

Murray State University
A Component Unit of the State of Kentucky
Accountants' Report and Financial Statements
June 30, 2008 and 2007



Murray

MURRAY STATE UNIVERSITY

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Independent Accountants' Report on Financial Statements and Supplementary Information

President Dr. Randy Dunn
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, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Murray State University Foundation, Inc. and Murray State University Athletic Foundation, Inc., discretely presented component units, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component units as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

President Dr. Randy Dunn
and Board of Regents
Murray State University
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The accompanying management's discussion and analysis, as listed in the table of contents, are not a required part of the basic financial statements but are 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

October 29, 2008

Murray State University

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Management's Discussion and Analysis

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Murray State University (University) for the year ended June 30, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

The University is a comprehensive public institution of higher learning located in western Kentucky and primarily serves students in Kentucky, Illinois, Missouri, Tennessee and Indiana. The University has study centers in four other cities where it offers a diverse range of degree programs from associate to master levels, through a framework of approximately 30 departmental units in five colleges and one 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. The University serves as a residential, regional university offering core programs in the liberal arts, humanities, sciences and selected high-quality professional programs for approximately 10,300 students.

The tuition and fees for the 2007-08 academic year increased by \$246 per semester for a full time resident undergraduate student. Tuition and fees at the University continues to be significantly less than the national average.

The University consistently ranks among the nation's best regional universities each year and has been recognized for its academic quality and affordability. For 18 consecutive years, *U.S. News & World Report* has ranked the University as one of the best public schools in America. In the 2009 edition of the publication, the University ranked ninth in the nation among public master's universities. The University ranked sixth as the best public university in the South and retained its listing in the master's level category of "Great Schools at a Great Price" for 2009. Factors considered in the rankings are reputation, retention rate, graduation rate, class size, student-faculty ratio, financial resources, and alumni giving rate.

The University has been consistently recognized in the past for its high quality, affordable education and its unique setting. In addition to *U.S. News*, the University has been highly ranked by the *Princeton Review*, *Money Guide*, *Kiplinger's Personal Finance*, *Southern Living*, *Outdoor Life*, *Kaplan College Guide*, *Geteducated.Com*, the *MIT Student Review* and a Carnegie Mellon study. The University has also been featured in the *New York Times*, the *Chronicle of Higher Education* and the *London Times*.

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

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Management's Discussion and Analysis

Financial Highlights

- The University's financial position remained strong as of the end of the year, with assets of \$261.7 million and liabilities of \$73.4 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$188.4 million or 72.0% of total assets. Net assets increased by \$9.2 million from 2007 to 2008.
- Fiscal operations were in accordance with the annual operating budget of approximately \$127 million. The University continued to be a strong employer for the region and employed approximately 4,340 individuals, including 595 faculty and 1,135 staff members and 2,610 students. These amounts include 1,358 regular and full time faculty and staff.
- Although the original operating state appropriations increase for 2007-08 was \$2.7 million, a mid-fiscal year rescission of \$1.7 million occurred due to revenue shortfalls experienced by the Commonwealth, resulting in an actual net operating increase of only approximately \$1 million. However, combined with a reduction in debt service obligations of \$1.9 million, total actual appropriations allocated to the University in 2007-08 actually decreased by \$892,000.
- A Chemistry Building is being constructed as the second facility in the new science complex. The Chemistry Building was started in the Summer 2006. Phase II funding of \$15 million from the Commonwealth of Kentucky 2004-06 biennium budget was the initial funding source for the Chemistry Building. A significant portion of the Phase III funding is needed for completion of the Chemistry Building. The University requested and received approval for budgetary language changes in the 2008 legislative session to allow use of Phase III funding to be used for completion of the Chemistry Building. The facility is scheduled for completion in the Spring 2009.

Construction of an Engineering/Physics Building is planned in the future. Funding will be requested by the University from the Commonwealth of Kentucky 2010-12 biennium budget to construct the Engineering/Physics Building.

- In July 2007, the University issued \$14.5 million of general obligation bonds for the construction of a new residential college facility to replace the existing Richmond Residential College. These bonds were issued under a new general receipts trust indenture that will cover all future consolidated educational and housing and dining bond issues. Construction on this new facility started in June 2008 and is scheduled to be completed in August 2009. This residential college is expected to house approximately 270 students, beginning for the Fall 2009 semester.
- In the Fall 2006, the University began the selection phase for a new Enterprise Resource Planning (ERP) system. SunGuard Higher Education was selected as the primary software vendor in June 2007. The implementation phase of the ERP project was started in July 2007 and currently includes core modules for Finance, Student Services, Student Financial Aid and Human Resources. The installation of a new campus wide ERP system will enhance the technology available to future and current students and enhance the data capabilities of all

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administrative systems. The project has a scope of \$8 million and was primarily funded from 2007-08 operations.

The Finance module was completed in June 2008, as was scheduled. The remaining core modules are on schedule for completion and within established budget parameters.

- During the Spring 2007, the University demolished the building that most recently housed the National Boy Scout Museum. The facility required extensive upgrades, due to the building design and environmental concerns, making it economically infeasible to renovate the building. After demolition and surface, parking lots were created and opened for use for the Fall 2008 semester.
- The University began construction of a new building in the Fall 2007 to house Campus Public Safety and Emergency Management. The University is internally funding the project with a scope of \$2.3 million and anticipates a final completion date in early Spring 2009.

Using the Financial Statements

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

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

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

Balance Sheets

The Balance Sheets present a financial picture of the University's financial condition at the end of the 2008 and 2007 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.

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Management's Discussion and Analysis

Assets

Total assets at the end of the fiscal year 2008 were \$261.7 million, of which capital assets, net of depreciation, represented the largest portion. Capital assets totaled approximately \$147.8 million or 56.4% of total assets and was primarily comprised of university-owned land, buildings, equipment and library holdings. Cash and cash equivalents amounted to \$70.5 million or 26.9% of total assets. Total assets increased by \$18.1 million during 2008, which was largely due to proceeds from bond proceeds of the sale of General Receipts Series A issued for the construction of the new Richmond Hall. Total assets increased by \$21.8 million during 2007, which was primarily due from the proceeds from Phase II of a state capital appropriation for the Science Complex.

Liabilities

Total liabilities at the end of the fiscal year 2008 were \$73.4 million, an increase of approximately \$8.8 million. Accounts payable decreased \$1.2 million, primarily due to the reduction of expenditures for construction projects. Deferred revenue decreased \$2.0 million attributable to less state capital appropriation being recognized for the Phase II Science Complex funding for year ended June 30, 2008. Long-term debt obligations increased \$12.1 million, attributable primarily to the sale of General Receipts Series A bonds of \$14.5 million.

Total liabilities at the end of the fiscal year 2007 were \$64.5 million. Long-term debt obligations decreased by \$4.0 million, of which Con Ed and Housing and Dining bond debt decreased \$1.8 million and \$.64 million, respectively.

Condensed Balance Sheets

	June 30, 2008	June 30, 2007	June 30, 2006
Assets			
Current assets	\$ 49,561,624	\$ 47,107,682	\$ 48,479,918
Noncurrent assets	64,435,741	54,381,611	51,776,781
Capital assets	<u>147,750,180</u>	<u>142,197,757</u>	<u>121,625,301</u>
Total assets	<u>\$ 261,747,545</u>	<u>\$ 243,687,050</u>	<u>\$ 221,882,000</u>
Liabilities			
Current liabilities	\$ 19,375,394	\$ 21,916,239	\$ 18,886,714
Noncurrent liabilities	<u>53,977,396</u>	<u>42,590,938</u>	<u>44,909,212</u>
Total liabilities	<u>73,352,790</u>	<u>64,507,177</u>	<u>63,795,926</u>

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Management's Discussion and Analysis

Condensed Balance Sheets (Continued)

	June 30, 2008	June 30, 2007	June 30, 2006
Net assets			
Invested in capital assets, net of related debt	\$ 109,428,719	\$ 103,709,376	\$ 92,579,768
Restricted for			
Nonexpendable	15,846,751	14,858,307	14,854,340
Expendable			
Scholarships, research, instruction and other	6,331,885	6,781,991	5,448,627
Loans	4,933,509	4,965,730	4,904,484
Capital	11,127,272	12,036,143	2,383,819
Debt service	6,621,719	5,824,464	6,338,671
Unrestricted	<u>34,104,900</u>	<u>31,003,862</u>	<u>31,576,365</u>
Total net assets	<u>188,394,755</u>	<u>179,179,873</u>	<u>158,086,074</u>
Total liabilities and net assets	<u>\$ 261,747,545</u>	<u>\$ 243,687,050</u>	<u>\$ 221,882,000</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.
 - 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.

