as revenues in 2004 and used to pay for expenses related to construction.

Total liabilities at the end of the fiscal year 2003 were \$54.5 million. During 2003, total liabilities increased by \$6.2 million largely due to new debt to construct a student recreation/wellness center.

### Condensed Balance Sheets

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>Assets</b>			
Current assets	\$ 33,665,438	\$ 29,216,953	\$ 26,040,231
Noncurrent assets	42,892,454	46,974,282	41,562,542
Capital assets	117,518,493	107,147,545	107,904,063
Total assets	<u>\$ 194,076,385</u>	<u>\$ 183,338,780</u>	<u>\$ 175,506,836</u>
<b>Liabilities</b>			
Current liabilities	\$ 20,571,802	\$ 24,961,998	\$ 22,665,907
Noncurrent liabilities	29,832,417	29,542,035	25,601,693
Total liabilities	<u>\$ 50,404,219</u>	<u>\$ 54,504,033</u>	<u>\$ 48,267,600</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	\$ 85,638,535	\$ 85,104,843	\$ 85,180,207
Restricted for			
Nonexpendable	14,684,636	11,380,920	11,481,418
Expendable			
Scholarships, research, instruction and other	3,729,092	2,552,561	2,118,590
Loans	4,977,530	4,985,017	5,002,921
Capital	9,135,468	4,100,350	3,895,800
Debt service	4,021,365	3,587,330	3,646,230
Unrestricted	21,485,540	17,123,726	15,914,070
Total net assets	<u>143,672,166</u>	<u>128,834,747</u>	<u>127,239,236</u>
Total liabilities and net assets	<u>\$ 194,076,385</u>	<u>\$ 183,338,780</u>	<u>\$ 175,506,836</u>



# Murray State University

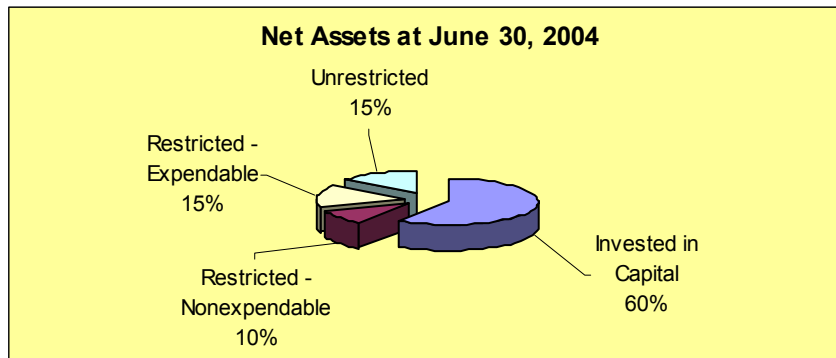
## Management's Discussion and Analysis

### *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.
  - 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:



# **Murray State University**

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

### **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.

#### ***Revenues***

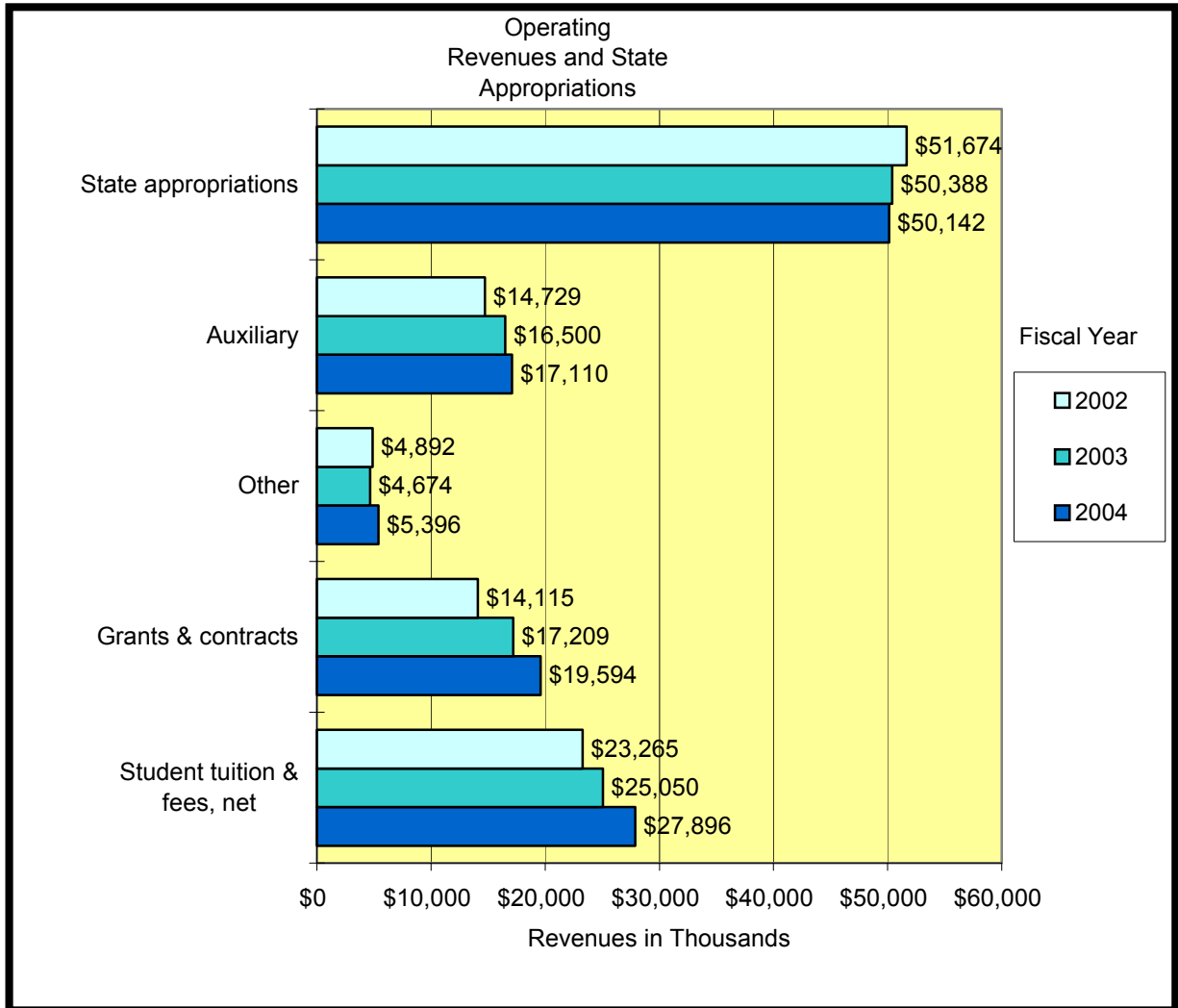
Total operating revenues, which exclude state appropriations, for the 2004 fiscal year were \$70 million, including student tuition and fees, net of related discounts and allowances, of \$27.9 million, operating grants and contracts revenues of \$19.6 million, and auxiliary services net revenue of \$17.1 million.

Operating revenues increased during the year by \$6.5 million. This increase is comprised of \$3.5 million from net student tuition, fees, room, and board, driven by increased student enrollment and on campus residency, and \$2.4 million from federal and state grants and contracts.

The University received \$50.1 million of state appropriations. For the 2004 fiscal year, the University experienced a \$1.3 million appropriations deduction in 2004, which was in addition to a \$1.3 appropriations deduction in 2003. State appropriations are required to be classified as nonoperating revenues; however, these funds were used to support University operating activities.

## Murray State University Management's Discussion and Analysis

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



### *Expenses*

Total operating expenses for the 2004 fiscal year were \$124.4 million. Of this amount, \$103.2 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 \$46.6 million or 45% of the total educational and general portion. Remaining operating expenses were for depreciation and auxiliary services, which amounted to \$6.6 million and \$14.6 million, respectively. Depreciation

## Murray State University

### Management's Discussion and Analysis

for all areas of the University is reported as an operating expense and was not allocated to each program group, except for auxiliary enterprises.

