

Murray State University
A Component Unit of the State of Kentucky
Accountants' Report and Financial Statements
June 30, 2005 and 2004



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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, 2005 and 2004, 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 financial position of the University and of its aggregate discretely presented component units as of June 30, 2005 and 2004, 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.

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

BKD, LLP

September 9, 2005

Murray State University

A Component Unit of the State of Kentucky

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, 2005. 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 10,100 students. The University has not only posted record enrollment figures for the past nine years, it has increased its graduation rate to an impressive 57.3 percent.

The tuition and fees for the 2004-05 academic year 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.

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 & World Report* for its academic quality and affordability. For 15 consecutive years *U.S. News & World Report* has ranked the University as one of the best universities in America. In the 2006 edition of the publication, the University ranked ninth in the nation among public master's universities. The University ranked second in the South's public master's universities "Great Schools at a Great Price" category for 2006. The University's solid academic programs and affordable price have placed it in the top two best values among public schools in the South. This is the third consecutive year the University has been ranked in this category, and it is the only Kentucky university ranked in this class. 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 \$199.6 million and liabilities of \$51.6 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$148 million or 74% of total assets. Net assets increased by \$4.3 million from 2004 to 2005.

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- Fiscal operations were in accordance with the annual operating budget of approximately \$107 million. Notwithstanding a reduction in state appropriations, the University continued to be a strong employer for the region and employed approximately 3,940 individuals, including 575 faculty and 1,090 staff members and 2,275 students. These amounts include 1,350 regular and full time faculty and staff.
- State appropriations from the Commonwealth of Kentucky fell by a net of \$.8 million or 1.5% in 2005, which included a general appropriations reduction of \$1.6 million. Departmental reserves from the prior year were utilized to cover this appropriations reduction.
- Phase II of a multi-phase science complex was funded with \$15 million from the Commonwealth of Kentucky 2004-06 biennium budget. This second facility is expected to house Chemistry programs. Land site preparation has started for this project and construction is scheduled to start in spring 2006.

Construction of the phase I facility in the science complex has been substantially completed and currently houses the Biology program. The first phase was funded with \$13 million from the Commonwealth of Kentucky in the 2000-2002 biennium budget. A portion of the funding from phase II will be utilized to complete the second floor of this building, which will fully complete the interior and exterior of this building.

- Construction was completed for the new student recreation/wellness center in January 2005. The Susan E. Bauernfeind Student Recreation and Wellness Center opened to serve students, faculty, staff and alumni in the spring 2005.
- Construction began on the Western Regional Center for Emerging Technologies (business incubator), located on the north edge of the main campus, which is scheduled for substantial completion in the fall 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 is conducting a fund raising campaign for the revitalization of Waterfield Library. Proceeds from this campaign are planned to be used for deferred maintenance, enhancements in library holdings and technology improvements, which included wireless connectivity throughout the library.
- The University began renovations to various facilities on the main campus to improve energy performance. Chevron/Texaco was contracted to study energy usage in the main campus buildings and recommended many changes to improve performance and produce costs savings. This campus wide project was funded from \$6.7 million of debt service issued and expected to be completed in the fall 2005. Chevron/Texaco guarantees costs savings will be realized over a number of years to cover the repayment of this debt. A major addition to the Equine Training Facility located on the West Farm campus was completed in August 2005 and began to service the academic programs for the School of Agriculture. Funding of almost \$1

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million was utilized for this project, with the most significant portion being funded from the Kentucky Council on Postsecondary Education's Equine Trust Fund.

- A major upgrade to the main campus and residential colleges networking infrastructure was completed and funded with approximately \$1.6 million of masterlease debt financing. The debt will be repaid with student fee revenue. This upgrade increased network stability and allows the University to move forward with new Internet technologies.
- The University received a \$1 million technology and training grant from CampusEAI Consortium. This grant will provide the capability to cost effectively enhance the portal project initiative. These technologies will streamline access to University online services and personalize web-based information specifically for each end user. In addition to the technologies provided through the grant, the University purchased additional Oracle software that will enhance and integrate current applications into the portal platform. This software and support was purchased with \$370,000 of masterlease debt financing that will be repaid from the general operating budget.
- For the first time in several years, the University experienced a considerable decrease in health insurance claims during the fiscal year. Plan design, wellness initiatives, and employee awareness were significant factors in the cost of claims.

Using the Financial Statements

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

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

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

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Balance Sheets

The Balance Sheets present a financial picture of the University's financial condition at the end of the 2005 and 2004 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 2005 were \$199.6 million, of which capital assets, net of depreciation, represented the largest portion. This group of assets totaled approximately \$119.3 million or 60% of total assets and was primarily comprised of university-owned land, buildings, equipment, and library holdings. Cash and cash equivalents amounted to \$42.1 million or 21% of total assets. Total assets increased by \$5.5 million during 2005, which was primarily due to the capitalization of major construction projects. 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.

Liabilities

Total liabilities at the end of the fiscal year 2005 were \$51.6 million. An increase in total long-term debt obligations, reduced further by a decrease in debt payments and accounts payables for phase I of the science complex and the student recreation/wellness center, were the primary reasons for an overall total liabilities increase during 2005 of \$1.2 million. Total long-term debt obligations amounted to \$36.8 million. These debt obligations increased by \$3.9 million during 2005, due primarily to the \$6.7 million Chevron Energy Performance masterlease, net of current year debt payments.

Total liabilities at the end of the fiscal year 2004 were \$50.4 million. During 2004, total liabilities decreased by \$4.1 million due to the use of deferred revenues, recorded in 2003, for the science complex phase I construction project. These deferred revenues were recognized as revenues in 2004 and used to pay for expenses related to construction.

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Condensed Balance Sheets

	June 30, 2005	June 30, 2004	June 30, 2003
Assets			
Current assets	\$ 40,690,369	\$ 33,665,438	\$ 29,216,953
Noncurrent assets	39,621,293	42,892,454	46,974,282
Capital assets	119,254,615	117,518,493	107,147,545
Total assets	<u>\$ 199,566,277</u>	<u>\$ 194,076,385</u>	<u>\$ 183,338,780</u>
Liabilities			
Current liabilities	\$ 18,355,649	\$ 20,571,802	\$ 24,961,998
Noncurrent liabilities	33,233,974	29,832,417	29,542,035
Total liabilities	<u>\$ 51,589,623</u>	<u>\$ 50,404,219</u>	<u>\$ 54,504,033</u>
Net assets			
Invested in capital assets, net of related debt	\$ 89,933,928	\$ 85,638,535	\$ 85,104,843
Restricted for			
Nonexpendable	14,781,227	14,684,636	11,380,920
Expendable			
Scholarships, research, instruction and other	4,578,913	3,729,092	2,552,561
Loans	4,919,668	4,977,530	4,985,017
Capital	3,174,364	9,135,468	4,100,350
Debt service	4,144,190	4,021,365	3,587,330
Unrestricted	26,444,364	21,485,540	17,123,726
Total net assets	<u>147,976,654</u>	<u>143,672,166</u>	<u>128,834,747</u>
Total liabilities and net assets	<u>\$ 199,566,277</u>	<u>\$ 194,076,385</u>	<u>\$ 183,338,780</u>

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.

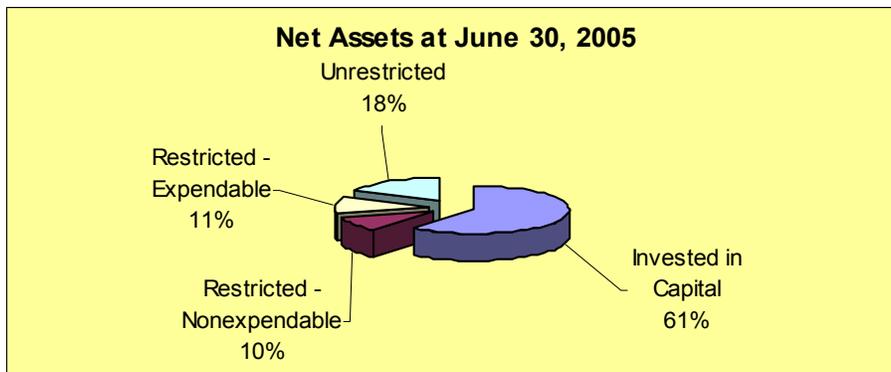
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- Restricted nonexpendable net assets - Restricted nonexpendable net assets consist solely of permanent endowments owned by the University. The corpus, as specified by the donor, is invested in perpetuity and may not be expended.
- Restricted expendable 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:



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-

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lived capital assets is reflected in the financial statements as depreciation, which expenses the costs of an asset over its expected useful life.