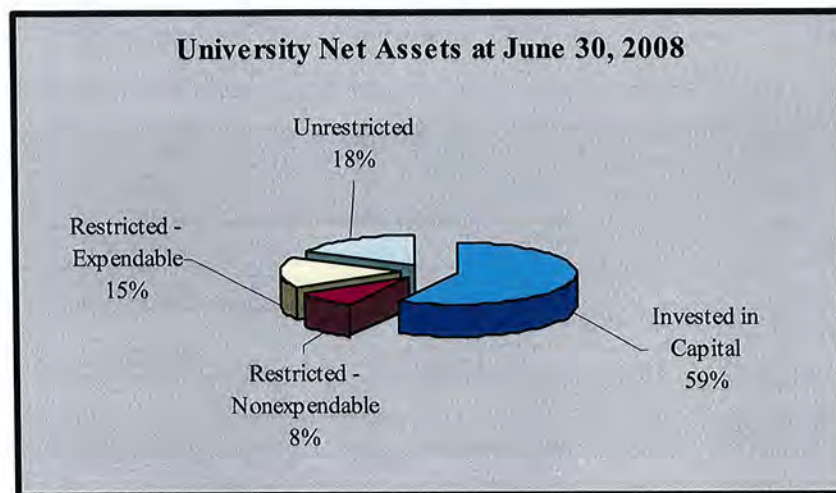
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- Unrestricted - This category represents the net assets held by the University that have no formal restrictions placed upon them. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the unrestricted 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 financial statements are prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. A public university's dependency on state appropriations will result in reported operating losses. The Governmental Accounting Standards Board requires state appropriations to be classified as non-operating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which expenses the costs of an asset over its expected useful life.

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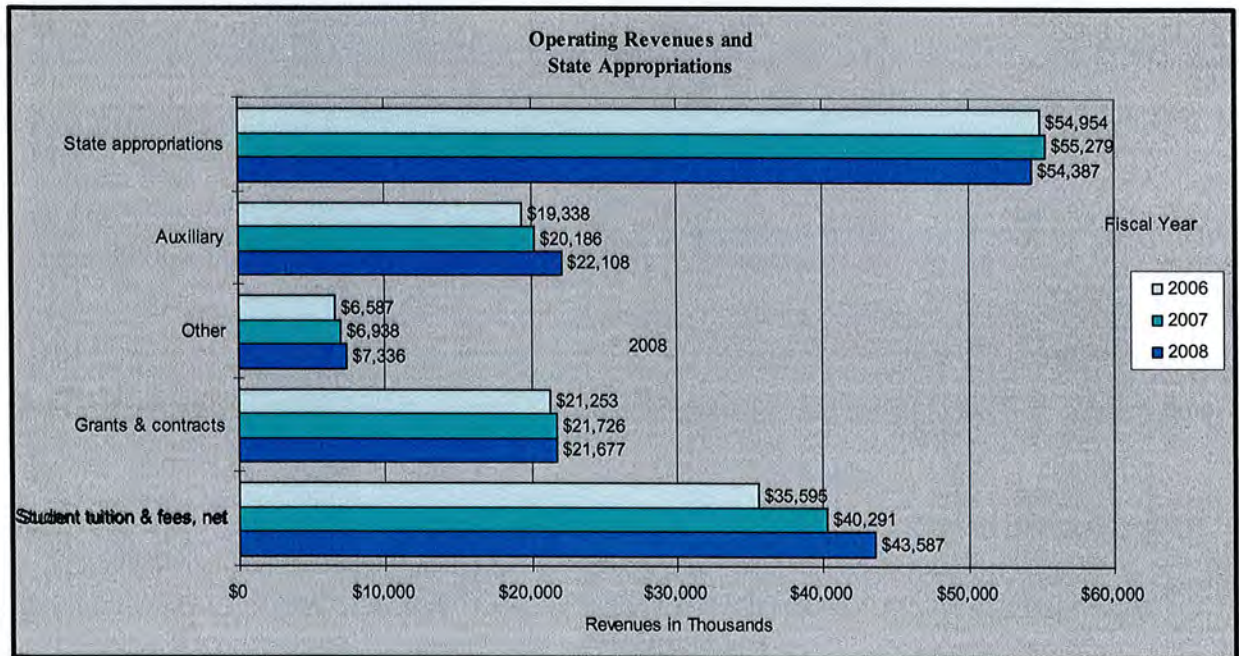
Revenues

Total operating revenues, which exclude state appropriations, for the 2008 fiscal year were \$94.7 million, including student tuition and fees, net of related discounts and allowances, of \$43.6 million, operating grants and contracts revenues of \$21.7 million and auxiliary services net revenue of \$22.1 million.

During 2008, operating revenues increased by \$5.6 million. This increase is comprised primarily of \$3.3 million from net student tuition, fees, room and board and \$1.9 million auxiliary revenues.

For 2008, the University received a net of \$54.4 million of state appropriations for operations. 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:



Expenses

Total operating expenses for the 2008 fiscal year were \$150.0 million. Academic affairs, which includes instruction, research, libraries, and academic support, represents a significant portion of the operating expenses, totaling \$66.1 million or 44.1%. Student affairs, which includes student services, financial aid and auxiliary services, were \$39.7 million or 26.5% and other expenses which includes public service, institutional support, depreciation and operation and maintenance

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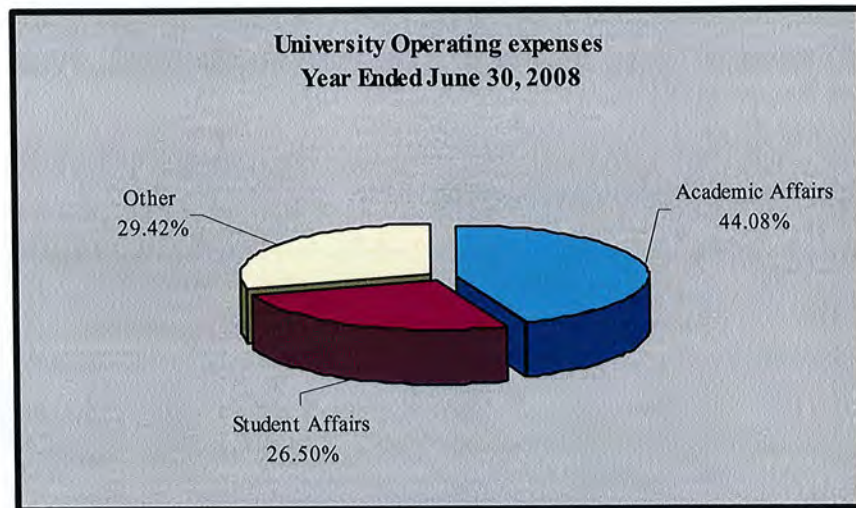
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amounted to \$44.1 million or 29.4%. Depreciation for all areas of the University is reported as an operating expense and was not allocated to each program group, except for auxiliary enterprises.

Operating expenses increased for the year ended June 30, 2008, by \$5.7 million. The primary reasons for increased operating expenses include expenses related to the ERP installation of \$1.8 million and continued increases for salaries, utilities, and other fixed costs. The University incurred total ERP project costs of \$3.8 million for the 2008 fiscal year.

Operating expenses by type are reflected in the following chart:



The net loss from operations for the year ended June 30, 2008, was \$55.3 million. Nonoperating revenues, net of expenses, amounted to \$61.8 million and nondebt related capital funding amounted to \$2.7 million, resulting in an increase in net assets of \$9.2 million for the year ended June 30, 2008.

The net loss from operations for the year ended June 30, 2007, was \$55.2 million. Nonoperating revenues, net of expenses, amounted to \$64 million and nondebt related capital funding amounted to \$12.3 million, resulting in an increase in net assets of \$21.1 million for the year ended June 30, 2007.

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Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2008	2007	2006
Operating revenues			
Student tuition and fees, net	\$ 43,587,478	\$ 40,291,022	\$ 35,595,332
Grants and contracts	21,677,357	21,726,300	21,253,304
Other	7,336,292	6,937,806	6,587,050
Auxiliary, net	22,107,883	20,186,055	19,338,130
Total operating revenues	<u>94,709,010</u>	<u>89,141,183</u>	<u>82,773,816</u>
Operating expenses			
Instruction	55,595,539	55,574,695	50,564,149
Other educational and general	69,231,643	64,846,248	63,769,387
Depreciation	7,118,205	6,830,646	6,621,914
Auxiliary enterprises	17,269,537	16,615,131	16,570,655
Auxiliary depreciation	758,726	430,943	455,042
Total operating expenses	<u>149,973,650</u>	<u>144,297,663</u>	<u>137,981,147</u>
Operating loss	<u>(55,264,640)</u>	<u>(55,156,480)</u>	<u>(55,207,331)</u>
Nonoperating revenues			
State appropriations	54,386,600	55,278,600	54,954,200
Other nonoperating revenues	10,092,922	20,971,679	10,362,551
Total nonoperating revenues	<u>64,479,522</u>	<u>76,250,279</u>	<u>65,316,751</u>
Increase in net assets	<u>9,214,882</u>	<u>21,093,799</u>	<u>10,109,420</u>
Net assets, beginning of year	<u>179,179,873</u>	<u>158,086,074</u>	<u>147,976,654</u>
Net assets, end of year	<u><u>\$ 188,394,755</u></u>	<u><u>\$ 179,179,873</u></u>	<u><u>\$ 158,086,074</u></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.

For the year ended June 30, 2008:

The net cash used in operating activities reflects the net cash used for general operations of the University, which changed by approximately \$.3 million during 2008.