Operating expenses increased for the year ended June 30, 2004, by \$3.3 million. Only minimal increases were reported for operating costs for services, materials, and supplies for departmental units. The primary reasons for increased operating expenses are 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, 2004, was \$54.5 million. Nonoperating revenues, net of expenses, amounted to \$60.3 million and non-debt related capital funding amounted to \$9 million, resulting in an increase in net assets of \$14.8 million for the year ended June 30, 2004.

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

	2004	2003	2002
<b>Operating revenues</b>			
Student tuition and fees, net	\$ 27,896,362	\$ 25,049,932	\$ 23,265,495
Grants and contracts	19,593,986	17,208,964	14,114,922
Other	5,395,820	4,673,883	4,892,261
Auxiliary, net	17,109,547	16,500,239	14,729,270
Total operating revenues	69,995,715	63,433,018	57,001,948
<b>Operating expenses</b>			
Instruction	46,574,969	45,804,242	42,995,278
Other educational and general	56,662,972	54,072,308	49,867,105
Depreciation	5,840,909	5,784,813	5,568,817
Auxiliary enterprises	14,592,820	14,769,901	13,772,777
Auxiliary depreciation	779,527	674,609	575,828
Total operating expenses	124,451,197	121,105,873	112,779,805
Operating loss	(54,455,482)	(57,672,855)	(55,777,857)
<b>Nonoperating revenues (expenses)</b>			
State appropriations	50,141,800	50,388,100	51,673,740
Other nonoperating revenues (expenses)	19,151,101	8,880,266	8,719,512
Total nonoperating revenues (expenses)	69,292,901	59,268,366	60,393,252
Increase in net assets	14,837,419	1,595,511	4,615,395
<b>Net assets, beginning of year</b>	128,834,747	127,239,236	122,623,841
<b>Net assets, end of year</b>	\$ 143,672,166	\$ 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 reflects the net cash used for general operations of the University, which changed by \$1.2 million during 2004. A large portion of this change was due to savings and more efficient operations of auxiliary enterprises.

The cash flows from noncapital financing activities, changed by \$.5 million during 2004. This change was due to the increase of grants and contracts receipts. However, two significant transactions are reflected in this section of the 2004 Statement of Cash Flows. The \$3.3 million receipt of the Regional Universities Endowment Trust Fund proceeds awarded to the University in 2004 caused an increase in noncapital financing activities. In 2004, these funds were also transferred to the MSU Foundation for investment purposes, which caused a decrease for the same amount.

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 \$13.2 million during 2004. A large portion of this change is due to expenses related to the continued construction of the science complex and 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, 2004.

The net cash used in operating activities reflects the net cash used for general operations of the University, which changed by \$1.5 million during 2003. 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 2002-2003.

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 during 2003. 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.

# Murray State University

## Management's Discussion and Analysis

### Condensed Statements of Cash Flows

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Cash provided/(used by):</b>			
Operating activities	\$ (47,628,530)	\$ (48,819,153)	\$ (50,291,745)
Noncapital financing activities	54,974,561	54,478,012	57,652,446
Capital and related financing activities	(13,041,031)	164,548	(1,410,015)
Investing activities	1,508,087	1,483,471	1,472,290
Net increase in cash	<u>(4,186,913)</u>	<u>7,306,878</u>	<u>7,422,976</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>47,528,299</u>	<u>40,221,421</u>	<u>32,798,445</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 43,341,386</u>	<u>\$ 47,528,299</u>	<u>\$ 40,221,421</u>

### Capital Assets and Debt Administration

The University had a \$10.4 million increase in capital assets during the fiscal year ended June 30, 2004. This change included a net increase of \$9.3 million for construction in progress, which included continued construction on the science complex and the beginning of construction on the student recreation/wellness center. The change in capital assets also included a net increase of \$1.1 million in library holdings.

Capital assets as of the year ended June 30, 2004, and changes during the year are as follows:

	<u>Balance June 30, 2004</u>	<u>Net Change 2003-04</u>
Land	\$ 6,481,565	\$ 131,141
Construction in progress	22,565,174	9,337,667
Museum and collectibles	497,193	69,424
Buildings	158,215,922	4,246,391
Non-building improvements	8,813,301	499,900
Equipment	18,269,072	878,400
Library holdings	25,004,956	1,084,947
Livestock	94,250	50,000
Accumulated Depreciation	<u>(122,422,940)</u>	<u>(5,926,922)</u>
<b>Total</b>	<u>\$ 117,518,493</u>	<u>\$ 10,370,948</u>

# Murray State University

## Management's Discussion and Analysis

The University issued new debt of \$3.4 million, which included \$2.5 million in Housing and Dining System Series P bonds for the renovation of Winslow Cafeteria and \$.9 million for the upgrade of the campus networking system. The University also paid off \$3.2 million of long term debt; therefore, minimal changes were made in the amount of debt outstanding as of June 30, 2004.

Debt as of June 30, 2004, is summarized below:

	Balance June 30, 2004
Housing and Dining System Revenue Bonds	\$ 11,222,000
Consolidated Educational Buildings Revenue Bonds	6,905,000
Bond discount	(239,581)
City of Murray	10,000,000
Other (Note 11 of Notes to Financial Statements )	4,970,540
 Total	 \$ 32,857,959

### 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.

# **Murray State University**

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

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

- General state appropriations from the Commonwealth of Kentucky are not expected to increase over the next period. Although preliminary estimates indicate state revenue shortfalls, recent forecasts indicate that some economic recovery is occurring.
- 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.
- The University is reviewing the feasibility of funding for the replacement of one or more residence halls. If needed, the Murray State Campus Improvement Corporation could 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.
- During fall 2004, construction will begin on a major addition to the Equine Training Facility located on the West Farm campus. Funding of almost \$1 million will be utilized for this project, with the most significant portion from the Kentucky Council on Postsecondary Education's Equine Trust Fund. This addition is scheduled for completion in February 2005.



**Murray State University**  
**Balance Sheets**  
**June 30, 2004 and 2003**

**ASSETS**

	<b>2004</b>	<b>2003</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 25,491,325	\$ 21,252,159
Accounts receivable, net	4,582,500	3,901,663
Inventories	2,021,246	1,873,969
Prepaid expenses	684,832	585,783
Loans receivable, net	771,011	716,695
Interest receivable	114,524	886,684
Total current assets	33,665,438	29,216,953
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	17,850,061	26,276,140
Restricted investments	20,797,865	16,289,307
Accounts receivable, net	183,400	275,100
Loans receivable, net	3,604,160	3,666,822
Capital assets	239,941,433	223,643,563
Accumulated depreciation	(122,422,940)	(116,496,018)
Debt issuance costs, net	456,968	466,913
Total noncurrent assets	160,410,947	154,121,827
Total assets	\$ 194,076,385	\$ 183,338,780

**Murray State University**  
**Balance Sheets**  
**June 30, 2004 and 2003**

**LIABILITIES AND NET ASSETS**

	<b>2004</b>	<b>2003</b>
<b>Current Liabilities</b>		
Accounts payable	\$ 7,689,126	\$ 5,437,344
Self-insured health liability	1,152,763	1,140,643
Accrued payroll	3,367,640	3,289,924
Interest payable	241,347	251,684
Deposits	207,083	208,365
Deferred revenue	4,716,368	11,688,150
Current maturities of long-term liabilities	<u>3,197,475</u>	<u>2,945,888</u>
Total current liabilities	<u>20,571,802</u>	<u>24,961,998</u>
<b>Noncurrent Liabilities</b>		
Deposits	171,933	191,556
Revenue bonds, notes payable, and capital leases	<u>29,660,484</u>	<u>29,350,479</u>
Total noncurrent liabilities	<u>29,832,417</u>	<u>29,542,035</u>
Total liabilities	<u>50,404,219</u>	<u>54,504,033</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	85,638,535	85,104,843
Restricted for		
Nonexpendable – permanent endowments	14,684,636	11,380,920
Expendable		
Scholarships, research, instruction and other	3,729,092	2,552,561
Loans	4,977,530	4,985,017
Capital assets	9,135,468	4,100,350
Debt service	4,021,365	3,587,330
Unrestricted	<u>21,485,540</u>	<u>17,123,726</u>
Total net assets	<u>143,672,166</u>	<u>128,834,747</u>
Total liabilities and net assets	<u>\$ 194,076,385</u>	<u>\$ 183,338,780</u>