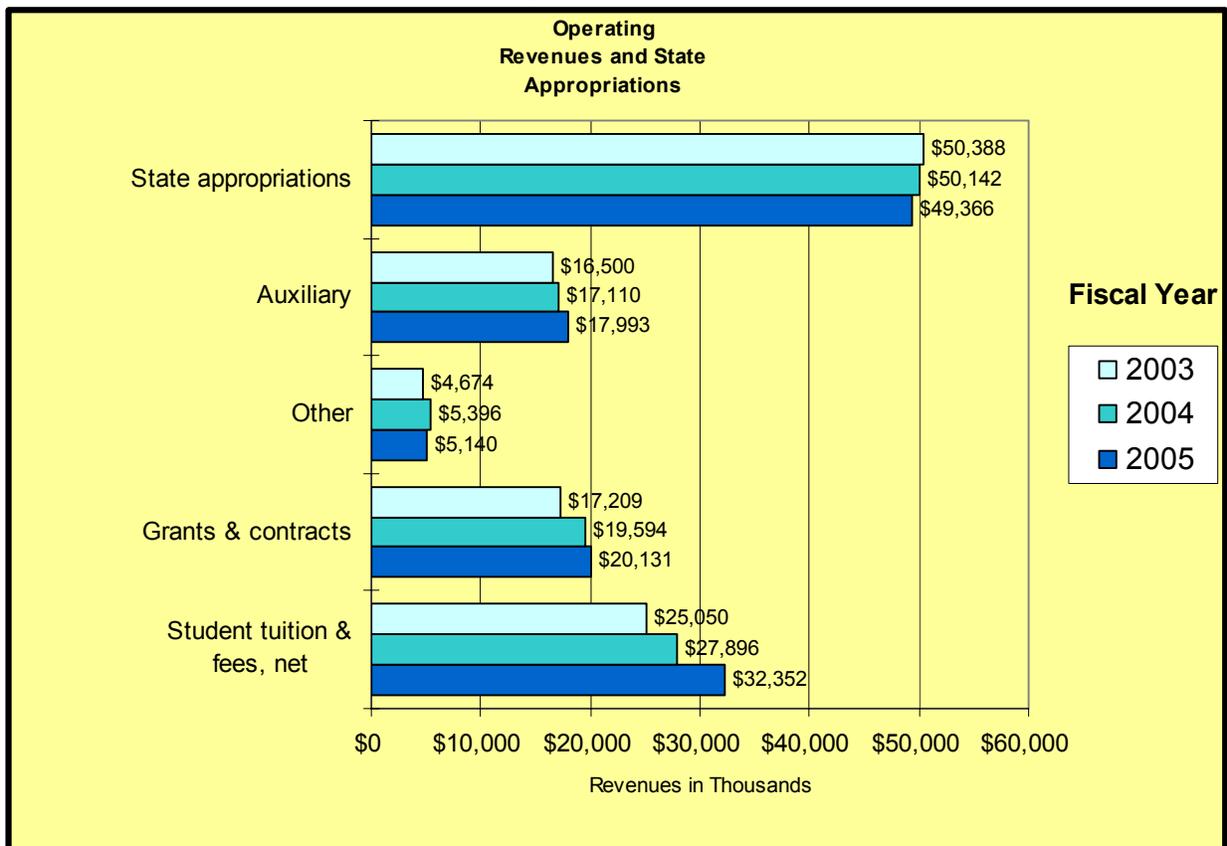
Revenues

Total operating revenues, which exclude state appropriations, for the 2005 fiscal year were \$75.6 million, including student tuition and fees, net of related discounts and allowances, of \$32.4 million, operating grants and contracts revenues of \$20.1 million, and auxiliary services net revenue of \$18 million.

Operating revenues increased during the year by \$5.6 million. This increase is comprised of \$5.3 million from net student tuition, fees, room, and board, driven by increased student enrollment and on campus residency, and \$.5 million from federal and state grants and contracts.

For 2005, the University received a net of \$49.4 million of state appropriations, which included a \$1.6 million appropriations reduction. In addition, the University experienced a \$1.3 million appropriations reduction in 2004. State appropriations are required to be classified as nonoperating revenues; however, these funds were used to support University operating activities.

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



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Expenses

Total operating expenses for the 2005 fiscal year were \$131.7 million. Of this amount, \$109.1 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 \$47.0 million or 43% of the total educational and general portion. Remaining operating expenses were for depreciation and auxiliary services, which amounted to \$7.4 million and \$15.3 million, respectively. Depreciation for all areas of the University is reported as an operating expense and was not allocated to each program group, except for auxiliary enterprises.

Operating expenses increased for the year ended June 30, 2005, by \$7.2 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, utilities, property insurance and other fixed costs.

The net loss from operations for the year ended June 30, 2005, was \$56.1 million. Nonoperating revenues, net of expenses, amounted to \$57.1 million and non-debt related capital funding amounted to \$3.3 million, resulting in an increase in net assets of \$4.3 million for the year ended June 30, 2005.

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.

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Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues			
Student tuition and fees, net	\$ 32,351,507	\$ 27,896,362	\$ 25,049,932
Grants and contracts	20,130,510	19,593,986	17,208,964
Other	5,140,180	5,395,820	4,673,883
Auxiliary, net	<u>17,993,122</u>	<u>17,109,547</u>	<u>16,500,239</u>
Total operating revenues	<u>75,615,319</u>	<u>69,995,715</u>	<u>63,433,018</u>
Operating expenses			
Instruction	47,040,216	46,574,969	45,804,242
Other educational and general	62,023,778	56,662,972	54,072,308
Depreciation	6,527,977	5,840,909	5,784,813
Auxiliary enterprises	15,267,241	14,592,820	14,769,901
Auxiliary depreciation	<u>831,987</u>	<u>779,527</u>	<u>674,609</u>
Total operating expenses	<u>131,691,199</u>	<u>124,451,197</u>	<u>121,105,873</u>
Operating loss	<u>(56,075,880)</u>	<u>(54,455,482)</u>	<u>(57,672,855)</u>
Nonoperating revenues (expenses)			
State appropriations	49,366,100	50,141,800	50,388,100
Other nonoperating revenues (expenses)	<u>11,014,268</u>	<u>19,151,101</u>	<u>8,880,266</u>
Total nonoperating revenues (expenses)	<u>60,380,368</u>	<u>69,292,901</u>	<u>59,268,366</u>
Increase in net assets	<u>4,304,488</u>	<u>14,837,419</u>	<u>1,595,511</u>
Net assets, beginning of year	<u>143,672,166</u>	<u>128,834,747</u>	<u>127,239,236</u>
Net assets, end of year	<u>\$ 147,976,654</u>	<u>\$ 143,672,166</u>	<u>\$ 128,834,747</u>

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 \$.9 million during 2005.

The cash flows from noncapital financing activities, changed by \$.5 million during 2005. This change was due to a decrease in net state appropriations.

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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 \$7.3 million during 2005. A large portion of this change is due to reduced expenses in 2005 related to capital construction projects, such as the student recreation/wellness center and phase I of the science complex.

The cash flows provided by (used in) investing activities represent the cash activities of investments, which changed by \$2.8 million. This change is related to the purchase of investments for the energy performance project debt escrow fund.

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.

