
MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE
COMMONWEALTH OF KENTUCKY
FINANCIAL STATEMENTS
JUNE 30, 2010



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Independent Auditors' Report

Board of Regents and Audit Committee
Murray State University
Murray, Kentucky

We have audited the accompanying financial statements of the business-type activities of Murray State University (the University), a component unit of the Commonwealth of Kentucky and its discretely presented component unit, as of June 30, 2010 and for the year then ended, which collectively comprise the University's basic financial statements 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. The financial statements of the University and its discretely presented component unit as of and for the year ended June 30, 2009, were audited by other auditors, whose report dated November 13, 2009, expressed an unqualified opinion on those statements.

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., the discretely presented component unit, 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 financial position of the business-type activities and the discretely presented component unit of Murray State University as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2010, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

RubinBrown LLP

October 12, 2010

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, 2010. 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, is composed of five academic colleges and a school of agriculture, 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 10,100 students. For the 2009-10 academic year, tuition and fees increased by \$144 per semester for full time resident undergraduate students. Tuition and fees at the University continues to be significantly less than the national average.

The University consistently ranks among the nation's top public universities and has been recognized for its academic quality and affordability. The University has been recognized for the 20th consecutive year as one of the best schools in the country in the U.S. News & World Report's 2011 edition of America's Best Colleges. The University was ranked 22nd in the South among private and public schools and is the 12th top public university in the nation, in Master's/Comprehensive category. The University is in seventh-place among the top public universities in the South. 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 Forbes, G.I. Jobs, 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 (*Continued*)

Financial Highlights

- The University's financial position remained strong as of the end of the year, with assets of \$284.8 million and liabilities of \$77 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$207.8 million or 73 percent of total assets. Net assets increased by \$7.5 million from fiscal year 2009 to 2010.
- Fiscal operations were in accordance with the annual operating budget of approximately \$136 million. The University continued to be a strong employer for the region and employed 3,999 individuals, including 578 faculty and 1,107 staff members and 2,314 students. These totals include 1,353 regular and full time faculty and staff.
- Total operating state appropriations for fiscal year 2010 decreased by \$3.5 million. This decrease in state appropriations was supplemented with \$3.5 million of Federal State Fiscal Stabilization Funds. With this supplement, the total funding from the state in appropriations was \$51.9 million for fiscal years 2009 and 2010.
- In the fall 2006, the University began the selection phase for a new Enterprise Resource Planning (ERP) system. SunGard 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 included core modules for Finance, Student Services, Student Financial Aid and Human Resources. The installation of a new campus wide ERP system enhanced the technology available to future and current students and improved the data capabilities of all administrative systems. The project's scope of \$8 million was funded in fiscal year 2008. The implementation of all core modules was completed in July 2009, as was scheduled, and was within the established budget parameters. The student module was the focus for fiscal year 2010. This was the first academic year for this module, which included web registration, online grade submission and student advising.

With the implementation of all core modules complete, the ERP system is now the primary administrative system and serves students, faculty and staff with their daily information and data needs.

- The University entered into a Master Lease-Purchase Agreement in June 2010 for \$1.5 million to fund an electrical generation project. This project will be completed through a partnership with the Tennessee Valley Authority and the Murray Electric System to provide backup power during extended electrical outages.

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Management's Discussion And Analysis (*Continued*)

- The University implemented a major redesign of its self-insured health plan for the calendar year 2010, with a cost of approximately \$700,000. These costs were fully funded through internal reallocations, new funding and savings within the self insurance fund. The costs associated with the plan redesign were funded entirely by the University and did not increase the share of premiums paid by the employees for the calendar year 2010.
- During the 2008-2010 state biennium, the University was authorized for \$1.6 million from the "Bucks for Brains" and "Bucks for Bricks" programs from the Commonwealth of Kentucky. These funds were awarded based on the University's meeting the matching requirements with private funds.
- The University invests approximately 95 percent of its endowment funds with the Murray State University Foundation, Inc. (Foundation). The value of these funds is as follows:

Historical Value	\$16.7 million
Market Value	\$16.3 million

These funds are recovering from the \$1.6 million loss in fiscal year 2009 and experienced an unrealized gain of \$1.1 million in fiscal year 2010. This action allowed for most program spending to remain constant during the fiscal year 2010.