The cash flows from noncapital financing activities, changed by \$1.5 million during 2008. This change was due to an increase in gifts other than for capital purposes of \$1.3 million, an increase in endowment transfers to MSU Foundation for investment purposes of \$1.2 million and a decrease in state appropriations of \$892,000.

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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 \$9.1 million during 2008. The majority of this change is due to the proceeds from issuance of capital debt of \$14.5 million and a decrease in capital asset purchases of \$9.0 million.

The cash flows provided by investing activities represent the cash activities of investments, which changed by \$1.8 million for 2008. A portion of this change is related to a decrease of \$1.5 million of proceeds from sales of investments for debt service payments. Consolidated Educational bond payments are not currently funded from state appropriations due to adequate debt service reserves available for debt payments.

For the year ended June 30, 2007:

The net cash used in operating activities reflects the net cash used for general operations of the University, which changed by \$.25 million during 2007.

The cash flows from noncapital financing activities, changed by \$.28 million during 2007. This minimal change was due to an increase in state appropriations.

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 \$17.7 million during 2007. The majority of this change is due to the state capital appropriations of \$15 million for the Phase II funding of the Science Complex and an increase in capital asset purchases of \$15.6 million and a reduction of capital debt proceeds of \$16 million.

The cash flows provided by investing activities represent the cash activities of investments, which changed by \$1.4 million for 2007. A portion of this change is related to an increase of \$.8 million of investment earnings on Housing and Dining debt service reserve investments.

Condensed Statements of Cash Flows

	2008	2007	2006
Cash provided (used by):			
Operating activities	\$ (47,399,345)	\$ (47,651,309)	\$ (47,902,135)
Noncapital financing activities	59,721,225	58,179,970	58,455,183
Capital and related financing activities	(5,012,957)	(14,108,352)	3,583,628
Investing activities	2,758,056	4,575,240	3,142,266
Net increase in cash	10,066,979	995,549	17,278,942
Cash and cash equivalents, beginning of year	60,412,185	59,416,636	42,137,694
Cash and cash equivalents, end of year	<u>\$ 70,479,164</u>	<u>\$ 60,412,185</u>	<u>\$ 59,416,636</u>

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Management's Discussion and Analysis

Capital Assets and Debt Administration

The University had a \$5.6 million increase in capital assets during the fiscal year ended June 30, 2008. This change is primarily due to an increase of \$2.8 million in construction in progress related to the Phase II of the Science Complex, \$1.3 million for the new Richmond residential college and \$.6 million for the new campus public safety building. Capital assets as of June 30, 2008, and changes during the year are as follows:

	Balance June 30, 2008	Net Change 2007-08
Land	\$ 8,596,196	\$ (187,065)
Construction in progress	19,008,886	(7,881,575)
Museum and collectibles	532,393	-
Buildings	203,089,003	14,754,723
Nonbuilding improvements	10,345,706	559,140
Equipment	22,451,164	722,237
Library holdings	29,008,765	911,844
Livestock	726,750	544,000
Accumulated depreciation	(146,008,683)	(3,870,881)
Total	<u>\$ 147,750,180</u>	<u>\$ 5,552,423</u>

The University issued new debt of \$14.5 million for the construction of a new residential college. The University paid off \$2.4 million of long term debt, per amortization schedules.

Debt as of June 30, 2008, is summarized below:

	Balance June 30, 2008
Housing and Dining System Revenue Bonds	\$ 24,400,000
General Receipts Series A	14,550,000
Consolidated Educational Buildings Revenue Bonds	1,395,000
Bond discount	(650,781)
City of Murray	9,685,000
Other (see Notes to Financial Statements 11)	7,312,870
Total	<u>\$ 56,692,089</u>

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Infrastructure Assets

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

Economic Factors Affecting Future Periods

- General state appropriations from the Commonwealth of Kentucky (Commonwealth) are uncertain at this time.
- The University provides health insurance to employees through a self-funded program. As reflected in national trends, the costs of health claims will continue to be a major expense for the University. The University will begin a major redesign of their health insurance plan for the 2010 calendar year.
- The Commonwealth of Kentucky's 2008-10 biennium budget appropriated funds for capital renewal, replacement and maintenance. The Council on Postsecondary Education's (CPE) share of this appropriation has been allocated to each public institution, with the University's allocation being \$986,600. This is a matching program and requires that the university match 70 cents for each dollar received from the CPE allocation. The University's source for the matching funds will be the Consolidated Educational Renewal and Replacement Fund. Projects being funded under this program are scheduled for completion in the summer 2009.
- The University began reviewing options for the construction of a new residential college complex designed to offer apartment living. This complex would replace the facilities that are currently known as College Courts. A funding model will be decided by Spring 2009.
- The University's Board of Regents approved the purchase of 23 acres of land for \$1 million in Paducah, Kentucky. This land is being purchased because of the suitable location for the possible construction of a new extended campus facility in Paducah. If constructed, this new facility will replace the current facility used for extended campus instruction in Paducah. This land purchased is expected to be finalized in January 2009.
- The University received authorization from the Commonwealth of Kentucky to issue bonds during the 2008-10 biennium for a \$15 million facility to replace Franklin Residential College.
- The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risks associated with

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certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

Contacting the University's Financial Management

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

Murray State University
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Balance Sheets
June 30, 2008 and 2007

Assets

	<u>2008</u>	<u>2007</u>
Current Assets		
Cash and cash equivalents	\$ 38,610,070	\$ 36,919,598
Accounts receivable, net	5,959,992	6,030,348
Inventories	2,065,225	1,964,950
Prepaid expenses	723,917	859,954
Loans receivable, net	943,090	917,645
Interest receivable	<u>1,259,330</u>	<u>415,187</u>
Total current assets	<u>49,561,624</u>	<u>47,107,682</u>
Noncurrent Assets		
Restricted cash and cash equivalents	31,869,094	23,492,587
Restricted investments	28,182,209	26,788,595
Loans receivable, net	3,749,074	3,527,944
Capital assets	293,758,863	284,335,559
Accumulated depreciation	(146,008,683)	(142,137,802)
Debt issuance costs, net	<u>635,364</u>	<u>572,485</u>
Total noncurrent assets	<u>212,185,921</u>	<u>196,579,368</u>
 Total assets	 <u>\$ 261,747,545</u>	 <u>\$ 243,687,050</u>

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Balance Sheets
June 30, 2008 and 2007

Liabilities and Net Assets

	2008	2007
Current Liabilities		
Accounts payable	\$ 6,692,606	\$ 7,849,404
Self-insured health liability	1,252,159	1,487,341
Accrued payroll	4,025,127	3,932,218
Interest payable	589,630	498,033
Deposits	308,018	255,977
Deferred revenue	3,493,126	5,525,043
Current maturities of long-term liabilities	<u>3,014,728</u>	<u>2,368,223</u>
Total current liabilities	<u>19,375,394</u>	<u>21,916,239</u>
Noncurrent Liabilities		
Deposits	300,035	212,935
Revenue bonds, notes payable and capital leases	<u>53,677,361</u>	<u>42,378,003</u>
Total noncurrent liabilities	<u>53,977,396</u>	<u>42,590,938</u>
Total liabilities	<u>73,352,790</u>	<u>64,507,177</u>
Net Assets		
Invested in capital assets, net of related debt	109,428,719	103,709,376
Restricted for		
Nonexpendable – permanent endowments	15,846,751	14,858,307
Expendable		
Scholarships, research, instruction and other	6,331,885	6,781,991
Loans	4,933,509	4,965,730
Capital assets	11,127,272	12,036,143
Debt service	6,621,719	5,824,464
Unrestricted	<u>34,104,900</u>	<u>31,003,862</u>
Total net assets	<u>188,394,755</u>	<u>179,179,873</u>
Total liabilities and net assets	<u>\$ 261,747,545</u>	<u>\$ 243,687,050</u>

Murray State University Foundation, Inc.