Condensed Statements of Cash Flows

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash provided/(used by):			
Operating activities	\$ (48,520,987)	\$ (47,628,530)	\$ (48,819,153)
Noncapital financing activities	54,474,090	54,974,561	54,478,012
Capital and related financing activities	(5,788,732)	(13,041,031)	164,548
Investing activities	<u>(1,368,063)</u>	<u>1,508,087</u>	<u>1,483,471</u>
Net increase in cash	<u>(1,203,692)</u>	<u>(4,186,913)</u>	<u>7,306,878</u>
Cash and cash equivalents, beginning of year	<u>43,341,386</u>	<u>47,528,299</u>	<u>40,221,421</u>
Cash and cash equivalents, end of year	<u>\$ 42,137,694</u>	<u>\$ 43,341,386</u>	<u>\$ 47,528,299</u>

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Capital Assets and Debt Administration

The University had a \$1.7 million increase in capital assets during the fiscal year ended June 30, 2005. This change is primarily due an increase of \$1.1 million in equipment acquisitions. The Science Complex Phase I and Wellness Center projects, which total \$24 million, was transferred from construction in progress to the buildings assets during the year. Capital assets as of the year ended June 30, 2005, and changes during the year are as follows:

	Balance June 30, 2005	Net Change 2004-05
Land	\$ 6,791,881	\$ 310,316
Construction in progress	3,055,589	(19,509,585)
Museum and collectibles	497,193	-
Buildings	182,540,678	24,324,756
Non-building improvements	9,623,707	810,406
Equipment	19,865,288	1,596,216
Library holdings	25,957,764	952,808
Livestock	122,750	28,500
Accumulated depreciation	(129,200,235)	(6,777,295)
Total	\$ 119,254,615	\$ 1,736,122

The University issued new debt of \$7.5 million which included \$6.7 million for the improvement of energy performance on campus. The University also paid off \$3.5 million of long term debt.

Debt as of June 30, 2005, is summarized below:

	Balance June 30, 2005
Housing and Dining System Revenue Bonds	\$ 10,525,000
Consolidated Educational Buildings Revenue Bonds	5,260,000
Bond discount	(212,026)
City of Murray	10,000,000
Other (Note 11 of Notes to Financial Statements)	11,216,599
Total	\$ 36,789,573

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

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assess and disclose that all eligible infrastructure assets are being preserved approximately at (or above) a condition level established. To date, the University has not identified any assets that should be classified as infrastructure.

Economic Factors Affecting Future Periods

- General state appropriations from the Commonwealth of Kentucky (Commonwealth) are expected to remain constant or slightly increase over the next period.
- The University provides health insurance to employees through a self-funded program. As reflected in national trends, the costs of health claims will continue to be a major expense for the institution.
- The Athletic Department's fundraising and sponsorship activities will transfer to the University from the Murray State University Athletic Foundation, effective July 1, 2005. This change should significantly improve institutional control of the Athletic Department.
- Prior to the 2006-07 academic year, the governing bodies of each public university within the Commonwealth of Kentucky had been delegated the authority to set tuition rates for its respective university. Beginning with the 2006-07 academic year, the Commonwealth of Kentucky's Council on Postsecondary Education will rescind this delegation and they will begin to approve the tuition rates for all public universities within the Commonwealth. The impact of this change is not yet known.
- The University has received a \$13 million project authorization from the Commonwealth to construct a new residential college facility to replace the existing Clark Residential College. Architects have been engaged for this project and building construction is planned to start in the spring 2006. In addition, the University has requested authorization from the Commonwealth from the 2006-08 biennial budget to replace the existing Richmond Residential College.
- The University's capital funding priority for the 2006-08 Commonwealth's biennium budget is \$15 million for phase III of the science complex. This phase will be for the third building in the complex and will house the Physics program.
- In partnerships with Murray Electric System, the University plans to begin a new energy project. This project will entail the construction of a building to house diesel generators on the main campus. These generators will allow the University to obtain better electrical utility rates per unit.

Contacting the University's Financial Management

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

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Balance Sheets
June 30, 2005 and 2004

ASSETS

	2005	2004
Current Assets		
Cash and cash equivalents	\$ 31,733,726	\$ 25,491,325
Accounts receivable, net	5,212,078	4,582,500
Inventories	1,982,920	2,021,246
Prepaid expenses	876,607	684,832
Loans receivable, net	869,983	771,011
Interest receivable	15,055	114,524
Total current assets	40,690,369	33,665,438
Noncurrent Assets		
Restricted cash and cash equivalents	10,403,968	17,850,061
Restricted investments	25,051,377	20,797,865
Accounts receivable, net	91,700	183,400
Loans receivable, net	3,641,037	3,604,160
Capital assets	248,454,850	239,941,433
Accumulated depreciation	(129,200,235)	(122,422,940)
Debt issuance costs, net	433,211	456,968
Total noncurrent assets	158,875,908	160,410,947
Total assets	\$ 199,566,277	\$ 194,076,385

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Balance Sheets
June 30, 2005 and 2004

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
Current Liabilities		
Accounts payable	\$ 6,048,999	\$ 7,689,126
Self-insured health liability	1,079,117	1,152,763
Accrued payroll	3,437,563	3,367,640
Interest payable	237,831	241,347
Deposits	167,798	207,083
Deferred revenue	3,622,937	4,716,368
Current maturities of long-term liabilities	<u>3,761,404</u>	<u>3,197,475</u>
Total current liabilities	<u>18,355,649</u>	<u>20,571,802</u>
Noncurrent Liabilities		
Deposits	205,805	171,933
Revenue bonds, notes payable, and capital leases	<u>33,028,169</u>	<u>29,660,484</u>
Total noncurrent liabilities	<u>33,233,974</u>	<u>29,832,417</u>
Total liabilities	<u>51,589,623</u>	<u>50,404,219</u>
Net Assets		
Invested in capital assets, net of related debt	89,933,928	85,638,535
Restricted for		
Nonexpendable – permanent endowments	14,781,227	14,684,636
Expendable		
Scholarships, research, instruction and other	4,578,913	3,729,092
Loans	4,919,668	4,977,530
Capital assets	3,174,364	9,135,468
Debt service	4,144,190	4,021,365
Unrestricted	<u>26,444,364</u>	<u>21,485,540</u>
Total net assets	<u>147,976,654</u>	<u>143,672,166</u>
Total liabilities and net assets	<u>\$ 199,566,277</u>	<u>\$ 194,076,385</u>

Murray State University Foundation, Inc.
 Statements of Financial Position
 June 30, 2005 and 2004

ASSETS

	2005	2004
Cash	\$ 115,694	\$ 29,920
Accounts receivable, net of allowance; 2005 - \$16,740, 2004 - \$16,256	70,327	67,376
Investments	54,440,112	47,726,626
Prepaid and other current assets	33,832	29,635
Real estate held for sale	88,710	462,085
Contributions receivable, net of allowance; 2005 - \$33,148, 2004 - \$47,770	625,594	902,086
Notes receivable	185,809	202,037
Property and equipment, net of accumulated depreciation; 2005 - \$1,585,764, 2004 - \$1,460,204	<u>3,202,959</u>	<u>3,284,587</u>
Total assets	<u>\$ 58,763,037</u>	<u>\$ 52,704,352</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 159,133	\$ 165,334
Accrued expenses	32,939	31,034
Deferred revenue	38,613	33,368
Assets held for others	17,534,480	16,273,654
Annuities payable	221,762	236,484
Capital lease obligations	<u>83,802</u>	<u>120,273</u>
Total liabilities	<u>18,070,729</u>	<u>16,860,147</u>

Net Assets

Unrestricted	6,041,631	5,809,256
Temporarily restricted	12,210,710	8,975,425
Permanently restricted	<u>22,439,967</u>	<u>21,059,524</u>
Total net assets	<u>40,692,308</u>	<u>35,844,205</u>
Total liabilities and net assets	<u>\$ 58,763,037</u>	<u>\$ 52,704,352</u>

Murray State University Athletic Foundation, Inc.
 Statements of Financial Position
 June 30, 2005 and 2004

ASSETS

	2005	2004
Cash	\$ 180,285	\$ 115,243
Investments	108,968	88,421
Contributions receivable, net of allowance; 2005 - \$1,800, 2004 - \$13,000	34,302	34,237
Other receivables	34,297	93,016
Real estate held for sale	603,595	1,231,525
Equipment, net of accumulated depreciation; 2005 - \$6,623, 2004 - \$3,521	5,750	8,851
Total assets	\$ 967,197	\$ 1,571,293

LIABILITIES AND NET ASSETS

Liabilities

Line of credit	\$ —	\$ 325,000
Accounts payable to Murray State University	435,897	—
Accounts payable and accrued expenses	32,927	45,118
Note payable	607,672	1,215,137
Total liabilities	1,076,496	1,585,255

Net Assets (Deficit)

Unrestricted	(192,072)	(125,879)
Temporarily restricted	82,773	111,917
Total net assets (deficit)	(109,299)	(13,962)
Total liabilities and net assets (deficit)	\$ 967,197	\$ 1,571,293