Using the Financial Statements

The University's financial statements consist of Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets, 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 Foundation, a component unit, in accordance with the requirements of GASB Statement No. 39, Determining Whether Certain Organizations are Component Units. Financial statements for this entity consist of Statements of Financial Position and Statements of Activities. These statements are prepared in accordance with the appropriate Financial Accounting Standards Board (FASB) pronouncements. The Murray State University Athletic Foundation, Inc. is also a component unit, but not included due to materiality.

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Management's Discussion And Analysis (*Continued*)

Statement of Net Assets

The Statement of Net Assets present a financial picture of the University's financial condition at the end of the 2010 and 2009 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 declined during the year.

Assets

Total assets at the end of the fiscal year 2010 were \$284.8 million, of which capital assets, net of depreciation, represented the largest portion. Capital assets totaled approximately \$168.9 million or 60 percent of total assets and was primarily comprised of University-owned land, buildings, equipment and library holdings. Cash and cash equivalents amounted to \$72 million or 25.3 percent of total assets. Total assets increased by \$4.4 million during the 2010 fiscal year. This change was due to additional funding of \$2.4 million for the completion of the Science Complex Phase II for the Chemistry Building, \$1.4 million for the Commonwealth's Comprehensive University Endowment Trust, and \$1.5 million of unspent debt proceeds received for the electrical generation project. These increases were offset by a \$600,000 decrease in debt reserve and other bond proceeds funds. Total assets increased by \$18.6 million during the 2009 fiscal year, which was largely due to an increase in capital assets for the final construction of the new Richmond Hall and the Science Complex Phase II for the Chemistry Building.

Liabilities

Total liabilities at the end of the 2010 fiscal year were \$77 million, a decrease of approximately \$3 million. This change was attributable to a \$1.7 million decrease in construction related payables and a net decrease in long-term debt obligations of \$1.4 million.

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Management's Discussion And Analysis (*Continued*)

Total liabilities at the end of the 2009 fiscal year were \$80.1 million, an increase of approximately \$6.7 million. Accounts payable increased by approximately \$900,000 million, primarily due to the increase of expenditures for construction projects. Long-term debt obligations increased \$4.7 million, attributable principally to the sale of General Receipts Series A bonds of \$7.7 million.

Condensed Statements of Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Assets			
Current assets	\$ 64,296,745	\$ 58,856,928	\$ 49,561,624
Noncurrent assets	51,648,832	53,154,960	64,435,741
Capital assets	<u>168,863,008</u>	<u>168,370,809</u>	<u>147,750,180</u>
Total assets	<u>284,808,585</u>	<u>280,382,697</u>	<u>261,747,545</u>
Liabilities			
Current liabilities	20,116,378	21,382,319	19,375,394
Noncurrent liabilities	<u>56,928,021</u>	<u>58,702,356</u>	<u>53,977,396</u>
Total liabilities	<u>77,044,399</u>	<u>80,084,675</u>	<u>73,352,790</u>
Net assets			
Invested in capital assets, net of related debt	114,150,370	112,861,206	109,428,719
Restricted for			
Nonexpendable	17,208,049	14,578,960	15,846,751
Expendable			
Scholarships, research, instruction and other	3,172,783	3,426,986	6,331,885
Loans	4,959,202	4,994,850	4,933,509
Capital	15,002,379	18,226,297	11,127,272
Debt service	6,135,826	6,410,405	6,621,719
Unrestricted	<u>47,135,577</u>	<u>39,799,318</u>	<u>34,104,900</u>
Total net assets	<u>\$ 207,764,186</u>	<u>\$ 200,298,022</u>	<u>\$ 188,394,755</u>

Net Assets

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

- o 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 and outstanding balances of borrowings used to finance the purchase or construction of those assets.

MURRAY STATE UNIVERSITY

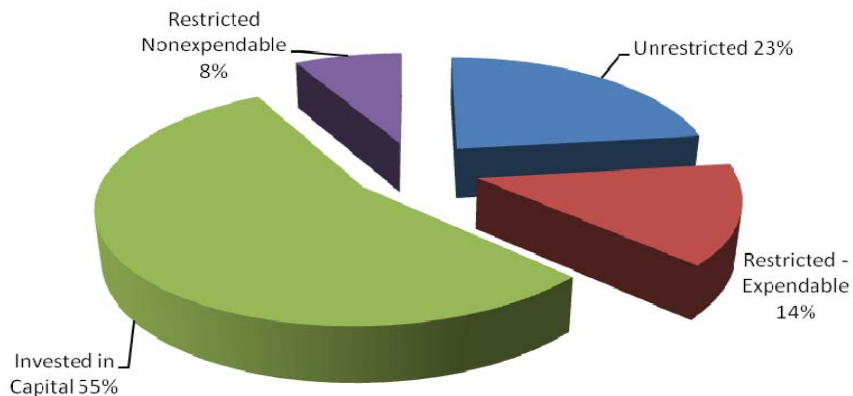
A Component Unit of the Commonwealth of Kentucky