Murray State University Foundation, Inc.  
 Statements of Financial Position  
 June 30, 2004 and 2003

**ASSETS**

	<b>2004</b>	<b>2003</b>
Cash and cash equivalents	\$ 67,262	\$ 799,144
Accounts receivable, net of allowance; 2004 - \$16,256, 2003 - \$15,772	67,376	240,767
Investments	47,689,284	38,574,847
Prepaid and other current assets	29,635	50,934
Real estate held for sale	462,085	87,086
Contributions receivable, net of allowance; 2004 - \$47,770, 2003 - \$87,647	902,086	1,642,262
Notes receivable	202,037	213,813
Property and equipment, net of accumulated depreciation; 2004 - \$1,460,204, 2003 - \$1,371,136	3,284,587	3,624,507
Total assets	\$ 52,704,352	\$ 45,233,360

**LIABILITIES AND NET ASSETS**

**Liabilities**

Accounts payable	\$ 165,334	\$ 437,377
Accrued expenses	31,034	28,007
Deferred revenue	33,368	35,290
Assets held for others	16,273,654	14,703,150
Annuities payable	236,484	257,807
Capital lease obligations	120,273	154,796
Total liabilities	16,860,147	15,616,427

**Net Assets**

Unrestricted	5,809,256	5,289,463
Temporarily restricted	8,975,425	6,817,969
Permanently restricted	21,059,524	17,509,501
Total net assets	35,844,205	29,616,933
Total liabilities and net assets	\$ 52,704,352	\$ 45,233,360

Murray State University Athletic Foundation, Inc.  
 Statements of Financial Position  
 June 30, 2004 and 2003

**ASSETS**

	<b>2004</b>	<b>2003</b>
Cash	\$ 115,243	\$ 21,588
Investments	88,421	76,691
Contributions receivable, net of allowance; 2004 - \$13,000, 2003 - \$20,000	34,237	51,499
Other receivables	93,016	57,806
Real estate held for sale	1,231,525	1,830,571
Equipment, net of accumulated depreciation; 2004 - \$3,521, 2003 - \$2,059	8,851	4,063
Total assets	\$ 1,571,293	\$ 2,042,218

**LIABILITIES AND NET ASSETS**

**Liabilities**

Lines of credit	\$ 325,000	\$ 500,000
Accounts payable and accrued expenses	45,118	24,518
Deposit on real estate held-for-sale	—	5,000
Note payable	1,215,137	2,694,417
Total liabilities	1,585,255	3,223,935

**Net Assets**

Unrestricted	(125,879)	(1,318,367)
Temporarily restricted	111,917	136,650
Total net assets	(13,962)	(1,181,717)
Total liabilities and net assets	\$ 1,571,293	\$ 2,042,218

**Murray State University**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2004 and 2003**

	<b>2004</b>	<b>2003</b>
<b>Revenues</b>		
Operating revenues		
Student tuition and fees	\$ 43,227,944	\$ 37,609,354
Less discounts and allowances	<u>(15,331,582)</u>	<u>(12,559,422)</u>
Net tuition and fees	<u>27,896,362</u>	<u>25,049,932</u>
Federal grants and contracts	12,534,110	11,379,257
State grants and contracts	6,815,631	5,693,083
Local and private grants and contracts	<u>244,245</u>	<u>136,624</u>
Total grants and contracts	<u>19,593,986</u>	<u>17,208,964</u>
Sales and services of educational departments	3,551,156	3,240,732
Other operating revenues	<u>1,844,664</u>	<u>1,433,151</u>
Total sales, services, and other revenues	<u>5,395,820</u>	<u>4,673,883</u>
Auxiliary enterprises revenues (Revenues are pledged as security for the Housing and Dining Revenue System Bond Series A – P)	17,830,810	17,381,284
Less discounts and allowances	<u>(721,263)</u>	<u>(881,045)</u>
Net auxiliary revenue	<u>17,109,547</u>	<u>16,500,239</u>
Total operating revenues	<u>69,995,715</u>	<u>63,433,018</u>
<b>Expenses</b>		
Operating expenses		
Instruction	46,574,969	45,804,242
Research	3,495,188	2,196,693
Public service	5,446,975	5,104,918
Libraries	1,640,583	1,350,674
Academic support	5,216,651	5,065,370
Student services	10,833,270	10,004,465
Institutional support	10,100,759	9,979,144
Operational and maintenance of plant	13,229,253	14,117,697
Student financial aid	6,700,293	6,253,347
Depreciation	5,840,909	5,784,813
Auxiliary enterprises	14,592,820	14,769,901
Auxiliary depreciation	<u>779,527</u>	<u>674,609</u>
Total operating expenses	<u>124,451,197</u>	<u>121,105,873</u>
<b>Operating Loss</b>	<u>\$ (54,455,482)</u>	<u>\$ (57,672,855)</u>

**Murray State University**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations	\$ 51,472,900	\$ 51,669,400
Less: State appropriation reduction	(1,331,100)	(1,281,300)
State endowment match	3,259,000	—
Restricted student fees (Revenues are pledged as security for the City of Murray debt agreement)	637,850	562,684
Federal grants and contracts	1,328,844	1,361,508
State grants and contracts	2,307,248	1,462,278
Local and private grants and contracts	1,855,761	1,336,810
Gifts	360,470	219,173
Investment income	1,797,883	2,402,277
Interest on capital asset-related debt	(1,073,989)	(1,370,662)
Loss on deletion and disposal of capital assets	(131,729)	(930,664)
Bond amortization	<u>(165,608)</u>	<u>(39,442)</u>
Net nonoperating revenues (expenses)	<u>60,317,530</u>	<u>55,392,062</u>
<b>Income (Loss) before Other Revenues, Expenses, Gains or Losses</b>	5,862,048	(2,280,793)
State capital appropriations	8,142,030	3,242,194
Capital grants	492,405	171,365
Capital gifts	176,178	444,905
Insurance proceeds on capital asset loss	<u>164,758</u>	<u>17,840</u>
<b>Increase in Net Assets</b>	<u>14,837,419</u>	<u>1,595,511</u>
<b>Net Assets, Beginning of Year</b>	<u>128,834,747</u>	<u>127,239,236</u>
<b>Net Assets, End of Year</b>	<u>\$ 143,672,166</u>	<u>\$ 128,834,747</u>

Murray State University Foundation, Inc.  
 Statements of Activities  
 Years Ended June 30, 2004 and 2003

	2004			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, Gains and Other Support</b>				
Contributions	\$ 82,999	\$ 923,198	\$ 3,875,339	\$ 4,881,536
Revenues from operations of golf course	476,488	—	—	476,488
Fees	316,367	—	—	316,367
Investment return	840,373	2,084,000	3,859	2,928,232
Other	168,520	294,003	63,115	525,638
Allocation of spending cap excess	—	—	—	—
Reclassification based on donor intent	(48,053)	440,343	(392,290)	—
Net assets released from restrictions	<u>1,584,088</u>	<u>(1,584,088)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>3,420,782</u>	<u>2,157,456</u>	<u>3,550,023</u>	<u>9,128,261</u>
<b>Expenses and Losses</b>				
Payments made on behalf of Murray State University	1,354,374	—	—	1,354,374
Golf course	558,962	—	—	558,962
General and administrative	757,939	—	—	757,939
Loss on impairment of real estate held for sale	<u>229,714</u>	<u>—</u>	<u>—</u>	<u>229,714</u>
Total expenses and losses	<u>2,900,989</u>	<u>—</u>	<u>—</u>	<u>2,900,989</u>
<b>Change in Net Assets</b>	519,793	2,157,456	3,550,023	6,227,272
<b>Net Assets, Beginning of Year</b>	<u>5,289,463</u>	<u>6,817,969</u>	<u>17,509,501</u>	<u>29,616,933</u>
<b>Net Assets, End of Year</b>	<u>\$ 5,809,256</u>	<u>\$ 8,975,425</u>	<u>\$ 21,059,524</u>	<u>\$ 35,844,205</u>