Murray State University
A Component Unit of the State of Kentucky
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2005 and 2004

	2005	2004
Revenues		
Operating revenues		
Student tuition and fees	\$ 52,096,603	\$ 43,227,944
Less discounts and allowances	<u>(19,745,096)</u>	<u>(15,331,582)</u>
Net tuition and fees	<u>32,351,507</u>	<u>27,896,362</u>
Federal grants and contracts	12,463,138	12,534,110
State grants and contracts	7,421,792	6,815,631
Local and private grants and contracts	<u>245,580</u>	<u>244,245</u>
Total grants and contracts	<u>20,130,510</u>	<u>19,593,986</u>
Sales and services of educational departments	3,429,670	3,551,156
Other operating revenues	<u>1,710,510</u>	<u>1,844,664</u>
Total sales, services, and other revenues	<u>5,140,180</u>	<u>5,395,820</u>
Auxiliary enterprises revenues (Revenues are pledged as security for the Housing and Dining Revenue System Bond Series A – P)	18,742,513	17,830,810
Less discounts and allowances	<u>(749,391)</u>	<u>(721,263)</u>
Net auxiliary revenue	<u>17,993,122</u>	<u>17,109,547</u>
Total operating revenues	<u>75,615,319</u>	<u>69,995,715</u>
Expenses		
Operating expenses		
Instruction	47,040,216	46,574,969
Research	2,647,825	3,495,188
Public service	5,803,477	5,446,975
Libraries	1,621,110	1,640,583
Academic support	5,418,991	5,216,651
Student services	11,201,585	10,833,270
Institutional support	10,918,645	10,100,759
Operational and maintenance of plant	17,439,073	13,229,253
Student financial aid	6,973,072	6,700,293
Depreciation	6,527,977	5,840,909
Auxiliary enterprises	15,267,241	14,592,820
Auxiliary depreciation	<u>831,987</u>	<u>779,527</u>
Total operating expenses	<u>131,691,199</u>	<u>124,451,197</u>
Operating Loss	<u>\$ (56,075,880)</u>	<u>\$ (54,455,482)</u>

Murray State University
A Component Unit of the State of Kentucky
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Nonoperating Revenues (Expenses)		
State appropriations	\$ 50,999,000	\$ 51,472,900
Less: State appropriation reduction	(1,632,900)	(1,331,100)
State endowment match	—	3,259,000
Restricted student fees (Revenues are pledged as security for the City of Murray debt agreement)	646,417	637,850
Federal grants and contracts	1,747,094	1,328,844
State grants and contracts	2,805,482	2,307,248
Local and private grants and contracts	1,220,515	1,855,761
Gifts	578,337	360,470
Investment income	2,464,474	1,797,883
Interest on capital asset-related debt	(1,503,252)	(1,073,989)
Loss on deletion and disposal of capital assets	(156,020)	(131,729)
Bond amortization	<u>(51,311)</u>	<u>(165,608)</u>
Net nonoperating revenues (expenses)	<u>57,117,836</u>	<u>60,317,530</u>
Income before Other Revenues, Expenses, Gains or Losses	1,041,956	5,862,048
State capital appropriations	1,274,783	8,142,030
Capital grants	1,468,179	492,405
Capital gifts	397,807	176,178
Insurance proceeds on capital asset loss	<u>121,763</u>	<u>164,758</u>
Increase in Net Assets	4,304,488	14,837,419
Net Assets, Beginning of Year	<u>143,672,166</u>	<u>128,834,747</u>
Net Assets, End of Year	<u>\$ 147,976,654</u>	<u>\$ 143,672,166</u>

Murray State University Foundation, Inc.
 Statements of Activities
 Years Ended June 30, 2005 and 2004

	2005			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Contributions	\$ 131,648	\$ 3,643,647	\$ 868,513	\$ 4,643,808
Revenues from operations of golf course	506,478	—	—	506,478
Fees	128,945	—	—	128,945
Investment return	1,111,340	1,410,345	340,475	2,862,160
Other	240,468	13,428	171,455	425,351
Reclassification based on donor intent	—	—	—	—
Net assets released from restrictions	<u>1,832,135</u>	<u>(1,832,135)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>3,951,014</u>	<u>3,235,285</u>	<u>1,380,443</u>	<u>8,566,742</u>
Expenses and Losses				
Payments made on behalf of Murray State University	2,242,375	—	—	2,242,375
Golf course	555,052	—	—	555,052
General and administrative	921,212	—	—	921,212
Loss on impairment of real estate held for sale	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total expenses and losses	<u>3,718,639</u>	<u>—</u>	<u>—</u>	<u>3,718,639</u>
Change in Net Assets	232,375	3,235,285	1,380,443	4,848,103
Net Assets, Beginning of Year	<u>5,809,256</u>	<u>8,975,425</u>	<u>21,059,524</u>	<u>35,844,205</u>
Net Assets, End of Year	<u>\$ 6,041,631</u>	<u>\$ 12,210,710</u>	<u>\$ 22,439,967</u>	<u>\$ 40,692,308</u>

Murray State University Foundation, Inc.
 Statements of Activities
 Years Ended June 30, 2005 and 2004

	2004			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Contributions	\$ 82,999	\$ 923,198	\$ 3,875,339	\$ 4,881,536
Revenues from operations of golf course	476,488	—	—	476,488
Fees	116,607	—	—	116,607
Investment return	1,040,133	2,084,000	3,859	3,127,992
Other	168,520	294,003	63,115	525,638
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>
Expenses and Losses				
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>
Change in Net Assets	519,793	2,157,456	3,550,023	6,227,272
Net Assets, Beginning of Year	<u>5,289,463</u>	<u>6,817,969</u>	<u>17,509,501</u>	<u>29,616,933</u>
Net Assets, End of Year	<u>\$ 5,809,256</u>	<u>\$ 8,975,425</u>	<u>\$ 21,059,524</u>	<u>\$ 35,844,205</u>

Murray State University Athletic Foundation, Inc.
 Statements of Activities
 Years Ended June 30, 2005 and 2004

	2005		
	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Contributions	\$ 70,775	\$ 435,503	\$ 506,278
Sponsorships and promotions	387,489	—	387,489
Fund raising events	72,677	52,003	124,680
Investment return	7,823	—	7,823
Gain on sale of real estate held for sale	335,198	—	335,198
Other	30,279	—	30,279
Net assets released from restrictions	<u>516,650</u>	<u>(516,650)</u>	<u>—</u>
Total revenues, gains and other support	<u>1,420,891</u>	<u>(29,144)</u>	<u>1,391,747</u>
Expenses			
Sponsorships and promotions	370,452	—	370,452
Contributions to Murray State University			
Athletic department	668,221	—	668,221
General operations	70,226	—	70,226
Contribution to Murray State University Foundation	—	—	—
General and administrative	236,589	—	236,589
Fund raising events	61,644	—	61,644
Membership activities	10,661	—	10,661
Interest	<u>69,291</u>	<u>—</u>	<u>69,291</u>
Total expenses	<u>1,487,084</u>	<u>—</u>	<u>1,487,084</u>
Change in Net Assets (Deficit)	(66,193)	(29,144)	(95,337)
Net Assets (Deficit), Beginning of Year	<u>(125,879)</u>	<u>111,917</u>	<u>(13,962)</u>
Net Assets (Deficit), End of Year	<u>\$ (192,072)</u>	<u>\$ 82,773</u>	<u>\$ (109,299)</u>

Murray State University Athletic Foundation, Inc.
 Statements of Activities
 Years Ended June 30, 2005 and 2004

	2004		
	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
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>
Expenses			
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>
Change in Net Assets (Deficit)	1,192,488	(24,733)	1,167,755
Net Assets (Deficit), Beginning of Year	<u>(1,318,367)</u>	<u>136,650</u>	<u>(1,181,717)</u>
Net Assets (Deficit), End of Year	<u>\$ (125,879)</u>	<u>\$ 111,917</u>	<u>\$ (13,962)</u>

Murray State University
A Component Unit of the State of Kentucky
Statements of Cash Flows
Years Ended June 30, 2005 and 2004