Statements of Financial Position

June 30, 2008 and 2007

Assets

	2008	2007
Cash and cash equivalents	\$ 4,377,058	\$ 3,746,458
Accounts receivable, net of allowances, 2008 – \$18,192, 2007 – \$17,708	21,835	19,430
Accounts receivable, L.D. Miller Trust	308,398	342,563
Investments	67,012,796	63,534,185
Prepaid and other current assets	43,356	43,836
Contributions receivable	25,352	44,506
Notes receivable	66,333	75,865
Property and equipment	3,416,128	3,541,475
Total assets	<u>\$ 75,271,256</u>	<u>\$ 71,348,318</u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 152,583	\$ 482,827
Amounts due to related parties	510,245	282,757
Accrued expenses	32,198	39,293
Deferred revenue	38,254	36,731
Assets held for others	20,502,183	19,825,932
Annuities payable	3,479,902	869,426
Refundable advances	545,138	608,342
Capital lease obligation	78,253	106,048
Total liabilities	<u>25,338,756</u>	<u>22,251,356</u>

Net Assets

Unrestricted	9,224,408	9,109,661
Temporarily restricted	13,525,167	14,890,548
Permanently restricted	27,182,925	25,096,753
Total net assets	<u>49,932,500</u>	<u>49,096,962</u>
Total liabilities and net assets	<u>\$ 75,271,256</u>	<u>\$ 71,348,318</u>

Murray State University Athletic Foundation, Inc.
Statements of Financial Position
June 30, 2008 and 2007

Assets

	<u>2008</u>	<u>2007</u>
		(Restated – Note 2)
Cash	\$ 98,060	\$ 64,527
Investments	122,757	136,308
Accounts receivable	-	57,800
Real estate held for sale	154,417	448,854
Equipment, net of accumulated depreciation; 2008 – \$12,372, 2007 – \$12,296	<u>-</u>	<u>76</u>
Total assets	<u>\$ 375,234</u>	<u>\$ 707,565</u>

Liabilities and Net Assets (Deficit)

Liabilities

Accounts payable to Murray State University	\$ 422,163	\$ 422,163
Accounts payable and accrued expenses	-	33,745
Note payable	<u>-</u>	<u>370,472</u>
Total liabilities	422,163	826,380

Net Assets (Deficit) – Unrestricted

	<u>(46,929)</u>	<u>(118,815)</u>
Total liabilities and net assets	<u>\$ 375,234</u>	<u>\$ 707,565</u>

Murray State University
A Component Unit of the Commonwealth of Kentucky
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenues		
Operating revenues		
Student tuition and fees	\$ 74,275,466	\$ 68,195,606
Less discounts and allowances	<u>(30,687,988)</u>	<u>(27,904,584)</u>
Net tuition and fees	<u>43,587,478</u>	<u>40,291,022</u>
Federal grants and contracts	12,431,926	12,346,877
State grants and contracts	8,825,884	8,844,934
Local and private grants and contracts	<u>419,547</u>	<u>534,489</u>
Total grants and contracts	<u>21,677,357</u>	<u>21,726,300</u>
Sales and services of educational departments	5,416,141	4,718,367
Other operating revenues	<u>1,920,151</u>	<u>2,219,439</u>
Total sales, services and other revenues	<u>7,336,292</u>	<u>6,937,806</u>
Auxiliary enterprises revenues (Revenues are pledged as security for the Housing and Dining Revenue System Bond Series L – Q)	23,132,733	21,182,622
Less discounts and allowances	<u>(1,024,850)</u>	<u>(996,567)</u>
Net auxiliary revenue	<u>22,107,883</u>	<u>20,186,055</u>
Total operating revenues	<u>94,709,010</u>	<u>89,141,183</u>
Expenses		
Operating expenses		
Instruction	55,595,539	55,574,695
Research	2,004,556	2,165,258
Public service	6,354,773	6,191,577
Libraries	2,041,142	2,020,730
Academic support	6,507,060	6,130,718
Student services	14,680,187	14,171,474
Institutional support	12,582,151	11,752,185
Operation and maintenance of plant	17,266,268	14,973,780
Student financial aid	7,795,506	7,440,526
Depreciation	7,118,205	6,830,646
Auxiliary enterprises	17,269,537	16,615,131
Auxiliary depreciation	<u>758,726</u>	<u>430,943</u>
Total operating expenses	<u>149,973,650</u>	<u>144,297,663</u>
Operating Loss	<u>(55,264,640)</u>	<u>(55,156,480)</u>

Murray State University
A Component Unit of the Commonwealth of Kentucky
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2008 and 2007

	2008	2007
Nonoperating Revenues (Expenses)		
State appropriations	\$ 54,386,600	\$ 55,278,600
Restricted student fees (Revenues are pledged as security for the City of Murray debt agreement)	656,886	658,480
Federal grants and contracts	846,838	917,157
State grants and contracts	1,691,717	1,546,365
Local and private grants and contracts	363,378	455,359
Gifts	2,056,003	1,559,878
Investment income	4,834,739	5,574,718
Interest on capital asset-related debt	(2,294,982)	(1,871,439)
Loss on deletion and disposal of capital assets	(666,835)	(66,778)
Bond amortization	<u>(72,865)</u>	<u>(70,677)</u>
Net nonoperating revenues	<u>61,801,479</u>	<u>63,981,663</u>
Income Before Other Revenues, Expenses, Gains or Losses	6,536,839	8,825,183
State capital appropriations	1,978,837	11,698,331
Capital grants	-	9,997
Capital gifts	<u>699,206</u>	<u>560,288</u>
Increase in Net Assets	9,214,882	21,093,799
Net Assets, Beginning of Year	<u>179,179,873</u>	<u>158,086,074</u>
Net Assets, End of Year	<u>\$ 188,394,755</u>	<u>\$ 179,179,873</u>

Murray State University Foundation, Inc.

Statements of Activities

Years Ended June 30, 2008 and 2007

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	\$ 2,000	\$ 1,316,524	\$ 1,997,767	\$ 3,316,291
Revenues from operations of the Frances E. Miller Memorial Golf Course	538,225	-	-	538,225
Fees	316,655	-	-	316,655
Investment return	1,133,879	(516,066)	50,572	668,385
Other	(181,795)	272,321	37,833	128,359
Change in understanding of donor intent	-	-	-	-
Net assets released from restrictions	<u>2,438,160</u>	<u>(2,438,160)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>4,247,124</u>	<u>(1,365,381)</u>	<u>2,086,172</u>	<u>4,967,915</u>
Expenses and Losses				
Payments made on behalf of Murray State University Frances E. Miller Memorial Golf Course	2,438,160	-	-	2,438,160
General and administrative	631,786	-	-	631,786
	<u>1,062,431</u>	<u>-</u>	<u>-</u>	<u>1,062,431</u>
Total expenses and losses	<u>4,132,377</u>	<u>-</u>	<u>-</u>	<u>4,132,377</u>
Change in Net Assets	114,747	(1,365,381)	2,086,172	835,538
Net Assets, Beginning of Year	<u>9,109,661</u>	<u>14,890,548</u>	<u>25,096,753</u>	<u>49,096,962</u>
Net Assets, End of Year	<u>\$ 9,224,408</u>	<u>\$ 13,525,167</u>	<u>\$ 27,182,925</u>	<u>\$ 49,932,500</u>

Murray State University Foundation, Inc.

Statements of Activities

Years Ended June 30, 2008 and 2007

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Contributions	\$ 15,110	\$ 1,344,894	\$ 1,773,415	\$ 3,133,419
Revenues from operations of the Frances E. Miller Memorial Golf Course	568,504	-	-	568,504
Fees	309,791	-	-	309,791
Investment return	2,704,544	2,955,220	41,629	5,701,393
Other	(64,991)	83,187	45,339	63,535
Change in understanding of donor intent	-	(245,759)	245,759	-
Net assets released from restrictions	<u>2,303,218</u>	<u>(2,303,218)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>5,836,176</u>	<u>1,834,324</u>	<u>2,106,142</u>	<u>9,776,642</u>
Expenses and Losses				
Payments made on behalf of Murray State University Frances E. Miller Memorial Golf Course	2,303,218	-	-	2,303,218
General and administrative	<u>801,071</u>	<u>-</u>	<u>-</u>	<u>801,071</u>
Total expenses and losses	<u>3,767,493</u>	<u>-</u>	<u>-</u>	<u>3,767,493</u>
Change in Net Assets	2,068,683	1,834,324	2,106,142	6,009,149
Net Assets, Beginning of Year	<u>7,040,978</u>	<u>13,056,224</u>	<u>22,990,611</u>	<u>43,087,813</u>
Net Assets, End of Year	<u>\$ 9,109,661</u>	<u>\$ 14,890,548</u>	<u>\$ 25,096,753</u>	<u>\$ 49,096,962</u>

Murray State University Athletic Foundation, Inc.

Statements of Activities

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
		(Restated – Note 2)
Revenues, Gains and Other Support		
Investment return	\$ (13,551)	\$ 17,056
Gain on sale of real estate held for sale	85,938	167,278
Other	<u>17,711</u>	<u>23,965</u>
Total revenues, gains and other support	<u>90,098</u>	<u>208,299</u>
Expenses		
General and administrative	14,719	16,018
Interest	<u>3,493</u>	<u>36,896</u>
Total expenses	<u>18,212</u>	<u>52,914</u>
Change in Net Assets	<u>71,886</u>	<u>155,385</u>
Net Assets (Deficit), Beginning of Year, as Previously Reported	-	(243,561)
Adjustment Applicable to Prior Years	<u>-</u>	<u>(30,639)</u>
Net Assets (Deficit), Beginning of Year, as Restated	<u>(118,815)</u>	<u>(274,200)</u>
Net Assets (Deficit), End of Year	<u>\$ (46,929)</u>	<u>\$ (118,815)</u>