Murray State University Foundation, Inc.  
 Statements of Activities  
 Years Ended June 30, 2004 and 2003

	2003			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, Gains and Other Support</b>				
Contributions	\$ 154,242	\$ 1,449,264	\$ 586,480	\$ 2,189,986
Revenues from operations of golf course	468,569	—	—	468,569
Fees	304,502	20,234	—	324,736
Investment return	393,361	926,779	65	1,320,205
Other	126,725	14,124	46,123	186,972
Allocation of spending cap excess	9,350	294,450	(303,800)	—
Reclassification based on donor intent	(168,907)	100,745	68,162	—
Net assets released from restrictions	<u>1,194,602</u>	<u>(1,194,602)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>2,482,444</u>	<u>1,610,994</u>	<u>397,030</u>	<u>4,490,468</u>
<b>Expenses and Losses</b>				
Payments made on behalf of Murray State University	1,194,602	—	—	1,194,602
Golf course	560,719	—	—	560,719
General and administrative	699,350	—	—	699,350
Loss on impairment of real estate held for sale	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total expenses and losses	<u>2,454,671</u>	<u>—</u>	<u>—</u>	<u>2,454,671</u>
<b>Change in Net Assets</b>	27,773	1,610,994	397,030	2,035,797
<b>Net Assets, Beginning of Year</b>	<u>5,261,690</u>	<u>5,206,975</u>	<u>17,112,471</u>	<u>27,581,136</u>
<b>Net Assets, End of Year</b>	<u>\$ 5,289,463</u>	<u>\$ 6,817,969</u>	<u>\$ 17,509,501</u>	<u>\$ 29,616,933</u>



Murray State University Athletic Foundation, Inc.  
 Statements of Activities  
 Years Ended June 30, 2004 and 2003

	<b>2004</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Contributions	\$ 95,503	\$ 591,298	\$ 686,801
Sponsorships and promotions	492,908	140	493,048
Fund raising events	116,509	16,310	132,819
Investment return	12,360	—	12,360
Gain on sale of real estate held-for-sale	1,780,954	—	1,780,954
Other	56,273	475	56,748
Net assets released from restrictions	<u>632,956</u>	<u>(632,956)</u>	<u>—</u>
Total revenues, gains and other support	<u>3,187,463</u>	<u>(24,733)</u>	<u>3,162,730</u>
<b>Expenses</b>			
Sponsorships and promotions	324,773	—	324,773
Contributions to Murray State University			
Athletic department	1,004,727	—	1,004,727
General operations	95,120	—	95,120
Contribution to Murray State University			
Foundation	35,300	—	35,300
General and administrative	346,324	—	346,324
Fund raising events	61,283	—	61,283
Membership activities	23,157	—	23,157
Interest	<u>104,291</u>	<u>—</u>	<u>104,291</u>
Total expenses	<u>1,994,975</u>	<u>—</u>	<u>1,994,975</u>
<b>Change in Net Assets</b>	1,192,488	(24,733)	1,167,755
<b>Net Assets, Beginning of Year</b>	<u>(1,318,367)</u>	<u>136,650</u>	<u>(1,181,717)</u>
<b>Net Assets, End of Year</b>	<u>\$ (125,879)</u>	<u>\$ 111,917</u>	<u>\$ (13,962)</u>

Murray State University Athletic Foundation, Inc.  
 Statements of Activities  
 Years Ended June 30, 2004 and 2003

	<b>2003</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Contributions	\$ 85,553	\$ 236,960	\$ 322,513
Sponsorships and promotions	528,514	5,220	533,734
Fund raising events	110,052	41,372	151,424
Investment return	5,021	—	5,021
Gain on sale of real estate held-for-sale	—	—	—
Other	29,246	—	29,246
Net assets released from restrictions	<u>332,998</u>	<u>(332,998)</u>	<u>—</u>
Total revenues, gains and other support	<u>1,091,384</u>	<u>(49,446)</u>	<u>1,041,938</u>
<b>Expenses</b>			
Sponsorships and promotions	314,632	—	314,632
Contributions to Murray State University			
Athletic department	570,789	—	570,789
General operations	32,607	—	32,607
Contribution to Murray State University Foundation	—	—	—
General and administrative	233,567	—	233,567
Fund raising events	76,066	—	76,066
Membership activities	21,162	—	21,162
Interest	<u>151,753</u>	<u>—</u>	<u>151,753</u>
Total expenses	<u>1,400,576</u>	<u>—</u>	<u>1,400,576</u>
<b>Change in Net Assets</b>	(309,192)	(49,446)	(358,638)
<b>Net Assets, Beginning of Year</b>	<u>(1,009,175)</u>	<u>186,096</u>	<u>(823,079)</u>
<b>Net Assets, End of Year</b>	<u>\$ (1,318,367)</u>	<u>\$ 136,650</u>	<u>\$ (1,181,717)</u>

**Murray State University**  
**Statements of Cash Flows**  
**Years ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$ 27,695,754	\$ 26,153,761
Grants and contracts	18,752,655	18,323,465
Salaries, wages, and benefits	(72,890,855)	(69,483,846)
Payments to suppliers	(22,856,859)	(23,698,468)
Payments to students for financial aid	(6,700,293)	(6,253,347)
Computer loans issued to employees	(50,401)	(62,116)
Collection of computer loans to employees	55,255	63,188
Loans issued to students	(1,105,122)	(958,109)
Collection of loans to students	1,113,468	923,488
Sales and services	3,977,012	3,026,389
Other operating revenues	1,843,745	1,435,690
Auxiliary enterprises revenues		
Food service	5,498,227	5,301,220
Housing	6,518,309	6,165,546
Book store	4,845,229	4,764,159
Other	268,166	226,228
Auxiliary enterprises payments		
Salaries, wages, and benefits	(4,650,122)	(4,734,727)
Payment to suppliers	(9,942,698)	(10,011,674)
	<u>(47,628,530)</u>	<u>(48,819,153)</u>
<b>Net cash used in operating activities</b>		
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	50,141,800	50,388,100
State endowment match	3,259,000	—
Grants and contracts	5,491,853	4,160,596
Endowment transfers to MSU Foundation	(4,017,274)	(234,622)
Gifts for other than capital purposes	100,454	165,935
Agency transactions	(1,272)	(1,997)
	<u>54,974,561</u>	<u>54,478,012</u>
<b>Net cash provided by noncapital financing activities</b>		
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from capital debt	6,511,226	11,570,426
Payment receipt for loan issued for capital project	54,200	54,200
Restricted student fees pledged for debt service	637,850	562,684
Insurance proceeds	164,758	17,843
State capital appropriations	970,147	—
Purchases of capital assets	(14,864,692)	(7,860,915)
Capital gift	20,000	—
Capital grants	492,405	171,365
Principal paid on capital debt and leases	(5,942,600)	(3,002,526)
Interest paid on capital debt and leases	(1,084,325)	(1,348,529)
	<u>(13,041,031)</u>	<u>164,548</u>
<b>Net cash used in capital and related financing activities</b>		