	2005	2004
Cash Flows from Operating Activities		
Tuition and fees	\$ 32,726,025	\$ 27,695,754
Grants and contracts	19,220,602	18,752,655
Salaries, wages, and benefits	(72,347,127)	(72,890,855)
Payments to suppliers	(28,716,663)	(22,856,859)
Payments to students for financial aid	(6,973,072)	(6,700,293)
Computer loans issued to employees	(39,833)	(50,401)
Collection of computer loans to employees	43,444	55,255
Loans issued to students	(1,297,203)	(1,105,122)
Collection of loans to students	1,161,354	1,113,468
Sales and services	3,183,549	3,977,012
Other operating revenues	1,708,241	1,843,745
Auxiliary enterprises revenues		
Food service	5,877,915	5,498,227
Housing	6,785,347	6,518,309
Book store	4,971,841	4,845,229
Other	238,424	268,166
Auxiliary enterprises payments		
Salaries, wages, and benefits	(4,658,079)	(4,650,122)
Payment to suppliers	<u>(10,405,752)</u>	<u>(9,942,698)</u>
Net cash used in operating activities	<u>(48,520,987)</u>	<u>(47,628,530)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	49,366,100	50,141,800
State endowment match	—	3,259,000
Grants and contracts	5,773,091	5,491,853
Endowment transfers to MSU Foundation	(770,350)	(4,017,274)
Gifts for other than capital purposes	100,100	100,454
Agency transactions	<u>5,149</u>	<u>(1,272)</u>
Net cash provided by noncapital financing activities	<u>54,474,090</u>	<u>54,974,561</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	7,465,190	6,511,226
Payment receipt for loan issued for capital project	91,700	54,200
Restricted student fees pledged for debt service	646,417	637,850
Insurance proceeds	121,763	164,758
State capital appropriations	546,402	970,147
Purchases of capital assets	(11,195,885)	(14,864,692)
Capital gift	135,400	20,000
Capital grants	1,468,179	492,405
Principal paid on capital debt and leases	(3,561,130)	(5,942,600)
Interest paid on capital debt and leases	<u>(1,506,768)</u>	<u>(1,084,325)</u>
Net cash used in capital and related financing activities	<u>(5,788,732)</u>	<u>(13,041,031)</u>

Murray State University
A Component Unit of the State of Kentucky
Statements of Cash Flows
Years Ended June 30, 2005 and 2004

	2005	2004
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	\$ 6,747,641	\$ 5,875,010
Purchase of investments	(9,928,475)	(5,979,952)
Interest receipts on investments	<u>1,812,771</u>	<u>1,613,029</u>
Net cash (used in) provided by investing activities	<u>(1,368,063)</u>	<u>1,508,087</u>
Net Decrease in Cash and Cash Equivalents	(1,203,692)	(4,186,913)
Cash and Cash Equivalents, Beginning of Year	<u>43,341,386</u>	<u>47,528,299</u>
Cash and Cash Equivalents, End of Year	<u>\$ 42,137,694</u>	<u>\$ 43,341,386</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash and cash equivalents	\$ 31,733,726	\$ 25,491,325
Restricted cash and cash equivalents	<u>10,403,968</u>	<u>17,850,061</u>
Total cash and cash equivalents	<u>\$ 42,137,694</u>	<u>\$ 43,341,386</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$ (56,075,880)	\$ (54,455,482)
Depreciation	7,359,964	6,620,436
Bad debt	169,248	128,894
Changes in assets and liabilities		
Accounts receivable, net	732,388	(619,127)
Inventories	38,326	(147,277)
Prepaid expenses	(191,775)	(99,049)
Accounts payable	(171,624)	672,768
Self-insured health liability	(73,646)	12,120
Accrued payroll	69,923	77,716
Deposits	(12,858)	(19,633)
Deferred revenue	<u>(365,053)</u>	<u>200,104</u>
Net cash used in operating activities	<u>\$ (48,520,987)</u>	<u>\$ (47,628,530)</u>
Supplemental Cash Flows Information		
Gifts of capital assets	\$ 262,407	\$ 156,178
Accounts payable incurred for capital assets	\$ 274,268	\$ 1,168,353

Murray State University
A Component Unit of the State of Kentucky
Notes to Financial Statements
June 30, 2005 and 2004

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 10,100. 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
A Component Unit of the State of Kentucky
Notes to Financial Statements
June 30, 2005 and 2004

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.

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
A Component Unit of the State of Kentucky
Notes to Financial Statements
June 30, 2005 and 2004

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>Asset</u>	<u>Estimated Life</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 \$0 and \$454,276 for the years ended June 30, 2005 and June 30, 2004, 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, 2005 and 2004, was \$23,757 and \$22,591, respectively.

Murray State University
A Component Unit of the State of Kentucky
Notes to Financial Statements
June 30, 2005 and 2004

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
A Component Unit of the State of Kentucky
Notes to Financial Statements
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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
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Notes to Financial Statements
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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 three pronouncements. Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* provides guidance regarding impairment of capital assets and insurance recoveries. The University expects to first apply the new statement for the year ended June 30, 2006. Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* provides uniform financial reporting standards for other postemployment benefits (OPEB) and becomes effective for the year ended June 30, 2007. Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* further provides guidance regarding the reporting of OPEB benefits and becomes effective for the year ended June 30, 2008. The impact of applying these new statements has not yet been determined.

Note 2: Accounts Receivable

Accounts receivable consisted of:

	2005	2004
Current accounts receivable:		
Student tuition and fees	\$ 2,014,976	\$ 1,455,086
Grants and contracts	2,985,869	2,856,737
Auxiliary fees	350,726	494,952
Employee computer loans	15,447	19,058
Outside sales	680,085	486,141
State agencies	6,700	5,535
Capital construction receivable	147,195	91,796
Allowance for doubtful accounts	(988,920)	(826,805)
Total current accounts receivable	<u>5,212,078</u>	<u>4,582,500</u>
Noncurrent accounts receivable:		
Capital construction receivable	91,700	183,400
Total accounts receivable	<u>\$ 5,303,778</u>	<u>\$ 4,765,900</u>

Murray State University
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Notes to Financial Statements
June 30, 2005 and 2004

Note 3: Inventories

Inventories consisted of:

	<u>2005</u>	<u>2004</u>
Inventories		
University bookstore – resale	\$ 1,449,850	\$ 1,466,376
Physical plant – supplies	402,074	407,151
Food services – resale and supplies	117,677	123,616
Central stores – supplies	<u>13,319</u>	<u>24,103</u>
Total inventories	<u>\$ 1,982,920</u>	<u>\$ 2,021,246</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, 2005 and 2004. 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, 2005 and 2004, the allowance for uncollectible loans was \$207,105 and \$206,802, respectively.

Loans receivable consisted of:

	<u>2005</u>	<u>2004</u>
Current loans receivable:		
University loan programs	\$ 88,740	\$ 64,547
Federal nursing program	80,442	70,699
Federal Perkins program	<u>700,801</u>	<u>635,765</u>
Total current loans receivable, net	<u>869,983</u>	<u>771,011</u>
Noncurrent loans receivable:		
Federal nursing program	359,702	344,447
Federal Perkins program	<u>3,281,335</u>	<u>3,259,713</u>
Total noncurrent loans receivable, net	<u>3,641,037</u>	<u>3,604,160</u>
Total loans receivable, net	<u>\$ 4,511,020</u>	<u>\$ 4,375,171</u>

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June 30, 2005 and 2004

Note 5: Deposits, Investments, and Investment Income

Deposits

At June 30, 2005 and June 30, 2004, the carrying amounts of the University's bank balances and deposits were \$42,137,694 and \$43,341,386, respectively.

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

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

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

Deposits as of June 30, 2005 and 2004 consisted of:

	<u>2005</u>	<u>2004</u>
Depository accounts:		
Local bank deposits, collateral held as a pledge in the University's name	\$ 6,629,654	\$ 7,640,501
Cash on hand	78,464	72,692
Foreign currency deposits	285,997	161,419
State Investment Pool – uninsured and uncollateralized	<u>35,143,579</u>	<u>35,466,774</u>
Total deposits	<u>\$ 42,137,694</u>	<u>\$ 43,341,386</u>

Murray State University
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Notes to Financial Statements
June 30, 2005 and 2004

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

Deposits as presented in the balance sheet captions include:

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents, current	\$ 31,733,726	\$ 25,491,325
Restricted cash and cash equivalents	<u>10,403,968</u>	<u>17,850,061</u>
Total deposits	<u>\$ 42,137,694</u>	<u>\$ 43,341,386</u>

Investments

Investments consisted of:

	<u>June 30, 2005</u> <u>Fair Value</u>	<u>June 30, 2004</u> <u>Fair Value</u>
Money market funds	\$ 8,002,979	\$ 2,818,528
Repurchase agreements	<u>—</u>	<u>2,003,615</u>
Subtotal – restricted for capital purposes	8,002,979	4,822,143
Restricted assets held by Murray State University Foundation	<u>17,048,398</u>	<u>15,975,722</u>
Total investments	<u>\$ 25,051,377</u>	<u>\$ 20,797,865</u>

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

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.