Murray State University
A Component of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
Tuition and fees	\$ 43,121,712	\$ 40,189,059
Grants and contracts	22,833,122	21,249,924
Salaries, wages and benefits	(86,036,846)	(82,819,381)
Payments to suppliers	(30,802,791)	(29,531,006)
Payments to students for financial aid	(7,795,506)	(7,440,526)
Computer loans issued to employees	(37,648)	(52,877)
Collection of computer loans to employees	49,908	48,158
Loans issued to students	(1,131,065)	(1,089,230)
Collection of loans to students	778,107	1,044,462
Sales and services	5,078,653	4,862,163
Other operating revenues	1,920,311	2,219,989
Auxiliary enterprises revenues		
Food service	7,909,716	7,118,898
Housing	8,884,692	7,749,024
Book store	4,906,009	5,232,236
Other	180,330	182,929
Auxiliary enterprises payments		
Salaries, wages and benefits	(5,866,778)	(5,298,479)
Payment to suppliers	(11,391,271)	(11,316,652)
Net cash used in operating activities	<u>(47,399,345)</u>	<u>(47,651,309)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	54,386,600	55,278,600
Grants and contracts	2,901,933	2,918,881
Endowment transfers to MSU Foundation	362,167	(789,523)
Gifts for other than capital purposes	2,056,003	767,310
Agency transactions	<u>14,522</u>	<u>4,702</u>
Net cash provided by noncapital financing activities	<u>59,721,225</u>	<u>58,179,970</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt, net of discount	14,302,200	-
Payment receipt for loan issued for capital project	-	91,700
Restricted student fees pledged for debt service	656,886	658,480
State capital appropriations	4,101	15,250,000
Purchases of capital assets	(15,384,439)	(24,416,190)
Capital gift	7,831	376,489
Capital grants	-	9,997
Principal paid on capital debt and leases	(2,396,151)	(4,013,932)
Interest paid on capital debt and leases	<u>(2,203,385)</u>	<u>(2,064,896)</u>
Net cash used in capital and related financing activities	<u>(5,012,957)</u>	<u>(14,108,352)</u>

Murray State University
A Component of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	\$ 2,350,180	\$ 3,833,387
Purchase of investments	(3,220,553)	(3,334,196)
Interest receipts on investments	<u>3,628,429</u>	<u>4,076,049</u>
Net cash provided by investing activities	<u>2,758,056</u>	<u>4,575,240</u>
Net Increase in Cash and Cash Equivalents	10,066,979	995,549
Cash and Cash Equivalents, Beginning of Year	<u>60,412,185</u>	<u>59,416,636</u>
Cash and Cash Equivalents, End of Year	<u>\$ 70,479,164</u>	<u>\$ 60,412,185</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash and cash equivalents	\$ 38,610,070	\$ 36,919,598
Restricted cash and cash equivalents	<u>31,869,094</u>	<u>23,492,587</u>
Total cash and cash equivalents	<u>\$ 70,479,164</u>	<u>\$ 60,412,185</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$ (55,264,640)	\$ (55,156,480)
Depreciation	7,876,931	7,261,589
Bad debt	353,376	247,802
Changes in assets and liabilities		
Accounts and loans receivable, net	(358,780)	(979,313)
Inventories	(100,275)	48,718
Prepaid expenses	113,036	(152,997)
Accounts payable	93,779	324,631
Self insured health liability	(235,182)	326,828
Accrued payroll	92,909	82,853
Deposits	120,787	73,039
Deferred revenue	<u>(114,286)</u>	<u>272,021</u>
Net cash used in operating activities	<u>\$ (47,399,345)</u>	<u>\$ (47,651,309)</u>
Supplemental Cash Flows Information		
Gifts of capital assets	\$ 691,378	\$ 183,799
Accounts payable incurred for capital assets	\$ 1,743,744	\$ 1,323,258

Murray State University
A Component of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

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 10,300. 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.

In accordance with the provisions of GASB Statement No. 39 (GASB No. 39), *Determining Whether Certain Organizations are Component Units*, certain organizations are to be reported as component units of a primary government based on the nature and significance of that organization's relationship to the primary government. Application of this statement results in including Murray State University Foundation, Inc. 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 of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

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 the Foundation. The recognition of gifts, donations and endowment pledges are accounted for by the University in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

Accounts Receivable

Accounts receivable consists of tuition and fee charges, other operational activities and auxiliary enterprise services and amounts due from component units. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, for 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 of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

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
Software	8 years

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowing. Total interest capitalized was \$54,411 and \$323,220 for the years ended June 30, 2008 and June 30, 2007, 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 the years ended June 30, 2008 and 2007, was \$33,050 and \$31,889, respectively.

Murray State University
A Component of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

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. Such amounts are recognized in the period to which the service relates or the grant/contract requirements have been met.

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 Board of Regents to meet current expenses or for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Murray State University
A Component of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

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 nonexchange transactions. In a nonexchange transaction, the University receives value without directly giving equal value back, such as a gift or grant for which there is no return requirement. Additionally, certain significant revenues relied upon for operations, such as state appropriations, 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
A Component of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

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 GASB has issued four pronouncements effective in future periods. Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses reporting for pollution remediation obligations and becomes effective for year ended June 30, 2009. Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, provides guidance regarding how to identify, account for, and report intangible assets and becomes effective for year ended June 30, 2010. Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, requires endowments to report their land and other real estate investments at fair value and becomes effective for year ended June 30, 2009. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments and becomes effective for year ended June 30, 2010. The impact of applying these new statements has not yet been determined.

Note 2: Accounts Receivable

Accounts receivable consisted of:

	2008	2007
Current accounts receivable:		
Student tuition and fees	\$ 3,063,519	\$ 2,549,989
Grants and contracts	1,963,348	2,713,596
Auxiliary fees	731,768	616,758
MSU and Racer Foundations	1,062,777	877,026
Employee computer loans	10,667	22,926
Outside sales	434,948	400,877
State agencies	1,140	1,860
Commonwealth of KY – science complex phase II	-	233,430
Commonwealth of KY – science complex phase III	296,820	-
Capital construction receivable – vendors	-	6,285
Allowance for doubtful accounts	<u>(1,604,995)</u>	<u>(1,392,399)</u>

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Total current accounts receivable	\$ <u>5,959,992</u>	\$ <u>6,030,348</u>
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Note 3: Inventories

Inventories consisted of:

	<u>2008</u>	<u>2007</u>
Inventories		
University bookstore – resale	\$ 1,494,848	\$ 1,434,372
Physical plant – supplies	484,273	436,303
Food services – resale and supplies	70,673	69,003
Central stores – supplies	<u>15,431</u>	<u>25,272</u>
Total inventories	<u>\$ 2,065,225</u>	<u>\$ 1,964,950</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, 2008 and 2007. The Program provides for service cancellation of a loan at rates of 12.5% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2008 and 2007, the allowance for uncollectible loans was \$206,847 and \$196,896 respectively.

Loans receivable consisted of:

	<u>2008</u>	<u>2007</u>
Current loans receivable:		
University loan programs	\$ 87,505	\$ 94,107
Federal nursing program	90,702	84,884
Federal Perkins program	<u>764,883</u>	<u>738,654</u>
Total current loans receivable, net	<u>943,090</u>	<u>917,645</u>
Noncurrent loans receivable:		
Federal nursing program	358,929	332,113
Federal Perkins program	<u>3,390,145</u>	<u>3,195,831</u>
Total noncurrent loans receivable, net	<u>3,749,074</u>	<u>3,527,944</u>
Total loans receivable, net	<u>\$ 4,692,164</u>	<u>\$ 4,445,589</u>

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Note 5: Deposits, Investments, and Investment Income

Deposits

At June 30, 2008 and June 30, 2007, the carrying amounts of the University's bank balances and deposits were \$70,479,164 and \$60,412,185, respectively.

The Federal Deposit Insurance Corporation (FDIC) insures time and savings, as well as demand deposits for \$100,000 each. Deposits in excess of these amounts 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. However, all such investments in excess of FDIC are required to be fully collateralized by the U.S. Treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240. The pools have not been approved by the Securities and Exchange Commission. The University's shares within the pools may indirectly expose it to risks associated with fixed income investments; however, specific information about any such transactions is not available to the University.

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

Deposits as of June 30 consisted of:

	<u>2008</u>	<u>2007</u>
Depository accounts:		
Local bank deposits, collateral held as a pledge in the University's name	\$ 5,545,098	\$ 5,916,007
Cash on hand	76,484	74,475
Foreign currency deposits	319,030	115,344
State Investment Pool – collateral required by KRS 41.240	<u>64,538,552</u>	<u>54,306,359</u>
Total deposits	<u>\$ 70,479,164</u>	<u>\$ 60,412,185</u>

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

Deposits as presented in the balance sheet captions include:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents, current	\$ 38,610,070	\$ 36,919,598
Restricted cash and cash equivalents	<u>31,869,094</u>	<u>23,492,587</u>
Total deposits	\$ <u>70,479,164</u>	\$ <u>60,412,185</u>

Investments

Investments carried at fair value consisted of:

	<u>2008</u>	<u>2007</u>
Money market funds restricted for capital purposes	\$ 8,445,125	\$ 7,574,753
Restricted assets held by the Foundation	<u>19,737,084</u>	<u>19,213,842</u>
Total investments	\$ <u>28,182,209</u>	\$ <u>26,788,595</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 Foundation are comprised of private donations received directly by the University and consist of expendable restricted funds as well as endowments. Assets held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

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

The assets in the Murray State University Foundation, Inc. investment pool are invested as follows:

	<u>2008</u>	<u>2007</u>
Percentage of pool invested in:		
Mutual funds in equity securities	67%	67%
Mutual funds in fixed income securities	29%	28%
Other	4%	5%
Total	<u>100%</u>	<u>100%</u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not, within its investment policy, formally limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The money market mutual funds are 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, consisted of:

	<u>2008</u>	<u>2007</u>
Assets held by the University:		
Interest income	\$ 4,840,084	\$ 4,031,468
Assets held by MSU Foundation:		
Investment income	1,770,034	784,166
Net increase (decrease) in fair value of investments	<u>(1,775,379)</u>	<u>759,084</u>
Total investment income	<u>\$ 4,834,739</u>	<u>\$ 5,574,718</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, 2008 and 2007:

Funding Period	CPE Funding Available	CPE Funding Received	External Match Receipts			External Match Pledges
			Held By University	Held By Foundation	Total	
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 878,250	\$ 831,750	\$ 1,710,000	\$ -
2000-2002	3,521,787	3,521,787	-	3,521,787	3,521,787	-
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>\$ 6,144,496</u>	<u>\$ 8,490,787</u>	<u>\$ -</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, 2008, was:

	Balance June 30, 2007	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2008
Land	\$ 8,783,261	\$ -	\$ -	\$ (187,065)	\$ 8,596,196
Construction in progress	26,890,461	14,290,242	(19,317,706)	(2,854,111)	19,008,886
Museum and collectibles	<u>532,393</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>532,393</u>
Total capital assets not being depreciated	<u>36,206,115</u>	<u>14,290,242</u>	<u>(19,317,706)</u>	<u>(3,041,176)</u>	<u>28,137,475</u>
Buildings	188,334,280	-	17,500,638	(2,745,915)	203,089,003
Nonbuilding improvements	9,786,566	-	1,068,665	(509,525)	10,345,706
Equipment	21,728,927	1,068,676	748,403	(1,094,842)	22,451,164
Library holdings	28,096,921	956,436	-	(44,592)	29,008,765
Livestock	<u>182,750</u>	<u>634,950</u>	<u>-</u>	<u>(90,950)</u>	<u>726,750</u>
Total other capital assets	<u>248,129,444</u>	<u>2,660,062</u>	<u>19,317,706</u>	<u>(4,485,824)</u>	<u>265,621,388</u>
Total capital assets before depreciation	<u>284,335,559</u>	<u>16,950,304</u>	<u>-</u>	<u>(7,527,000)</u>	<u>293,758,863</u>
Less accumulated depreciation					
Buildings	99,063,076	4,591,586	-	(2,677,267)	100,977,395
Improvements other than buildings	5,363,283	461,003	-	(254,762)	5,569,524
Equipment	15,828,200	1,687,184	-	(1,026,410)	16,488,974
Library holdings	21,826,776	1,066,922	-	(42,362)	22,851,336
Livestock	<u>56,467</u>	<u>70,237</u>	<u>-</u>	<u>(5,250)</u>	<u>121,454</u>
Total accumulated depreciation	<u>142,137,802</u>	<u>7,876,932</u>	<u>-</u>	<u>(4,006,051)</u>	<u>146,008,683</u>
Capital assets, net	<u>\$142,197,757</u>				<u>\$ 147,750,180</u>

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Note 7: Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2007, was:

	Balance June 30, 2006	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2007
Land	\$ 7,641,580	\$ -	\$ 1,141,681	\$ -	\$ 8,783,261
Construction in progress	4,100,601	25,328,077	(2,161,475)	(376,742)	26,890,461
Museum and collectibles	<u>515,293</u>	<u>17,100</u>	<u>-</u>	<u>-</u>	<u>532,393</u>
Total capital assets not being depreciated	<u>12,257,474</u>	<u>25,345,177</u>	<u>(1,019,794)</u>	<u>(376,742)</u>	<u>36,206,115</u>
Buildings	187,588,251	-	785,529	(39,500)	188,334,280
Nonbuilding improvements	9,623,707	-	162,859	-	9,786,566
Equipment	20,465,066	1,696,317	71,406	(503,862)	21,728,927
Library holdings	26,953,423	1,243,184	-	(99,686)	28,096,921
Livestock	<u>177,750</u>	<u>22,500</u>	<u>-</u>	<u>(17,500)</u>	<u>182,750</u>
Total other capital assets	<u>244,808,197</u>	<u>2,962,001</u>	<u>1,019,794</u>	<u>(660,548)</u>	<u>248,129,444</u>
Total capital assets before depreciation	<u>257,065,671</u>	<u>28,307,178</u>	<u>-</u>	<u>(1,037,290)</u>	<u>284,335,559</u>
Less accumulated depreciation					
Buildings	94,805,916	4,296,655	-	(39,495)	99,063,076
Improvements other than buildings	4,988,957	374,326	-	-	5,363,283
Equipment	14,760,981	1,494,680	-	(427,461)	15,828,200
Library holdings	20,841,287	1,080,190	-	(94,701)	21,826,776
Livestock	<u>43,229</u>	<u>15,738</u>	<u>-</u>	<u>(2,500)</u>	<u>56,467</u>
Total accumulated depreciation	<u>135,440,370</u>	<u>\$ 7,261,589</u>	<u>\$ -</u>	<u>\$ (564,157)</u>	<u>142,137,802</u>
Capital assets, net	<u>\$ 121,625,301</u>				<u>\$ 142,197,757</u>

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Note 8: Accounts Payable

Accounts payable consisted of:

	2008	2007
Current accounts payable:		
Vendors	\$ 4,568,227	\$ 5,672,164
Payroll benefits and withholdings	2,114,602	2,173,780
Loans	<u>9,777</u>	<u>3,460</u>
Total accounts payable	<u>\$ 6,692,606</u>	<u>\$ 7,849,404</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 60 or has less than 27 years of participation in the plan. The plan also provides for disability, death and survivor benefits and medical insurance.

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

Funding for the plan is provided from eligible employees who contribute 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, 2008, 2007 and 2006 were \$4,180,478, \$4,125,096 and \$3,783,348, 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

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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 KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report is obtainable by writing to Kentucky Employees Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601 or by calling (502) 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 8.50% of current eligible employees' salaries to the nonhazardous KERS fund. Employees covered by the hazardous KERS fund contribute 8.00% of gross salary and the University contributes 24.25% 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, 2008, 2007 and 2006 were \$1,368,904, \$1,207,251, and \$916,026, respectively, and were equal to the required contributions.

University Health Self-Insurance Program

The University maintains a self-insurance program for employees' health insurance. For the fiscal year ended June 30, 2008, the University paid approximately 85% of total plan expenses 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, 2008 and 2007 totaled \$6,696,263 and \$5,716,345, respectively, excluding administrative and stop-loss fees. Stop-loss and administrative fees incurred for the years ended June 30, 2008 and 2007 were \$853,203 and \$781,065, 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>2008</u>	<u>2007</u>
Liability, beginning of year	\$ 1,487,341	\$ 1,160,513
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	7,626,950	7,033,142
Administrative and stop-loss fees	(853,203)	(781,065)
Claims paid	<u>(7,008,929)</u>	<u>(5,925,249)</u>
Liability, end of year	\$ <u>1,252,159</u>	\$ <u>1,487,341</u>

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Note 10: Deferred Revenue

Deferred revenue consisted of:

	<u>2008</u>	<u>2007</u>
Current deferred revenue:		
Prepaid tuition and fees	\$ 1,826,901	\$ 2,077,940
International studies programs	745,355	635,473
Grants and contracts	666,946	665,343
Auxiliary enterprises	17,550	10,408
Capital state appropriations	<u>236,374</u>	<u>2,135,879</u>
Total current deferred revenue	<u>\$ 3,493,126</u>	<u>\$ 5,525,043</u>

Note 11: Revenue Bonds, Notes Payable and Capital Leases

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Bonds payable	\$ 26,780,000	\$ 14,550,000	\$ (985,000)	\$ 40,345,000	\$ 2,030,000	\$ 38,315,000
Less bond discounts	<u>(442,796)</u>	<u>(247,800)</u>	<u>39,815</u>	<u>(650,781)</u>	<u>(39,805)</u>	<u>(610,976)</u>
Bonds payable, net of discounts	26,337,204	14,302,200	(945,185)	39,694,219	1,990,195	37,704,024
City of Murray payable	9,805,000	-	(120,000)	9,685,000	135,000	9,550,000
Master lease notes payable	7,244,022	-	(1,184,152)	6,059,870	776,533	5,283,337
Capital leases	<u>1,360,000</u>	<u>-</u>	<u>(107,000)</u>	<u>1,253,000</u>	<u>113,000</u>	<u>1,140,000</u>
Total bonds, notes and capital leases	<u>\$ 44,746,226</u>	<u>\$ 14,302,200</u>	<u>\$ (2,356,337)</u>	<u>\$ 56,692,089</u>	<u>\$ 3,014,728</u>	<u>\$ 53,677,361</u>