**Murray State University**  
**Statements of Cash Flows**  
**Years ended June 30, 2004 and 2003**

	<b>2004</b>	<b>2003</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	\$ 5,875,010	\$ 3,257,144
Purchase of investments	(5,979,952)	(3,203,808)
Interest receipts on investments	<u>1,613,029</u>	<u>1,430,135</u>
Net cash provided by investing activities	<u>1,508,087</u>	<u>1,483,471</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(4,186,913)	7,306,878
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>47,528,299</u>	<u>40,221,421</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 43,341,386</u>	<u>\$ 47,528,299</u>
 <b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>		
Operating loss	\$ (54,455,482)	\$ (57,672,855)
Depreciation	6,620,436	6,459,422
Bad debt	128,894	113,914
Changes in assets and liabilities		
Accounts receivable, net	(619,127)	(135,955)
Inventories	(147,277)	(266,437)
Prepaid expenses	(99,049)	(104,927)
Accounts payable	672,768	449,788
Self-insured health liability	12,120	4,765
Accrued payroll	77,716	195,835
Deposits	(19,633)	(157,496)
Deferred revenue	<u>200,104</u>	<u>2,294,793</u>
Net cash used in operating activities	<u>\$ (47,628,530)</u>	<u>\$ (48,819,153)</u>
 <b>Supplemental Cash Flows Information</b>		
Gifts of capital assets	\$ 156,178	\$ 444,905
Accounts payable incurred for capital assets	\$ 1,168,353	\$ —

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

***Nature of Operations***

Murray State University (University) is a state-supported institution of higher education located in Murray, Kentucky, and is accredited by the Southern Association of Colleges and Schools. The University awards graduate and undergraduate degrees from five colleges and one school and serves a student population of approximately 10,000. 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.

During 2004, the University retroactively changed its method of financial statement presentation and disclosure by adopting the provisions of Governmental Accounting Standards Board Statement No. 39 (GASB No. 39), *Determining Whether Certain Organizations are Component Units*. GASB No. 39 requires certain organizations be reported as component units of a primary government based on the nature and significance of that organization's relationship to the primary government. Application of this statement resulted in including Murray State University Foundation, Inc. and Murray State University Athletic Foundation, Inc. (the Foundations) as discretely presented component units of the University. The Foundations are private nonprofit organizations that report under FASB standards, including FASB No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations' financial information in the University's financial report for these differences.

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

***Cash and Cash Equivalents***

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

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.

***Restricted Cash, Cash Equivalents, and Investments***

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

***Investments***

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

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

***Inventories***

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

***Capital Assets***

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

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

<u><b>Asset</b></u>	<u><b>Estimated Life</b></u>
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 \$454,276 and \$0 for the years ended June 30, 2004 and June 30, 2003, 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, 2004 and 2003, was \$22,591 and \$12,226, respectively.

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

***Compensated Absences***

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

***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.



**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

***Release of Restricted Net Assets***

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

***Classification of Revenues***

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

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

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

***Tuition Discounts and Allowances***

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. However, the University is subject to Federal income tax on any unrelated business taxable income.

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

***Use of Estimates***

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

***Recent Accounting Pronouncements***

The Governmental Accounting Standards Board 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 impact of applying the new statement has not yet been determined.

***Reclassification***

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

**Note 2: Accounts Receivable**

Accounts receivable consisted of:

	<b>2004</b>	<b>2003</b>
Current accounts receivable:		
Student tuition and fees	\$ 1,455,086	\$ 1,210,898
Grants and contracts	2,856,737	1,919,717
Auxiliary fees	494,952	504,506
Employee computer loans	19,058	23,912
Outside sales	486,141	817,911
State agencies	5,535	99,717
Capital construction receivable	91,796	54,200
Allowance for doubtful accounts	<u>(826,805)</u>	<u>(729,198)</u>
Total current accounts receivable	<u>4,582,500</u>	<u>3,901,663</u>
Noncurrent accounts receivable:		
Capital construction receivable	<u>183,400</u>	<u>275,100</u>
Total accounts receivable	<u>\$ 4,765,900</u>	<u>\$ 4,176,763</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 3: Inventories**

Inventories consisted of:

	<u>2004</u>	<u>2003</u>
Inventories		
University bookstore – resale	\$ 1,466,376	\$ 1,398,288
Physical plant – supplies	407,151	334,238
Food services – resale and supplies	123,616	118,478
Central stores – supplies	<u>24,103</u>	<u>22,965</u>
Total inventories	<u>\$ 2,021,246</u>	<u>\$ 1,873,969</u>

**Note 4: Loans Receivable**

Student loans made through the Federal Perkins Loan Program (the Program) comprise substantially all of the loans receivable at June 30, 2004 and 2003. The Program provides for service cancellation of a loan at rates of 15% 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, 2004, the allowance for uncollectible loans was \$206,802, and at June 30, 2003, the allowance for uncollectible loans was \$221,313.

Loans receivable consisted of:

	<u>2004</u>	<u>2003</u>
Current loans receivable		
University loan programs	\$ 64,547	\$ 44,131
Federal nursing program	70,699	67,213
Federal Perkins program	<u>635,765</u>	<u>605,351</u>
Total current loans receivable, net	<u>771,011</u>	<u>716,695</u>
Noncurrent loans receivable		
Federal nursing program	344,447	331,605
Federal Perkins program	<u>3,259,713</u>	<u>3,335,217</u>
Total noncurrent loans receivable, net	<u>3,604,160</u>	<u>3,666,822</u>
Total loans receivable, net	<u>\$ 4,375,171</u>	<u>\$ 4,383,517</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 5: Investments**

Investments consisted of:

	<b>June 30, 2004</b>		<b>June 30, 2003</b>	
	<b>Fair Value</b>	<b>Cost Basis</b>	<b>Fair Value</b>	<b>Cost Basis</b>
Money market funds	\$ 2,818,528	\$ 2,818,528	\$ 2,568,507	\$ 2,568,507
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>4,822,143</u>	<u>4,822,143</u>	<u>4,572,122</u>	<u>4,572,122</u>
Restricted assets held by Murray State University Foundation	<u>15,975,722</u>	<u>15,975,722</u>	<u>11,717,185</u>	<u>11,717,185</u>
Total investments	<u>\$ 20,797,865</u>	<u>\$ 20,797,865</u>	<u>\$ 16,289,307</u>	<u>\$ 16,289,307</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.

University investments held by the Murray State University Foundation, Inc. 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: mutual funds invested in equity securities, 58%; mutual funds invested in fixed income securities, 37%; and other 5%.

**Investment Income**

Investment income for the years ended June 30, 2004 and 2003, consisted of:

	<b>2004</b>	<b>2003</b>
Assets held by the University:		
Interest income	\$ 549,242	\$ 1,756,652
Net increase in fair value of investments	—	1,844
Assets held by MSU Foundation:		
Investment income	532,890	(51,681)
Net increase in fair value of investments	<u>715,751</u>	<u>695,462</u>
	<u>\$ 1,797,883</u>	<u>\$ 2,402,277</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**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, 2004:

<u>Funding Period</u>	<u>CPE Funding Available</u>	<u>CPE Funding Received</u>	<u>External Match Receipts</u>			<u>External Match Pledges</u>
			<u>Held By University</u>	<u>Held By Foundation</u>	<u>Total</u>	
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 878,250	\$ 824,250	\$ 1,702,500	\$ 7,500
2000-2002	3,521,787	3,521,787	—	2,734,834	2,734,834	786,953
2002-2004	<u>3,259,000</u>	<u>3,259,000</u>	<u>1,468,041</u>	<u>1,790,959</u>	<u>3,259,000</u>	—
Total	<u>\$ 8,490,787</u>	<u>\$ 8,490,787</u>	<u>\$ 2,346,291</u>	<u>\$ 5,350,043</u>	<u>\$ 7,696,334</u>	<u>\$ 794,453</u>

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

<u>Funding Period</u>	<u>CPE Funding Available</u>	<u>CPE Funding Received</u>	<u>External Match Receipts</u>			<u>External Match Pledges</u>
			<u>Held By University</u>	<u>Held By Foundation</u>	<u>Total</u>	
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 878,250	\$ 814,250	\$ 1,692,500	\$ 17,500
2000-2002	<u>3,521,787</u>	<u>3,521,787</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>\$ 878,250</u>	<u>\$ 2,723,892</u>	<u>\$ 3,602,142</u>	<u>\$ 1,629,645</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, 2004 and 2003**