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June 30, 2005 and 2004

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

The assets in the pool are invested as follows:

	<u>2005</u>	<u>2004</u>
Percentage of pool invested in:		
Mutual funds in equity securities	61%	58%
Mutual funds in fixed income securities	34	37
Other	<u>5</u>	<u>5</u>
Total	<u><u>100%</u></u>	<u><u>100%</u></u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not within its investment policy formally limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires investments to be in compliance with State statute. The University has no further policy that would limit its investment choices.

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

Investment Income

Investment income for the years ended June 30, 2005 and 2004, consisted of:

	<u>2005</u>	<u>2004</u>
Assets held by the University:		
Interest income	\$ 1,405,163	\$ 549,242
Assets held by MSU Foundation:		
Investment income	610,465	532,890
Net increase in fair value of investments	<u>448,846</u>	<u>715,751</u>
Total investment income	<u><u>\$ 2,464,474</u></u>	<u><u>\$ 1,797,883</u></u>

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Note 6: Regional University Excellence Trust Fund

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

The following is a summary of the funding for the RUETF as of June 30, 2005:

<u>Funding Period</u>	<u>External Match Receipts</u>					<u>External Match Pledges</u>
	<u>CPE Funding Available</u>	<u>CPE Funding Received</u>	<u>Held By University</u>	<u>Held By Foundation</u>	<u>Total</u>	
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 878,250	\$ 831,750	\$ 1,710,000	\$ —
2000-2002	3,521,787	3,521,787	—	3,411,682	3,411,682	110,105
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>	<u>—</u>
Total	\$ <u>8,490,787</u>	\$ <u>8,490,787</u>	\$ <u>2,346,291</u>	\$ <u>6,034,391</u>	\$ <u>8,380,682</u>	\$ <u>110,105</u>

The following is a summary of the funding for the RUETF as of June 30, 2004:

<u>Funding Period</u>	<u>External Match Receipts</u>					<u>External Match Pledges</u>
	<u>CPE Funding Available</u>	<u>CPE Funding Received</u>	<u>Held By University</u>	<u>Held By Foundation</u>	<u>Total</u>	
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 878,250	\$ 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>	<u>—</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 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.

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Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2005, was:

	Balance June 30, 2004	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2005
Land	\$ 6,481,565	\$ —	\$ 310,316	\$ —	\$ 6,791,881
Construction in progress	22,565,174	8,738,011	(26,118,440)	(2,129,156)	3,055,589
Museum and collectibles	<u>497,193</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>497,193</u>
Total capital assets not being depreciated	<u>29,543,932</u>	<u>8,738,011</u>	<u>(25,808,124)</u>	<u>(2,129,156)</u>	<u>10,344,663</u>
Buildings	158,215,922	—	24,424,756	(100,000)	182,540,678
Non-building improvements	8,813,301	—	930,107	(119,701)	9,623,707
Equipment	18,269,072	1,616,369	453,261	(473,414)	19,865,288
Library holdings	25,004,956	998,383	—	(45,575)	25,957,764
Livestock	<u>94,250</u>	<u>28,500</u>	<u>—</u>	<u>—</u>	<u>122,750</u>
Total other capital assets	<u>210,397,501</u>	<u>2,643,252</u>	<u>25,808,124</u>	<u>(738,690)</u>	<u>238,110,187</u>
Total capital assets before depreciation	<u>239,941,433</u>	<u>11,381,263</u>	<u>—</u>	<u>(2,867,846)</u>	<u>248,454,850</u>
Less accumulated depreciation					
Buildings	86,156,323	4,544,056	—	(94,889)	90,605,490
Improvements other than buildings	4,221,202	395,838	—	—	4,617,040
Equipment	13,183,426	1,367,809	—	(444,484)	14,106,751
Library holdings	18,844,985	1,041,440	—	(43,296)	19,843,129
Livestock	<u>17,004</u>	<u>10,821</u>	<u>—</u>	<u>—</u>	<u>27,825</u>
Total accumulated depreciation	<u>122,422,940</u>	<u>\$ 7,359,964</u>	<u>\$ —</u>	<u>\$ (582,669)</u>	<u>129,200,235</u>
Capital assets, net	<u>\$ 117,518,493</u>				<u>\$ 119,254,615</u>

Murray State University
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Notes to Financial Statements
June 30, 2005 and 2004

Note 7: Capital Assets (Continued)

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

	Balance June 30, 2003	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2004
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
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Note 8: Accounts Payable

Accounts payable consisted of:

	<u>2005</u>	<u>2004</u>
Current accounts payable:		
Vendors	\$ 4,043,690	\$ 6,808,813
Payroll benefits and withholdings	1,992,549	872,362
Loans	<u>12,760</u>	<u>7,951</u>
Total accounts payable	<u>\$ 6,048,999</u>	<u>\$ 7,689,126</u>

Note 9: Employee Benefits

Kentucky Teachers Retirement System

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

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

Funding for the plan is provided from eligible employees who contribute 6.16% of their salary through payroll deductions and the University, which also contributes 13.84% of current eligible 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, 2005, 2004, and 2003 were \$3,687,406, \$3,681,254, and \$3,630,784, 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
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Note 9: Employee Benefits (Continued)

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

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

Funding of the plan is from eligible employees who contribute 5.00% of their salary through payroll deductions and the University, which also contributes 5.89% of current eligible employees' salaries to the non-hazardous KERS fund. Employees covered by the hazardous KERS fund contribute 8.00% of gross salary and the University contributes 18.84 % of gross salaries. The Kentucky Revised Statutes and the Board of Trustees of the Kentucky Retirement Systems determine contribution rates each biennium. The University's contributions to KERS for the years ended June 30, 2005, 2004, and 2003 were \$835,942, \$820,956, and \$787,271, 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 78% 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, 2005 and 2004 totaled \$3,678,402 and \$4,847,924 respectively, excluding administrative and stop-loss fees. Stop-loss and administrative fees incurred for the years ended June 30, 2005 and 2004 were \$716,324 and \$621,505 respectively. The University's stop-loss insurance limits its exposure for claims to \$100,000 per individual.

Changes in the liability for self insurance are follows:

	<u>2005</u>	<u>2004</u>
Liability, beginning of year	\$ 1,152,763	\$ 1,140,643
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	5,374,011	6,331,905
Administrative and stop loss fees	(716,324)	(621,505)
Claims paid	<u>(4,731,333)</u>	<u>(5,698,280)</u>
Liability, end of year	<u>\$ 1,079,117</u>	<u>\$ 1,152,763</u>

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Note 10: Deferred Revenue

Deferred revenue consisted of:

	2005	2004
Current deferred revenue:		
Prepaid tuition and fees	\$ 1,589,722	\$ 1,360,294
International studies programs	553,226	358,981
Grants and contracts	717,938	1,498,712
Auxiliary enterprises	5,110	13,059
Capital state appropriations	756,941	1,485,322
Total current deferred revenue	\$ 3,622,937	\$ 4,716,368

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, 2005:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long Term Portion
Bonds payable	\$ 18,127,000	\$ —	(2,342,000)	\$ 15,785,000	\$ 2,345,000	\$ 13,440,000
Less bond discounts	(239,581)	—	27,555	(212,026)	(27,554)	(184,472)
Bonds payable, net of discounts	17,887,419	—	(2,314,445)	15,572,974	2,317,446	13,255,528
City of Murray payable	10,000,000	—	—	10,000,000	90,000	9,910,000
Capital leases	1,703,193	—	(144,193)	1,559,000	97,000	1,462,000
Master lease notes payable	2,932,254	7,445,190	(956,713)	9,420,731	1,073,272	8,347,459
Notes payable	234,400	—	(90,000)	144,400	144,400	—
MSU Foundation notes payable	100,693	20,000	(28,225)	92,468	39,286	53,182
Total bonds, notes and capital leases	\$ 32,857,959	\$ 7,465,190	\$ (3,533,576)	\$ 36,789,573	\$ 3,761,404	\$ 33,028,169