Management's Discussion And Analysis (*Continued*)

- Restricted - This category represents those assets which are subject to externally imposed restrictions governing their use and includes classifications of nonexpendable and expendable.
 - Restricted nonexpendable net assets - Restricted nonexpendable net assets consist solely of permanent endowments owned by the University. The corpus, as specified by the donor, is invested in perpetuity and may not be expended.
 - Restricted expendable net assets - Restricted expendable net assets consist of those assets that may be expended by the University, but must be spent for purposes as defined by the donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- Unrestricted - This category represents the net assets held by the University that have no formal restrictions. 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:

University Net Assets at June 30, 2010



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.

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A Component Unit of the Commonwealth of Kentucky

Management's Discussion And Analysis (Continued)

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

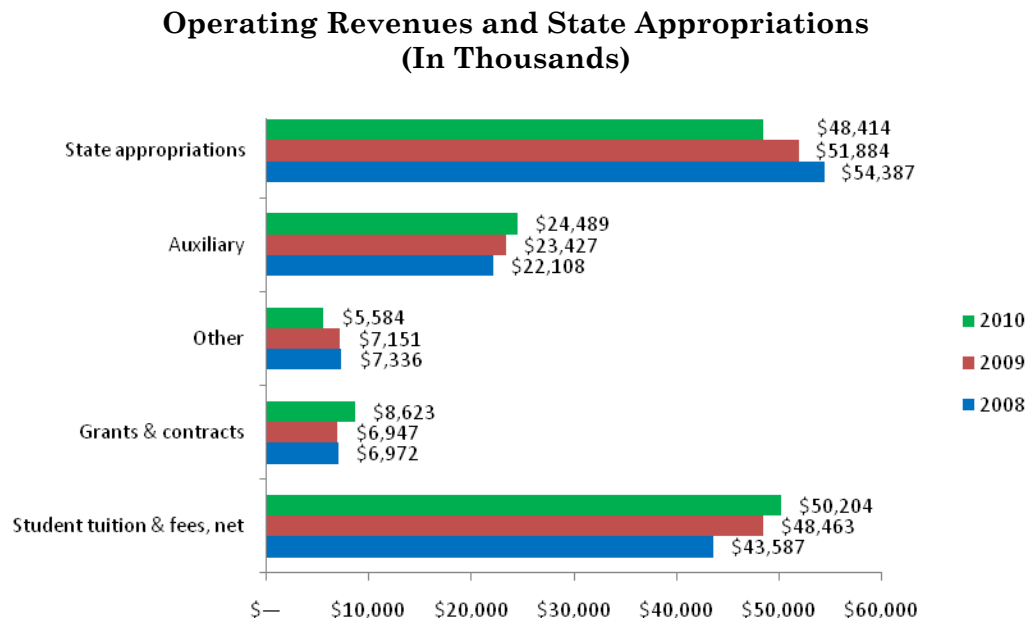
Revenues

Total operating revenues, which exclude state appropriations, for the 2010 fiscal year were \$88.9 million, including student tuition and fees, net of related discounts and allowances, of \$50.2 million, operating grants and contracts revenues of \$8.6 million and auxiliary services net revenue of \$24.5 million.

During 2010, operating revenues increased by \$2.9 million. This increase is comprised primarily of an increase of \$1.7 million from net student tuition and fees and an increase of \$1.1 million of auxiliary revenues.