**Note 7: Capital Assets**

Capital asset activity for the year ended June 30, 2004, was:

	<b>Balance June 30, 2003</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deletions/ Retirements</b>	<b>Balance June 30, 2004</b>
Land	\$ 6,350,424	\$ —	\$ 165,976	\$ (34,835)	\$ 6,481,565
Construction in progress	13,227,507	17,488,948	(5,948,040)	(2,203,241)	22,565,174
Museum and collectibles	<u>427,769</u>	<u>69,424</u>	<u>—</u>	<u>—</u>	<u>497,193</u>
Total capital assets not being depreciated	<u>20,005,700</u>	<u>17,558,372</u>	<u>(5,782,064)</u>	<u>(2,238,076)</u>	<u>29,543,932</u>
Buildings	153,969,531	—	4,265,441	(19,050)	158,215,922
Non-building improvements	8,313,401	—	499,900	—	8,813,301
Equipment	17,390,672	551,214	1,016,723	(689,537)	18,269,072
Library holdings	23,920,009	1,201,817	—	(116,870)	25,004,956
Livestock	<u>44,250</u>	<u>50,000</u>	<u>—</u>	<u>—</u>	<u>94,250</u>
Total other capital assets	<u>203,637,863</u>	<u>1,803,031</u>	<u>5,782,064</u>	<u>(825,457)</u>	<u>210,397,501</u>
Total capital assets before depreciation	<u>223,643,563</u>	<u>19,361,403</u>	<u>—</u>	<u>(3,063,533)</u>	<u>239,941,433</u>
Less accumulated depreciation					
Buildings	82,206,893	3,949,430	—	—	86,156,323
Improvements other than buildings	3,839,832	381,370	—	—	4,221,202
Equipment	12,513,030	1,252,884	—	(582,488)	13,183,426
Library holdings	17,927,705	1,028,306	—	(111,026)	18,844,985
Livestock	<u>8,558</u>	<u>8,446</u>	<u>—</u>	<u>—</u>	<u>17,004</u>
Total accumulated depreciation	<u>116,496,018</u>	<u>\$ 6,620,436</u>	<u>\$ —</u>	<u>\$ (693,514)</u>	<u>122,422,940</u>
Capital assets, net	<u>\$ 107,147,545</u>				<u>\$ 117,518,493</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

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

	Balance June 30, 2002	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2003
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	1,044,660	—	(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, 2004 and 2003**

**Note 8: Accounts Payable**

Accounts payable consisted of:

	<b>2004</b>	<b>2003</b>
Current accounts payable		
Vendors	\$ 6,808,813	\$ 3,811,442
Payroll benefits and withholdings	872,362	1,625,435
Loans	7,951	467
Total accounts payable	\$ 7,689,126	\$ 5,437,344

**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, 2004, 2003, and 2002 were \$3,681,254, \$3,630,784, and \$3,514,432, 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**  
**June 30, 2004 and 2003**

**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, 2004, 2003, and 2002 were \$820,956, \$787,271, and \$789,453, 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 85% 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, 2004 and 2003 totaled \$4,847,924 and \$4,571,975, respectively, excluding administrative and stop-loss fees. Stop-loss and administrative fees incurred for the years ended June 30, 2004 and 2003 were \$621,505 and \$570,183, 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:

	<b>2004</b>	<b>2003</b>
Liability, beginning of year	\$ 1,140,643	\$ 1,135,878
Accruals for current year claims and changes in estimate	6,331,905	5,800,079
Other costs	(621,505)	(570,183)
Claims paid	(5,698,280)	(5,225,131)
Liability, end of year	\$ 1,152,763	\$ 1,140,643

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

Deferred revenue consisted of:

	<b>2004</b>	<b>2003</b>
Current deferred revenue		
Prepaid tuition and fees	\$ 1,360,294	\$ 1,222,029
International studies programs	358,981	393,954
Grants and contracts	1,498,712	1,403,025
Auxiliary enterprises	13,059	11,937
Capital state appropriations	<u>1,485,322</u>	<u>8,657,205</u>
Total current deferred revenue	<u>\$ 4,716,368</u>	<u>\$ 11,688,150</u>

**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, 2004:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Long Term Portion</b>
Bonds payable	\$ 17,647,000	\$ 5,355,000	\$ (4,875,000)	\$ 18,127,000	\$ 2,342,000	\$ 15,785,000
Less bond discounts	<u>(232,547)</u>	<u>(69,708)</u>	<u>62,674</u>	<u>(239,581)</u>	<u>(27,554)</u>	<u>(212,027)</u>
Bonds payable, net of discounts	17,414,453	5,285,292	(4,812,326)	17,887,419	2,314,446	15,572,973
City of Murray payable	10,000,000	—	—	10,000,000	—	10,000,000
Capital leases	1,866,132	—	(162,939)	1,703,193	144,194	1,558,999
Master lease notes payable	2,605,059	1,135,226	(808,031)	2,932,254	620,610	2,311,644
Notes payable	305,768	—	(71,368)	234,400	90,000	144,400
MSU Foundation notes payable	<u>104,955</u>	<u>21,000</u>	<u>(25,262)</u>	<u>100,693</u>	<u>28,225</u>	<u>72,468</u>
Total bonds, notes and capital leases	<u>\$ 32,296,367</u>	<u>\$ 6,441,518</u>	<u>\$ (5,879,926)</u>	<u>\$ 32,857,959</u>	<u>\$ 3,197,475</u>	<u>\$ 29,660,484</u>

**Murray State University**  
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**June 30, 2004 and 2003**

**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, 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	<u>(259,764)</u>	<u>—</u>	<u>27,217</u>	<u>(232,547)</u>	<u>(27,216)</u>	<u>(205,331)</u>
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	<u>132,134</u>	<u>4,500</u>	<u>(31,679)</u>	<u>104,955</u>	<u>23,253</u>	<u>81,702</u>
Total bonds, notes and capital leases	<u>\$ 23,380,590</u>	<u>\$ 11,891,086</u>	<u>\$ (2,975,309)</u>	<u>\$ 32,296,367</u>	<u>\$ 2,945,888</u>	<u>\$ 29,350,479</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
2005	\$ 2,342,000	\$ 738,833	\$ 3,080,833	\$ 1,323,502	\$ 4,404,335
2006	2,345,000	908,410	3,253,410	1,195,844	4,449,254
2007	2,460,000	787,022	3,247,022	1,056,870	4,303,892
2008	985,000	626,591	1,611,591	913,743	2,525,334
2009	1,030,000	429,554	1,459,554	857,875	2,317,429
2010-2014	3,905,000	1,156,937	5,061,937	3,629,712	8,691,649
2015-2019	3,435,000	1,445,000	4,880,000	2,643,699	7,523,699
2020-2024	1,625,000	2,045,000	3,670,000	1,650,313	5,320,313
2025-2029	—	2,580,000	2,580,000	1,000,251	3,580,251
2030-2033	<u>—</u>	<u>2,550,000</u>	<u>2,550,000</u>	<u>286,464</u>	<u>2,836,464</u>
Total	<u>\$ 18,127,000</u>	<u>\$ 13,267,347</u>	<u>\$ 31,394,347</u>	<u>\$ 14,558,274</u>	<u>\$ 45,952,621</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Original Issue	Balance Due June 30, 2004	Interest Expense, Current Year	Bonds/Notes Maturing 2004-2005
<b>Housing and Dining System Revenue</b>				
<b>Bonds Payable</b>				
Series H bonds dated September 1, 1965, with interest at 3 3/8%; final principal payment due September 1, 2003; Elizabeth Hall and Springer Hall	\$ 1,845,000	\$ —	\$ 562	\$ —
Series I bonds dated September 1, 1965, with interest at 3 5/8%; final principal payment due September 1, 2004; Hart Hall	2,250,000	77,000	3,471	77,000
Series J bonds dated September 1, 1965, with interest of 3.34%; final principal payment due September 1, 2005; College Court III.	510,000	20,000	874	20,000
Series L bonds dated September 1, 1968, with interest at 3.00%; final principal payment due September 1, 2008; Regents Hall	2,000,000	885,000	27,321	165,000
Series M bonds dated June 26, 1997, with interest from 4.00% to 5.40%; final principal payment due September 1, 2017; Winslow Cafeteria	825,000	655,000	33,469	35,000
Series N bonds dated May 12, 1999, with interest from 4.35% to 4.90%; final principal payment due September 1, 2018; fire safety for residence halls	6,370,000	5,490,000	243,327	245,000
Series O bonds dated June 1, 2001, with interest from 4.00% to 5.00%; final principal payment due September 1, 2021; Hart Hall	1,610,000	1,595,000	74,631	60,000
Series P bonds dated June 18, 2004, with interest from 1.10% to 4.25%; final principal payment due September 1, 2024; Winslow Cafeteria	<u>2,500,000</u>	<u>2,500,000</u>	<u>70,820</u>	<u>95,000</u>
Total housing and dining system revenue bonds payable	<u>\$ 17,910,000</u>	<u>\$ 11,222,000</u>	<u>\$ 454,475</u>	<u>\$ 697,000</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