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Notes to Financial Statements
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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, 2004:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long Term Portion
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>

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
2006	\$ 2,345,000	\$ 1,346,957	\$ 3,691,957	\$ 1,389,354	\$ 5,081,311
2007	2,460,000	1,348,083	3,808,083	1,317,159	5,125,242
2008	985,000	1,199,175	2,184,175	1,151,231	3,335,406
2009	1,030,000	922,316	1,952,316	1,072,345	3,024,661
2010	860,000	869,483	1,729,483	1,004,496	2,733,979
2011-2015	3,685,000	3,929,168	7,614,168	4,080,735	11,694,903
2016-2020	3,520,000	3,232,417	6,752,417	2,528,802	9,281,219
2021-2025	900,000	2,150,000	3,050,000	1,500,975	4,550,975
2026-2030	—	2,705,000	2,705,000	877,136	3,582,136
2031-2033	<u>—</u>	<u>1,955,000</u>	<u>1,955,000</u>	<u>162,789</u>	<u>2,117,789</u>
Total	<u>\$ 15,785,000</u>	<u>\$ 19,657,599</u>	<u>\$ 35,442,599</u>	<u>\$ 15,085,022</u>	<u>\$ 50,527,621</u>

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

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Original Issue	Balance Due June 30, 2005	Interest Expense, Current Year	Bonds/Notes Maturing 2005-2006
Housing and Dining System Revenue Bonds Payable				
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	\$ —	\$ 929	\$ —
Series J bonds dated September 1, 1965, with interest of 3.34%; final principal payment due September 1, 2004; College Court III.	510,000	—	250	—
Series L bonds dated September 1, 1968, with interest at 3.00%; final principal payment due September 1, 2008; Regents Hall	2,000,000	720,000	22,395	170,000
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	620,000	31,953	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	5,245,000	232,660	255,000
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	1,535,000	72,884	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>2,405,000</u>	<u>83,208</u>	<u>100,000</u>
Total housing and dining system revenue bonds payable	<u>\$ 16,065,000</u>	<u>\$ 10,525,000</u>	<u>\$ 444,279</u>	<u>\$ 620,000</u>

Murray State University
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June 30, 2005 and 2004

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

	<u>Original Issue</u>	<u>Balance Due June 30, 2005</u>	<u>Interest Expense, Current Year</u>	<u>Bonds/Notes Maturing 2005-2006</u>
Consolidated Educational Buildings				
Revenue Bonds Payable				
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	\$ 2,935,000	\$ 225,077	\$ 1,425,000
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>2,325,000</u>	<u>74,546</u>	<u>300,000</u>
Total consolidated educational buildings revenue bonds payable	<u>14,515,000</u>	<u>5,260,000</u>	<u>299,623</u>	<u>1,725,000</u>
Bonds payable before discount	30,580,000	15,785,000	743,902	2,345,000
Less bond discount	<u>—</u>	<u>(212,026)</u>	<u>—</u>	<u>(27,554)</u>
Total bonds payable	<u>\$ 30,580,000</u>	<u>\$ 15,572,974</u>	<u>\$ 743,902</u>	<u>\$ 2,317,446</u>
City of Murray Payable				
Agreement dated 12/30/02 with interest of 2.50% to 4.85%; final principal payment due June 1, 2003	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>	<u>\$ 455,045</u>	<u>\$ 90,000</u>
Master Lease Payable				
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	\$ 289,308	\$ 19,325	\$ 129,318
Deferred Maintenance – Master lease dated May 10, 2002, with interest at 4.79%; final principal payment due May 10, 2007	2,232,000	1,487,780	63,734	342,674
Campus Networking Upgrade – Master lease dated March 24, 2004, with interest of 3.16% to 3.30%; Final principal payment due April 1, 2008	1,627,727	935,767	31,068	379,976

Murray State University
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Notes to Financial Statements
June 30, 2005 and 2004

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

	<u>Original Issue</u>	<u>Balance Due June 30, 2005</u>	<u>Interest Expense, Current Year</u>	<u>Bonds/Notes Maturing 2005-2006</u>
Campus Energy Performance Upgrade – Masterlease dated February 10, 2005, with interest of 3.94%. Final principal payment due August 10, 2017	<u>6,707,876</u>	<u>6,707,876</u>	<u>94,664</u>	<u>221,304</u>
Total Master lease payable	<u>\$ 11,367,603</u>	<u>\$ 9,420,731</u>	<u>\$ 208,791</u>	<u>\$ 1,073,272</u>
Notes Payable				
Kentucky Virtual University dated July 30, 2002, with interest rate at 0%; final principal payment due December 1, 2005.	<u>\$ 294,400</u>	<u>\$ 144,400</u>	<u>—</u>	<u>\$ 144,400</u>
Total notes payable	<u>\$ 294,400</u>	<u>\$ 144,400</u>	<u>\$ —</u>	<u>\$ 144,400</u>
MSU Foundation Payable				
Other liabilities – MSU Foundation; various notes for purchase of academic equipment; final principal due April 2, 2008	<u>\$ 302,013</u>	<u>\$ 92,468</u>	<u>\$ 7,776</u>	<u>\$ 39,286</u>
Total MSU Foundation payable	<u>\$ 302,013</u>	<u>\$ 92,468</u>	<u>\$ 7,776</u>	<u>\$ 39,286</u>
Capital Leases				
University of Kentucky dated June 25, 1998, with interest rate at 5.14%; final principal payment due January 1, 2017	<u>\$ 2,200,000</u>	<u>\$ 1,559,000</u>	<u>\$ 86,428</u>	<u>\$ 97,000</u>
Equipment leases	<u>715,285</u>	<u>—</u>	<u>1,310</u>	<u>—</u>
Total capital leases	<u>\$ 2,915,285</u>	<u>\$ 1,559,000</u>	<u>\$ 87,738</u>	<u>\$ 97,000</u>
Total all Bond Issues, Notes Payable and Capital Leases	<u>\$ 55,459,301</u>	<u>\$ 36,789,573</u>	<u>\$ 1,503,252</u>	<u>\$ 3,761,404</u>

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

Capital Leases

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

	<u>2005</u>	<u>2004</u>
Capital lease assets, at cost	\$ 2,516,960	\$ 2,516,960
Less accumulated depreciation	<u>(1,691,960)</u>	<u>(1,595,574)</u>
Net book value	<u>\$ 825,000</u>	<u>\$ 921,386</u>

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

	<u>Year Ending June 30</u>	<u>Total</u>
2006	\$ 178,974	
2007	179,259	
2008	179,231	
2009	179,870	
2010	179,118	
2011-2015	896,666	
2016-2018	<u>358,339</u>	
	2,151,457	
Less amount representing interest	<u>(592,457)</u>	
Present value of capital lease obligations	<u>\$ 1,559,000</u>	

Note 12: Deposits

The deposits held by the University consisted of:

	<u>2005</u>	<u>2004</u>
Current:		
Horse stall rentals	\$ 2,870	\$ 5,139
Racer card declining balances	63,820	56,375
Housing deposits	58,251	107,861
Agency account balances	<u>42,857</u>	<u>37,708</u>
Total current deposits	<u>167,798</u>	<u>207,083</u>
Noncurrent:		
Housing deposits	<u>205,805</u>	<u>171,933</u>
Total deposits	<u>\$ 373,603</u>	<u>\$ 379,016</u>

Noncurrent housing deposit additions were \$134,000 and \$101,394 for years ended June 30, 2005 and 2004, respectively. Noncurrent housing deposit deductions were \$100,128 and \$121,007 for years ended June 30, 2005 and 2004, respectively.