For 2010, the University received a net of \$48.4 million in 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:



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Management's Discussion And Analysis (*Continued*)

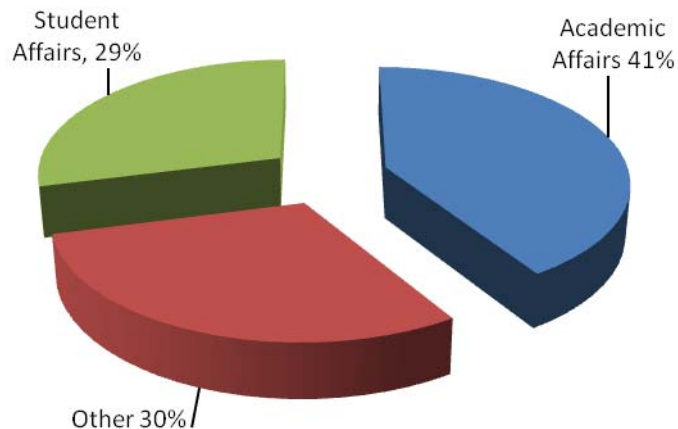
Expenses

Total operating expenses for the 2010 fiscal year were \$161.3 million. Academic affairs, which include instruction, research, libraries and academic support, represent a significant portion of the operating expenses totaling \$66.3 million or 41.1 percent. Student affairs, which include student services, financial aid and auxiliary services, was \$47.1 million or 29.2 percent and other expenses which include public service, institutional support, depreciation and operation and maintenance amounted to \$47.9 million or 29.7 percent. 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, 2010, by \$5.9 million. The primary reasons for increases in operating expenses include \$1.5 million for student services, \$1.5 million for research, \$804,000 for student financial aid and a mid-year salary and fringe benefit increase of \$450,000 applicable to all program categories.

Operating expenses by type are reflected in the following chart:

**University Operating Expenses
Year Ended June 30, 2010**



The net loss from operations for the year ended June 30, 2010, was \$72.4 million. Nonoperating revenues, net of expenses, of \$75.4 million, capital funding not requiring debt of \$3 million, and endowment gifts of \$1.4 million resulted in an increase in net assets of \$7.4 million for the year ended June 30, 2010.

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Management's Discussion And Analysis (*Continued*)

The net loss from operations for the year ended June 30, 2009, was \$69.5 million. Nonoperating revenues, net of expenses, of \$68.3 million and related capital funding not requiring debt of \$13 million, resulted in an increase in net assets of \$11.9 million for the year ended June 30, 2009.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues			
Student tuition and fees, net	\$ 50,203,723	\$ 48,463,181	\$ 43,587,478
Grants and contracts	8,623,357	6,947,397	6,971,862
Other	5,584,326	7,151,361	7,336,292
Auxiliary, net	24,489,161	23,426,783	22,107,883
Total operating revenues	<u>88,900,567</u>	<u>85,988,722</u>	<u>80,003,515</u>
Operating expenses			
Instruction	54,869,706	55,416,671	55,595,539
Other educational and general	77,961,052	72,480,088	69,231,643
Depreciation	7,946,348	8,091,601	7,118,205
Auxiliary enterprises	19,338,893	18,676,811	17,269,537
Auxiliary depreciation	1,201,183	787,325	758,726
Total operating expenses	<u>161,317,182</u>	<u>155,452,496</u>	<u>149,973,650</u>
Operating loss	<u>(72,416,615)</u>	<u>(69,463,774)</u>	<u>(69,970,135)</u>
Nonoperating revenues			
State appropriations	48,413,800	51,884,300	54,386,600
Other nonoperating revenues	27,032,226	16,445,192	22,120,374
Total nonoperating revenues	<u>75,446,026</u>	<u>68,329,492</u>	<u>76,506,974</u>
Other revenues			
State capital appropriations and other	<u>4,436,753</u>	<u>13,037,549</u>	<u>2,678,043</u>
Increase in net assets	7,466,164	11,903,267	9,214,882
Net assets, beginning of year	<u>200,298,022</u>	<u>188,394,755</u>	<u>179,179,873</u>
Net assets, end of year	<u>\$ 207,764,186</u>	<u>\$ 200,298,022</u>	<u>\$ 188,394,755</u>

MURRAY STATE UNIVERSITY

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Management's Discussion And Analysis (*Continued*)

Statements of Cash Flows

The Statements of Cash Flows provide a summary of the sources and uses of cash by defined categories. The principal 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, 2010:

The net cash used in operating activities reflects the net cash used for general operations of the University, which increased by \$3.0 million during 2010.

The cash flows from noncapital financing activities, increased by \$3.6 million during 2010. This change was primarily due to increase in nonoperating grants and contracts received from the federal government for student financial aid.

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, decreased by \$2.8 million during 2010. The majority of this change is due to decreases in the amount of debt issued of \$6 million, state capital project allotments of \$7.1 million for the construction of the Chemistry Building and project expenditures of \$15.9 million, primarily related to the construction of Richmond Hall in 2009.