	<b>Original Issue</b>	<b>Balance Due June 30, 2004</b>	<b>Interest Expense, Current Year</b>	<b>Bonds/Notes Maturing 2004-2005</b>
<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 due May 1, 2007; I&T building	\$ 11,660,000	\$ 4,285,000	\$ 294,604	\$ 1,350,000
Series H bonds dated March 1, 1992, with interest from 3.50% to 6.20%; final principal payment due May 1, 2012; Underground condensate lines for Old Fine Arts building	4,625,000	—	73,303	—
Series H (second series) dated September 1, 2003, with interest from 2.00% to 3.80%; final principal payment due May 1, 2012; Underground condensate lines for Old Fine Arts building	<u>2,855,000</u>	<u>2,620,000</u>	<u>45,541</u>	<u>295,000</u>
Total consolidated educational buildings revenue bonds payable	<u>19,140,000</u>	<u>6,905,000</u>	<u>410,448</u>	<u>1,645,000</u>
Bonds payable before discount	37,050,000	18,127,000	864,923	2,342,000
Less bond discount	<u>—</u>	<u>(239,581)</u>	<u>—</u>	<u>(27,554)</u>
Total bonds payable	<u>\$ 37,050,000</u>	<u>\$ 17,887,419</u>	<u>\$ 864,923</u>	<u>\$ 2,314,446</u>
<b>City of Murray Payable</b>				
Agreement dated 12/30/02 with interest of 2.50% to 4.85%; final principal payment due June 1, 2033	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>	<u>\$ 455,045</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	\$ 411,812	\$ 25,780	\$ 122,504
Deferred Maintenance – Master lease dated May 10, 2002, with interest at 4.79%; final principal payment due May 10, 2007	2,232,000	1,817,185	71,459	329,406
Campus Backbone Networking – Master lease dated January 25, 1998, with interest from 4.23% to 4.35%; final principal payment due February 25, 2004	1,500,000	—	1,689	—

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

	<u>Original Issue</u>	<u>Balance Due June 30, 2004</u>	<u>Interest Expense, Current Year</u>	<u>Bonds/Notes Maturing 2004-2005</u>
Campus Networking Upgrade – Master lease dated March 24, 2004, with interest of 3.16% to 3.30%; Final principal payment due February 25, 2004	<u>890,413</u>	<u>703,257</u>	<u>5,918</u>	<u>168,700</u>
Total Master lease payable	<u>\$ 5,422,413</u>	<u>\$ 2,932,254</u>	<u>\$ 104,846</u>	<u>\$ 620,610</u>
<b>Notes Payable</b>				
Kentucky Virtual University dated July 30, 2002, with interest rate at 0%; final principal payment due December 1, 2005.	\$ 294,400	\$ 234,400	\$ —	\$ 90,000
Ohio Valley Conference dated September 8, 1999, with interest at 6.00%; final principal payment due September 3, 2003	<u>56,625</u>	<u>—</u>	<u>(168)</u>	<u>—</u>
Total notes payable	<u>\$ 351,025</u>	<u>\$ 234,400</u>	<u>\$ (168)</u>	<u>\$ 90,000</u>
<b>MSU Foundation Payable</b>				
Other liabilities – MSU Foundation; various notes for purchase of academic equipment; final principal due April 2, 2008	<u>282,013</u>	<u>100,693</u>	<u>8,302</u>	<u>28,225</u>
Total MSU Foundation payable	<u>\$ 282,013</u>	<u>\$ 100,693</u>	<u>\$ 8,302</u>	<u>\$ 28,225</u>
<b>Capital Leases</b>				
University of Kentucky dated June 25, 1998, with interest rate at 5.14%; final principal payment due January 1, 2017	\$ 2,200,000	\$ 1,652,000	\$ 90,629	\$ 93,000
Equipment leases	<u>715,285</u>	<u>51,193</u>	<u>4,688</u>	<u>51,194</u>
Total capital leases	<u>\$ 2,915,285</u>	<u>\$ 1,703,193</u>	<u>\$ 95,317</u>	<u>\$ 144,194</u>
Less capitalized interest	<u>—</u>	<u>—</u>	<u>(454,276)</u>	<u>—</u>
<b>Total all Bond Issues, Notes Payable and Capital Leases</b>	<u>\$ 56,020,736</u>	<u>\$ 32,857,959</u>	<u>\$ 1,073,989</u>	<u>\$ 3,197,475</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**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>2004</u>	<u>2003</u>
Capital lease assets, at cost	\$ 2,516,960	\$ 2,915,285
Less accumulated depreciation	<u>(1,595,574)</u>	<u>(1,897,513)</u>
Net book value	<u>\$ 921,386</u>	<u>\$ 1,017,772</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>
2005	\$ 52,503	\$ 179,428	\$ 231,931
2006	—	178,974	178,974
2007	—	179,259	179,259
2008	—	179,231	179,231
2009	—	179,870	179,870
2010-2014	—	896,435	896,435
2015-2017	<u>—</u>	<u>537,688</u>	<u>537,688</u>
	52,503	2,330,885	2,383,388
Less amount representing interest	<u>(1,310)</u>	<u>(678,885)</u>	<u>(680,195)</u>
Present value of capital lease obligations	<u>\$ 51,193</u>	<u>\$ 1,652,000</u>	<u>\$ 1,703,193</u>

**Note 12: Deposits**

The deposits held by the University consisted of:

	<u>2004</u>	<u>2003</u>
Current:		
Horse stall rentals	\$ 5,139	\$ 6,058
Racer card declining balances	56,375	56,025
Housing deposits	107,861	107,302
Agency account balances	<u>37,708</u>	<u>38,980</u>
Total current deposits	<u>207,083</u>	<u>208,365</u>
Noncurrent:		
Housing deposits	<u>171,933</u>	<u>191,556</u>
Total deposits	<u>\$ 379,016</u>	<u>\$ 399,921</u>

Noncurrent housing deposit additions were \$101,394 and \$114,750 for years ended June 30, 2004 and 2003, respectively. Noncurrent housing deposit deductions were \$121,017 and \$82,406 for years ended June 30, 2004 and 2003, respectively.

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 13: Unrestricted Net Assets**

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

	<b>2004</b>	<b>2003</b>
Unrestricted net assets		
Allocated for		
Prior year carryovers		
Renovation and maintenance	\$ 1,099,668	\$ 638,989
Departmental operations	8,917,670	7,550,494
Encumbrances	475,297	420,200
Working capital	1,818,710	2,569,451
Revenue contingency	2,573,645	2,583,470
General contingency	5,700,550	2,461,122
Self insurance	<u>900,000</u>	<u>900,000</u>
Total unrestricted net assets	<u>\$ 21,485,540</u>	<u>\$ 17,123,726</u>

**Note 14: Component Units**

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

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

During the year ended June 30, 2004 and June 30, 2003, the Foundation made payments of \$1,354,374 and \$1,194,602, respectively, on behalf of the University from restricted sources. Accounts receivable from the Foundation and accounts payable to the Foundation as of June 30, 2004 and June 30, 2003, respectively, were not significant. Complete financial statements for the Foundation can be obtained from the MSU Foundation Office, 100 Nash House, Murray, Kentucky, 42071.