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Note 13: Unrestricted Net Assets

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

	<u>2005</u>	<u>2004</u>
Unrestricted net assets		
Allocated for		
Prior year carryovers		
Renovation and maintenance	\$ 2,230,527	\$ 1,099,668
Departmental operations	8,644,032	8,917,670
Encumbrances	697,277	475,297
Working capital	2,673,297	1,818,710
Revenue contingency	2,498,013	2,573,645
General contingency	8,801,218	5,700,550
Self insurance	<u>900,000</u>	<u>900,000</u>
Total unrestricted net assets	<u>\$ 26,444,364</u>	<u>\$ 21,485,540</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, 2005 and June 30, 2004, the Foundation made payments of \$2,242,375 and \$1,354,374, respectively, on behalf of the University from restricted sources. Accounts receivable from the Foundation and accounts payable to the Foundation as of June 30, 2005 and June 30, 2004, respectively, were not significant. Complete financial statements for the Foundation can be obtained from the MSU Foundation Office, 100 Nash House, Murray, Kentucky, 42071.

Murray State University
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Notes to Financial Statements
June 30, 2005 and 2004

Note 14: Component Units (Continued)

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, 2005 and 2004.

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, 2005, the Racer Foundation distributed \$589,986 to the University, made payments of \$78,235 on behalf of the University, and transferred assets to the University of \$70,226. 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. The total benefits for University athletics for the years ended June 30, 2005 and 2004, was \$738,447 and \$1,099,847, respectively. Accounts receivable from the Racer Foundation were \$435,897 and \$0 as of June 30, 2005 and June 30, 2004, respectively. Complete financial statements for the Racer Foundation can be obtained from the MSU Athletic Foundation Office, Stewart Stadium, Murray, Kentucky, 42071.

Murray State University
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Notes to Financial Statements
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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, that the ultimate outcome of litigation will not have a material effect on the future operations or financial position of the University.

Commitments

The University has outstanding commitments under construction contracts of approximately \$2,900,000 and \$6,300,000 as of June 30, 2005 and 2004, 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.

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June 30, 2005 and 2004

Note 17: Natural Expense Classifications with Functional Classifications

The University's operating expenses by functional classification for the year ended June 30, 2005 were as follows:

Fund Classification	Year Ended June 30, 2005						
	Natural Classification						
	Compensation and Benefits	Operations	Utilities	Non-capitalized Equipment	Scholarships	Depreciation	Total
Instruction	\$ 40,105,179	\$ 5,949,573	\$ 233,544	\$ 728,708	\$ 23,212	\$ —	\$ 47,040,216
Research	1,586,163	967,212	—	94,450	—	—	2,647,825
Public service	4,418,411	1,046,376	227,172	111,518	—	—	5,803,477
Libraries	1,343,648	237,880	27	39,555	—	—	1,621,110
Academic support	3,344,021	1,665,630	11,799	396,715	826	—	5,418,991
Student services	6,983,599	3,921,671	73,036	203,114	20,165	—	11,201,585
Institutional support	9,573,747	885,482	216,796	242,620	—	—	10,918,645
Operations and maintenance	4,849,358	7,680,518	4,726,757	182,440	—	—	17,439,073
Financial aid	1,764	42,439	—	—	6,928,869	—	6,973,072
Depreciation	—	—	—	—	—	6,527,977	6,527,977
Auxiliary	4,658,079	10,405,751	—	112,117	91,294	—	15,267,241
Auxiliary depreciation	—	—	—	—	—	831,987	831,987
Total expenses	<u>\$ 76,863,969</u>	<u>\$ 32,802,532</u>	<u>\$ 5,489,131</u>	<u>\$ 2,111,237</u>	<u>\$ 7,064,366</u>	<u>\$ 7,359,964</u>	<u>\$ 131,691,199</u>

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						
	Natural Classification						
	Compensation and Benefits	Operations	Utilities	Non-capitalized Equipment	Scholarships	Depreciation	Total
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
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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.

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

Condensed Balance Sheets

	<u>2005</u>	<u>2004</u>
Assets		
Current assets	\$ 3,453,983	\$ 3,053,483
Noncurrent assets	2,599,923	3,001,872
Capital assets, net of accumulated depreciation	<u>9,974,190</u>	<u>9,694,798</u>
Total assets	<u>16,028,096</u>	<u>15,750,153</u>
Liabilities		
Current liabilities	6,616,423	6,310,491
Noncurrent liabilities	<u>10,670,852</u>	<u>11,368,334</u>
Total liabilities	<u>17,287,275</u>	<u>17,678,825</u>
Net assets		
Invested in capital assets, net of related debt	(312,986)	(1,273,543)
Restricted		
Expendable capital	990,757	936,767
Expendable debt service	1,230,683	1,666,978
Unrestricted	<u>(3,167,633)</u>	<u>(3,258,874)</u>
Total net assets	<u>(1,259,179)</u>	<u>(1,928,672)</u>
Total liabilities and net assets	<u>\$ 16,028,096</u>	<u>\$ 15,750,153</u>

Murray State University
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June 30, 2005 and 2004

Note 18: Segment Information (Continued)

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

	2005	2004
Operating revenues	\$ 12,772,576	\$ 12,049,615
Operating expenses	(10,635,598)	(10,163,688)
Depreciation expense	(830,486)	(775,068)
Operating income	1,306,492	1,110,859
Nonoperating revenues (expenses)	(636,999)	(1,769,318)
Change in net assets	669,493	(658,459)
Net assets, beginning of year	(1,928,672)	(1,270,213)
Net assets, end of year	\$ (1,259,179)	\$ (1,928,672)

Condensed Statements of Cash Flows

	2005	2004
Cash flows from		
Operating activities	\$ 2,462,413	\$ 2,045,389
Noncapital financing activities	(1,373,178)	(978,208)
Capital and related financing activities	(1,182,680)	(872,230)
Investing activities	515,169	(167,240)
Net increase in cash	421,724	27,711
Cash, beginning of year	2,760,398	2,732,687
Cash, end of year	\$ 3,182,122	\$ 2,760,398

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Notes to Financial Statements
June 30, 2005 and 2004

Note 18: Segment Information (Continued)

Susan E. Bauernfeind Student Recreation and Wellness Center

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

Condensed financial information as of and for the years ended June 30, 2005 and June 30, 2004, of the University's Wellness Center segment are as follows:

Condensed Balance Sheet

	2005	2004
Assets		
Current assets	\$ 130	\$ 593,634
Noncurrent assets	1,376,075	4,172,992
Capital assets, net of accumulated depreciation	<u>10,018,905</u>	<u>7,188,513</u>
Total assets	<u>11,395,110</u>	<u>11,955,139</u>
Liabilities		
Current liabilities	230,446	626,437
Noncurrent liabilities	<u>10,000,000</u>	<u>10,000,000</u>
Total liabilities	<u>10,230,446</u>	<u>10,626,437</u>
Net assets		
Invested in capital assets, net of related debt	354,999	—
Restricted		
Expendable capital	818,643	1,221,599
Expendable debt service	(37,401)	(37,210)
Expendable maintenance reserve	221,470	144,313
Unrestricted	<u>(193,047)</u>	<u>—</u>
Total net assets	<u>1,164,664</u>	<u>1,328,702</u>
Total liabilities and net assets	<u>\$ 11,395,110</u>	<u>\$ 11,955,139</u>

Murray State University
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Notes to Financial Statements
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Note 18: Segment Information (Continued)

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

	2005	2004
Operating revenues	\$ 48,067	\$ —
Operating expenses	(268,235)	—
Depreciation	<u>(274,721)</u>	<u>—</u>
Operating income (loss)	<u>(494,889)</u>	<u>—</u>
Nonoperating revenues		
Restricted student fees	646,417	\$ 637,850
Investment income	52,492	38,725
Transfer of reserve payment - current fund	71,868	143,735
Transfer of lease payment – current fund	27,122	—
Cost of issuance amortization	(12,003)	(12,003)
Interest on capital asset-related debt	<u>(455,045)</u>	<u>(769)</u>
Nonoperating revenues	<u>330,851</u>	<u>807,538</u>
Change in net assets	(164,038)	807,538
Net assets, beginning of year	<u>1,328,702</u>	<u>521,164</u>
Net assets, end of year	<u>\$ 1,164,664</u>	<u>\$ 1,328,702</u>

Condensed Statement of Cash Flows

	2005	2004
Cash flows from		
Operating activities	\$ (220,169)	\$ —
Capital and related financing activities	(3,503,040)	(5,289,014)
Investing activities	<u>165,249</u>	<u>285,357</u>
Net decrease in cash	(3,557,960)	(5,003,657)
Cash, beginning of year	<u>4,404,895</u>	<u>9,408,552</u>
Cash, end of year	<u>\$ 846,935</u>	<u>\$ 4,404,895</u>