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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, 2007:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long Term Portion
Bonds payable	\$ 29,240,000	\$ -	\$ (2,460,000)	\$ 26,780,000	\$ 985,000	\$ 25,795,000
Less bond discounts	<u>(481,582)</u>	<u>-</u>	<u>38,786</u>	<u>(442,796)</u>	<u>(27,425)</u>	<u>(415,371)</u>
Bonds payable, net of discounts	28,758,418	-	(2,421,214)	26,337,204	957,575	25,379,629
City of Murray payable	9,910,000	-	(105,000)	9,805,000	120,000	9,685,000
Master lease notes payable	8,590,955	-	(1,346,933)	7,244,022	1,183,648	6,060,374
Capital leases	<u>1,462,000</u>	<u>-</u>	<u>(102,000)</u>	<u>1,360,000</u>	<u>107,000</u>	<u>1,253,000</u>
Total bonds, notes and capital leases	<u>\$ 48,721,373</u>	<u>\$ -</u>	<u>\$ (3,975,147)</u>	<u>\$ 44,746,226</u>	<u>\$ 2,368,223</u>	<u>\$ 42,378,003</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
2009	\$ 2,030,000	\$ 1,024,543	\$ 3,054,543	\$ 2,409,876	\$ 5,464,419
2010	1,900,000	982,653	2,882,653	2,295,811	5,178,464
2011	1,985,000	838,666	2,823,666	2,183,929	5,007,595
2012	2,055,000	869,951	2,924,951	2,070,242	4,995,193
2013	1,770,000	918,992	2,688,992	1,950,610	4,639,602
2014-2018	9,985,000	4,853,065	14,838,065	7,945,288	22,783,353
2019-2023	10,315,000	1,930,000	12,245,000	4,979,455	17,224,455
2024-2028	10,305,000	2,465,000	12,770,000	2,283,097	15,053,097
2029-2033	<u>-</u>	<u>3,115,000</u>	<u>3,115,000</u>	<u>437,542</u>	<u>3,552,542</u>
Total	<u>\$ 40,345,000</u>	<u>\$ 16,997,870</u>	<u>\$ 57,342,870</u>	<u>\$ 26,555,850</u>	<u>\$ 83,898,720</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, 2008, was as follows:

	Original Issue	Balance Due June 30, 2008	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2008-2009
Housing and Dining System Revenue Bonds Payable				
Series L bonds dated September 1, 1968, with interest at 3.00%; final principal payment due September 1, 2008; Regents Hall	\$ 2,000,000	\$ 190,000	\$ 6,595	\$ 190,000
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	510,000	26,842	40,000
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	4,450,000	197,879	290,000
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	1,345,000	64,883	70,000
Series P bonds dated June 1, 2003, with interest from 1.10% to 4.10%; final principal payment due September 1, 2023; Winslow Cafeteria	2,500,000	2,105,000	71,955	105,000
Series Q bonds dated December 1, 2005, with interest from 4.00% to 4.59%; final principal payment due September 1, 2027; Clark Hall	<u>15,800,000</u>	<u>15,800,000</u>	<u>663,865</u>	<u>525,000</u>
Total housing and dining system revenue bonds payable	<u>29,105,000</u>	<u>24,400,000</u>	<u>1,032,019</u>	<u>1,220,000</u>

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

	<u>Original Issue</u>	<u>Balance Due June 30, 2008</u>	<u>Interest Expense, Current Year</u>	<u>Bonds/Notes/ Leases Maturing 2008-2009</u>
Consolidated Educational Buildings				
Revenue Bonds Payable				
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>1,395,000</u>	\$ <u>54,876</u>	\$ <u>335,000</u>
Total consolidated educational buildings revenue bonds payable	\$ <u>2,855,000</u>	\$ <u>1,395,000</u>	\$ <u>54,876</u>	\$ <u>335,000</u>
General Receipts Bonds Payable				
Series A bonds dated July 31, 2007, with an interest rate of 4.00% to 4.50%; final principal payment date September 1, 2027; Richmond Hall	\$ <u>14,550,000</u>	\$ <u>14,550,000</u>	\$ <u>490,428</u>	\$ <u>475,000</u>
Total General Receipts Bonds	\$ <u>14,550,000</u>	\$ <u>14,550,000</u>	\$ <u>490,428</u>	\$ <u>475,000</u>
Bonds payable before discount	46,510,000	40,345,000	1,577,323	2,030,000
Less bond discount	-	(650,781)	-	(39,815)
Total bonds payable	\$ <u>46,510,000</u>	\$ <u>39,694,219</u>	\$ <u>1,577,323</u>	\$ <u>1,990,185</u>
City of Murray Payable				
Agreement dated December 30, 2002, with interest of 2.50% to 4.85%; final principal payment due June 1, 2033	\$ <u>10,000,000</u>	\$ <u>9,685,000</u>	\$ <u>448,775</u>	\$ <u>135,000</u>

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

	Original Issue	Balance Due June 30, 2008	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2008-2009
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	\$ -	\$ 342	\$ -
Deferred maintenance – Master lease dated May 10, 2002, with interest from 3.56% to 4.79%; final principal payment due December 3, 2010	2,232,000	502,977	24,145	283,781
Campus networking upgrade – Master lease dated March 24, 2004, with interest of 3.16% to 3.45%; final principal payment due April 1, 2008	1,627,727	-	7,461	-
Campus energy performance upgrade – Master lease dated February 10, 2005, with interest of 3.94%; final principal payment due August 10, 2017	6,707,876	5,556,893	163,850	492,762
Oracle software – Master lease dated August 11, 2005, with interest of 4.13%; final principal payment due September 1, 2007	<u>372,850</u>	<u>-</u>	<u>855</u>	<u>-</u>
Total Master lease payable	<u>\$ 11,740,453</u>	<u>\$ 6,059,870</u>	<u>\$ 196,653</u>	<u>\$ 776,543</u>
Capital Leases				
University of Kentucky dated June 25, 1998, with interest rate at 5.14%; final principal payment due January 1, 2017: Crisp Center	<u>\$ 2,200,000</u>	<u>\$ 1,253,000</u>	<u>\$ 72,231</u>	<u>\$ 113,000</u>
Total capital leases	<u>\$ 2,200,000</u>	<u>\$ 1,253,000</u>	<u>\$ 72,231</u>	<u>\$ 113,000</u>
Total all Bond Issues, Notes Payable and Capital Leases	<u>\$ 70,450,453</u>	<u>\$ 56,692,089</u>	<u>\$ 2,294,982</u>	<u>\$ 3,014,728</u>

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

The revenue bond indentures require the University to make deposits to sinking and reserve funds in annual amounts to meet the principal and interest payments due within the next 12 months, as well as maintain a reserve balance as a percentage of outstanding balances. As of June 30, 2008 and 2007, the sinking fund and reserve fund requirements have been funded as required.

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>2008</u>	<u>2007</u>
Capital lease assets, at cost	\$ 2,200,000	\$ 2,200,000
Less accumulated depreciation	<u>(1,540,000)</u>	<u>(1,485,000)</u>
Net book value	\$ <u>660,000</u>	\$ <u>715,000</u>

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

<u>Years Ending June 30</u>	<u>Total</u>
2009	\$ 179,870
2010	179,118
2011	179,030
2012	179,532
2013	179,576
2014-2017	<u>716,866</u>
	1,613,992
Less amount representing interest	<u>(360,992)</u>
Present value of capital lease obligations	\$ <u>1,253,000</u>

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Note 12: Deposits

The deposits held by the University consisted of:

	2008	2007
Current:		
Horse stall rentals	\$ 3,890	\$ 3,730
Racer card declining balances	88,940	70,586
Housing deposits	146,586	126,631
Post office box deposits	-	950
Agency account balances	<u>68,602</u>	<u>54,080</u>
Total current deposits	<u>308,018</u>	<u>255,977</u>
Noncurrent:		
Housing deposits	<u>300,035</u>	<u>212,935</u>
Total deposits	<u>\$ 608,053</u>	<u>\$ 468,912</u>

Noncurrent housing deposit additions were \$216,336 and \$173,039 for years ended June 30, 2008 and 2007, respectively. Noncurrent housing deposit deductions were \$129,236 and \$109,866 for years ended June 30, 2008 and 2007, respectively.

Note 13: Unrestricted Net Assets

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

	2008	2007
Unrestricted net assets		
Allocated for		
Prior year carryovers		
Renovation and maintenance	\$ 1,588,521	\$ 581,183
Departmental operations	14,515,688	11,936,574
Encumbrances	468,370	706,907
Working capital	6,090,289	4,981,311
Revenue contingency	2,719,330	2,763,930
General contingency	7,822,702	9,133,957
Self insurance	<u>900,000</u>	<u>900,000</u>
Total unrestricted net assets	<u>\$ 34,104,900</u>	<u>\$ 31,003,862</u>

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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 is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statement package.

During the years ended June 30, 2008 and 2007, the Foundation made payments of \$2,438,160 and \$2,303,218, respectively, on behalf of the University from restricted sources. Accounts receivable at June 30, 2008 and 2007, from the Foundation were \$645,343 and \$454,861, respectively. Accounts payable to the Foundation as of June 30, 2008 and 2007, 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 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. The resources held by the Racer Foundation can only be used by, or for the benefit of, the University, the Racer Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

Accounts receivable from the Racer Foundation was \$422,163 for each of the years ended June 30, 2008 and 2007, respectively. Complete financial statements for the Racer Foundation can be obtained from the MSU Athletic Foundation Office, Stewart Stadium, Murray, Kentucky 42071.