The Murray State Campus Improvement Corporation, a nonprofit nonstock 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. There was no financial activity of the Murray State Campus Improvement Corporation for the years ended June 30, 2004 and 2003.



**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 14: Component Units (Continued)**

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

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

During the year ended June 30, 2004, the Racer Foundation distributed \$848,656 to the University, made payments of \$156,071 on behalf of the University, and transferred assets to the University of \$95,120. During the year ended June 30, 2003, the Racer Foundation distributed \$422,887 to the University, made payments of \$147,902 on behalf of the University, and transferred assets to the University of \$32,607. The total benefits for University athletics for the years ended June 30, 2004 and 2003, was \$1,099,847 and \$603,396, respectively. Accounts receivable from the Racer Foundation and accounts payable to the Racer Foundation as of June 30, 2004 and June 30, 2003, respectively, were not significant. Complete financial statements for the Racer Foundation can be obtained from the MSU Athletic Foundation Office, Stewart Stadium, Murray, Kentucky, 42071.

**Note 15: Risk Management**

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

**Note 16: 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,

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 16: Contingencies and Commitments (Continued)**

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 \$6,300,000 and \$10,013,000 as of June 30, 2004 and 2003, 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 17: Natural Expense Classifications with Functional Classifications**

The University's operating expenses by functional classification for the year ended June 30, 2004 were as follows:

Fund Classification	Year Ended June 30, 2004							Total
	Natural Classification							
	Compensation and Benefits	Operations	Utilities	Non-capitalized Equipment	Scholarships	Depreciation		
Instruction	\$ 40,138,755	\$ 5,649,412	\$ —	\$ 739,640	\$ 47,162	\$ —	\$ 46,574,969	
Research	1,566,291	1,615,688	—	313,209	—	—	3,495,188	
Public service	4,399,281	1,000,248	—	47,446	—	—	5,446,975	
Libraries	1,323,735	222,616	—	94,232	—	—	1,640,583	
Academic support	3,420,593	1,518,477	—	276,649	932	—	5,216,651	
Student services	6,892,184	3,779,396	—	131,705	29,985	—	10,833,270	
Institutional support	9,319,662	573,179	—	207,918	—	—	10,100,759	
Operations and maintenance	5,071,286	2,737,772	5,214,088	206,107	—	—	13,229,253	
Financial aid	6,879	71,200	—	—	6,622,214	—	6,700,293	
Depreciation	—	—	—	—	—	5,840,909	5,840,909	
Auxiliary	4,687,665	9,768,822	—	65,670	70,663	—	14,592,820	
Auxiliary depreciation	—	—	—	—	—	779,527	779,527	
Total expenses	<u>\$ 76,826,331</u>	<u>\$ 26,936,810</u>	<u>\$ 5,214,088</u>	<u>\$ 2,082,576</u>	<u>\$ 6,770,956</u>	<u>\$ 6,620,436</u>	<u>\$ 124,451,197</u>	

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 17: Natural Expense Classifications with Functional Classifications**  
**(Continued)**

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							Total
	Natural Classification							
	Compensation and Benefits	Operations	Utilities	Non-capitalized Equipment	Scholarships	Depreciation		
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	—	—	—	—	—	5,784,813	5,784,813	
Auxiliary	4,773,111	9,730,334	—	164,635	101,821	—	14,769,901	
Auxiliary depreciation	—	—	—	—	—	674,609	674,609	
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>	

**Note 18: 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, 2004 and 2003**

**Note 18: Segment Information (Continued)**

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

**Condensed Balance Sheets**

	<b>2004</b>	<b>2003</b>
<b>Assets</b>		
Current assets	\$ 3,053,483	\$ 3,014,364
Noncurrent assets	3,001,872	2,730,503
Capital assets, net of accumulated depreciation	9,694,798	8,572,547
Total assets	\$ 15,750,153	14,317,414
<b>Liabilities</b>		
Current liabilities	6,310,491	6,131,577
Noncurrent liabilities	11,368,334	9,456,050
Total liabilities	17,678,825	15,587,627
<b>Net assets</b>		
Invested in capital assets, net of related debt	(1,273,543)	(561,251)
Restricted		
Expendable capital	936,767	938,967
Expendable debt service	1,666,978	1,469,283
Unrestricted	(3,258,874)	(3,117,212)
Total net assets	(1,928,672)	(1,270,213)
Total liabilities and net assets	\$ 15,750,153	\$ 14,317,414

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 18: Segment Information (Continued)**

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

	<b>2004</b>	<b>2003</b>
Operating revenues	\$ 12,049,615	\$ 11,505,847
Operating expenses	(10,163,688)	(10,326,969)
Depreciation expense	<u>(775,068)</u>	<u>(843,488)</u>
Operating income	1,110,859	335,390
Nonoperating revenues (expenses)	<u>(1,769,318)</u>	<u>4,105,901</u>
Change in net assets	(658,459)	4,441,291
Net assets, beginning of year	<u>(1,270,213)</u>	<u>(5,711,504)</u>
Net assets, end of year	<u>\$ (1,928,672)</u>	<u>\$ (1,270,213)</u>

***Condensed Statements of Cash Flows***

	<b>2004</b>	<b>2003</b>
Cash flows from		
Operating activities	\$ 2,045,389	\$ 1,340,857
Noncapital financing activities	(978,208)	(120,125)
Capital and related financing activities	(872,230)	(1,272,192)
Investing activities	<u>(167,240)</u>	<u>194,230</u>
Net increase in cash	27,711	142,770
Cash, beginning of year	<u>2,732,685</u>	<u>2,589,915</u>
Cash, end of year	<u>\$ 2,760,398</u>	<u>\$ 2,732,685</u>

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 18: 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.

Condensed financial information as of and for the years ended June 30, 2004 and June 30, 2003, of the University's Wellness Center segment are as follows:

***Condensed Balance Sheet***

	<b>2004</b>	<b>2003</b>
<b>Assets</b>		
Current assets	\$ 593,634	\$ 276,524
Noncurrent assets	4,172,992	9,608,372
Capital assets, net of accumulated depreciation	7,188,513	836,949
Total assets	11,955,139	10,721,845
<b>Liabilities</b>		
Current liabilities	626,437	200,681
Noncurrent liabilities	10,000,000	10,000,000
Total liabilities	10,626,437	10,200,681
<b>Net assets</b>		
<b>Restricted</b>		
Expendable capital	1,221,599	558,565
Expendable debt service	(37,210)	(37,401)
Expendable maintenance reserve	144,313	—
Total net assets	1,328,702	521,164
Total liabilities and net assets	\$ 11,955,139	\$ 10,721,845

**Murray State University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 18: Segment Information (Continued)**

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

	<b>2004</b>	<b>2003</b>
Nonoperating revenues		
Restricted student fees	\$ 637,850	\$ 562,684
Investment income	38,725	186,716
Transfer of reserve payment - current fund	143,735	—
Cost of issuance amortization	(12,003)	—
Interest on capital asset-related debt	(769)	(228,236)
Nonoperating revenues	807,538	521,164
Change in net assets	807,538	521,164
Net assets, beginning of year	521,164	—
Net assets, end of year	\$ 1,328,702	\$ 521,164

***Condensed Statement of Cash Flows***

	<b>2004</b>	<b>2003</b>
Cash flows from		
Capital and related financing activities	\$ (5,289,014)	\$ 9,338,481
Investing activities	285,357	70,071
Net increase (decrease) in cash	(5,003,657)	9,408,552
Cash, beginning of year	9,408,552	—
Cash, end of year	\$ 4,404,895	\$ 9,408,552