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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 \$14,900,000 and \$5,878,000 as of June 30, 2008 and 2007, 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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Note 17: Natural Expense Classifications with Functional Classifications

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

Fund Classification	Year Ended June 30, 2008						
	Natural Classification						Total
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Depreciation	
Instruction	\$ 47,708,876	\$ 6,965,571	\$ 145,164	\$ 756,343	\$ 19,585	\$ -	\$ 55,595,539
Research	1,262,048	657,529	-	84,979	-	-	2,004,556
Public service	5,001,799	1,043,170	243,645	65,659	500	-	6,354,773
Libraries	1,540,939	382,789	652	116,762	-	-	2,041,142
Academic support	3,953,563	2,013,944	241,767	274,486	23,300	-	6,507,060
Student services	9,121,699	4,964,079	96,374	390,633	107,402	-	14,680,187
Institutional support	11,324,926	885,661	168,568	202,996	-	-	12,582,151
Operations and maintenance	5,867,126	5,530,670	5,610,950	257,522	-	-	17,266,268
Financial aid	54,418	79,928	-	16,441	7,644,719	-	7,795,506
Depreciation	-	-	-	-	-	7,118,205	7,118,205
Auxiliary	5,866,778	11,246,406	-	37,434	118,919	-	17,269,537
Auxiliary depreciation	-	-	-	-	-	758,726	758,726
Total expenses	<u>\$ 91,702,172</u>	<u>\$ 33,769,747</u>	<u>\$ 6,507,120</u>	<u>\$ 2,203,255</u>	<u>\$ 7,914,425</u>	<u>\$ 7,876,931</u>	<u>\$ 149,973,650</u>

Fund Classification	Year Ended June 30, 2007						
	Natural Classification						Total
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Depreciation	
Instruction	\$ 47,263,126	\$ 7,246,461	\$ 170,363	\$ 876,540	\$ 18,205	\$ -	\$ 55,574,695
Research	1,483,898	592,459	-	85,389	3,512	-	2,165,258
Public service	4,641,557	1,172,394	212,298	165,328	-	-	6,191,577
Libraries	1,469,394	380,941	438	169,957	-	-	2,020,730
Academic support	3,741,124	2,012,157	100,394	277,043	-	-	6,130,718
Student services	8,848,163	4,923,194	107,826	263,616	28,675	-	14,171,474
Institutional support	10,721,237	637,370	271,027	122,551	-	-	11,752,185
Operations and maintenance	5,627,951	3,573,401	5,188,528	583,900	-	-	14,973,780
Financial aid	1,689	48,703	-	-	7,390,134	-	7,440,526
Depreciation	-	-	-	-	-	6,830,646	6,830,646
Auxiliary	5,298,479	11,064,059	-	152,518	100,075	-	16,615,131
Auxiliary depreciation	-	-	-	-	-	430,943	430,943
Total expenses	<u>\$ 89,096,618</u>	<u>\$ 31,651,139</u>	<u>\$ 6,050,874</u>	<u>\$ 2,696,842</u>	<u>\$ 7,540,601</u>	<u>\$ 7,261,589</u>	<u>\$ 144,297,663</u>

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Note 18: Segment Information

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specifically identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses and assets and liabilities, that are required by an external party to be accounted for separately. The University has two reportable segments: the Murray State University Housing and Dining System and the Susan E. Bauernfeind Student Recreation and Wellness Center.

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.

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Note 18: Segment Information (Continued)

Condensed financial information as of and for the years ended June 30, of the University's Housing and Dining segment is as follows:

Housing and Dining System - Condensed Balance Sheets

	2008	2007
Assets		
Current assets	\$ 2,360,600	\$ 1,985,187
Noncurrent assets	7,815,805	9,968,935
Capital assets, net of accumulated depreciation	<u>19,254,541</u>	<u>18,034,859</u>
Total assets	<u>\$ 29,430,946</u>	<u>\$ 29,988,981</u>
Liabilities		
Current liabilities	\$ 592,452	\$ 1,682,732
Noncurrent liabilities	<u>24,762,467</u>	<u>24,987,575</u>
Total liabilities	<u>25,354,919</u>	<u>26,670,307</u>
Net assets		
Invested in capital assets, net of related debt	(4,977,506)	(3,393,815)
Restricted		
Expendable capital	3,776,756	1,801,834
Expendable debt service	3,840,030	3,866,352
Unrestricted	<u>1,436,747</u>	<u>1,044,303</u>
Total net assets	<u>4,076,027</u>	<u>3,318,674</u>
Total liabilities and net assets	<u>\$ 29,430,946</u>	<u>\$ 29,988,981</u>

***Housing and Dining System - Condensed Statements of Revenues, Expenses
and Changes in Net Assets***

	2008	2007
Operating revenues	\$ 16,816,702	\$ 14,786,565
Operating expenses	(13,028,823)	(11,757,361)
Depreciation expense	<u>(757,231)</u>	<u>(429,448)</u>
Operating income	3,030,648	2,599,756
Nonoperating revenues (expenses)	<u>(2,273,295)</u>	<u>(2,180,026)</u>
Change in net assets	757,353	419,730
Net assets, beginning of year	<u>3,318,674</u>	<u>2,898,944</u>
Net assets, end of year	<u>\$ 4,076,027</u>	<u>\$ 3,318,674</u>

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Note 18: Segment Information (Continued)

Housing and Dining System - Condensed Statements of Cash Flows

	<u>2008</u>	<u>2007</u>
Cash flows from		
Operating activities	\$ 4,416,516	\$ 2,845,576
Noncapital financing activities	(1,115,495)	(1,517,078)
Capital and related financing activities	(5,628,557)	(11,672,420)
Investing activities	<u>297,609</u>	<u>1,180,933</u>
Net decrease in cash	(2,029,927)	(9,162,989)
Cash, beginning of year	<u>7,150,961</u>	<u>16,313,950</u>
 Cash, end of year	 <u>\$ 5,121,034</u>	 <u>\$ 7,150,961</u>

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, of the University's Wellness Center segment are as follows:

Wellness Center - Condensed Balance Sheets

	<u>2008</u>	<u>2007</u>
Assets		
Current assets	\$ 20,781	\$ 2,829
Noncurrent assets	1,160,730	1,182,027
Capital assets, net of accumulated depreciation	<u>9,662,376</u>	<u>9,930,775</u>
Total assets	<u>\$ 10,843,887</u>	<u>\$ 11,115,631</u>
Liabilities		
Current liabilities	\$ 52,262	\$ 103,255
Noncurrent liabilities	<u>9,685,000</u>	<u>9,805,000</u>
Total liabilities	<u>9,737,262</u>	<u>9,908,255</u>

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Note 18: Segment Information (Continued)

Wellness Center - Condensed Balance Sheets (Continued)

Net assets	2008	2007
Invested in capital assets, net of related debt	\$ 277,460	\$ 437,862
Restricted		
Expendable capital	366,192	423,998
Expendable debt service	447,982	352,118
Unrestricted	<u>14,991</u>	<u>(6,602)</u>
Total net assets	<u>1,106,625</u>	<u>1,207,376</u>
 Total liabilities and net assets	 <u>\$ 10,843,887</u>	 <u>\$ 11,115,631</u>

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

	2008	2007
Operating revenues	\$ 52,426	\$ 46,575
Operating expenses	(558,583)	(421,441)
Depreciation	<u>(268,399)</u>	<u>(268,399)</u>
 Operating loss	 <u>(774,556)</u>	 <u>(643,265)</u>
Nonoperating revenues		
University budget support	439,225	396,038
Restricted student fees	657,059	658,480
Investment income	24,383	17,861
Transfer of reserve payment – current fund	71,868	71,868
Cost of issuance amortization	(12,004)	(12,004)
Loss on deletion and disposal of capital assets	(57,951)	(42,450)
Interest on capital asset-related debt	<u>(448,775)</u>	<u>(452,493)</u>
Nonoperating revenues	<u>673,805</u>	<u>637,300</u>
Change in net assets	(100,751)	(5,965)
 Net assets, beginning of year	 <u>1,207,376</u>	 <u>1,213,341</u>
Net assets, end of year	<u>\$ 1,106,625</u>	<u>\$ 1,207,376</u>

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Note 18: Segment Information (Continued)

Wellness Center - Condensed Statements of Cash Flows

	2008	2007
Cash flows from		
Operating activities	\$ (605,436)	\$ (546,749)
Noncapital financing activities	432,623	396,038
Capital and related financing activities	85,506	104,859
Investing activities	<u>93,004</u>	<u>87,185</u>
Net increase in cash	5,697	41,333
Cash, beginning of year	<u>856,166</u>	<u>814,833</u>
Cash, end of year	<u>\$ 861,863</u>	<u>\$ 856,166</u>

Note 19: Risk and Uncertainties

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

Note 20: Subsequent Event

Subsequent to year end, the fair value of the University's investments in marketable securities as held by the Murray State University Foundation, Inc. declined in value by approximately 10% as of September 30, 2008. Market values have continued to decline since that point in time and through this report date.