The cash flows provided by investing activities represent the cash activities of investments, which decreased by \$2.2 million for 2010. This change was primarily due to net investment purchases of \$2.1 million.

For the year ended June 30, 2009:

The net cash used in operating activities reflects the net cash used for general operations of the University, which decreased by approximately \$1 million during 2009.

The cash flows from noncapital financing activities, decreased by \$3.4 million during 2009. This change was due to reductions 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, decreased by \$6.6 million during 2009. The majority of this change is due to a decrease in the amount of debt issued of \$6.8 million, an increase in state capital project allotments of \$11.2 million for the construction of the Chemistry Building and an increase in project expenditures of \$10.4 million, which was primarily related to the construction of Richmond Hall.

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Management's Discussion And Analysis (*Continued*)

The cash flows provided by investing activities represent the cash activities of investments, which decreased by \$800,000 for 2009. This change was primarily due to a decrease in interest receipts on investments of \$2.4 million and an increase in proceeds of \$500,000 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.

Condensed Statements of Cash Flows

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash provided/(used by):			
Operating activities	\$ (64,130,542)	\$ (61,107,523)	\$ (62,104,840)
Noncapital financing activities	74,552,733	70,983,009	74,426,720
Capital and related financing activities	(8,836,940)	(11,612,224)	(5,012,957)
Investing activities	<u>(224,292)</u>	<u>1,943,466</u>	<u>2,758,056</u>
Net increase in cash	<u>1,360,959</u>	<u>206,728</u>	<u>10,066,979</u>
Cash and cash equivalents, beginning of year	<u>70,685,892</u>	<u>70,479,164</u>	<u>60,412,185</u>
Cash and cash equivalents, end of year	<u>\$ 72,046,851</u>	<u>\$ 70,685,892</u>	<u>\$ 70,479,164</u>

Capital Assets and Debt Administration

The University had an \$8 million increase in capital assets during the fiscal year ended June 30, 2010. This change is due to multiple projects, with the largest being \$1.7 million in final construction costs related to the Chemistry Building and Jesse Jones Clock Tower and \$1.9 million for the final costs for the new Richmond Residential College. Capital assets as of June 30, 2010, and changes during the year are as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Net Change</u> <u>2009-10</u>
Land	\$ 9,669,405	\$ 73,209
Construction in progress	4,962,923	(10,183,966)
Museum and collectibles	558,626	6,983
Buildings	246,317,822	15,652,212
Non-building improvements	11,413,220	114,811
Equipment	25,447,996	1,986,933
Software	1,932,019	128,694
Library holdings	30,117,077	445,238
Livestock	541,750	(175,000)
Accumulated depreciation	<u>(162,097,830)</u>	<u>(7,556,915)</u>
Total	<u>\$ 168,863,008</u>	<u>\$ 492,199</u>

MURRAY STATE UNIVERSITY
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Management's Discussion And Analysis (*Continued*)

The University issued new debt of \$1.5 million for energy-saving projects and retired \$2.9 million of long-term debt during the year ended June 30, 2010.

Debt as of June 30, 2010, is summarized below:

	Balance
	June 30, 2010
Housing and Dining System Revenue Bonds	\$ 22,115,000
General Receipts Bonds	21,245,000
Consolidated Educational Buildings Revenue Bonds	720,000
Bond discount	(658,969)
City of Murray	9,400,000
Other (see Notes to Financial Statements 11)	7,090,308
	<hr/>
Total	\$ 59,911,339
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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 nonbuilding 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.

Additional information for Capital Assets and Debt can be found in Notes 7 and 11, respectively, to the financial statements.

Economic Factors Affecting Future Periods

- General state appropriations from the Commonwealth of Kentucky (Commonwealth) remain uncertain at this time. Although there have been recent signs of revenue growth, current projections indicate that total state revenues for fiscal year 2011 will fall slightly short of the amount required to balance the state budget. In addition, it is anticipated that there will be pressure to have moderate tuition rate increases for the next academic year.

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Management's Discussion And Analysis (*Continued*)

- The University requested funding of \$30 million from the Commonwealth of Kentucky in the 2010-12 biennial budget to construct the Engineering/Physics Building. Due to budget constraints in the Commonwealth's biennial budget, construction projects were not funded.
- 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 is currently reviewing options and needs for residential college facilities, including the College Courts complex. These include major renovations and/or replacements and are based on long-term occupancy projections and rental rates.
- 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 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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STATEMENTS OF NET ASSETS
Page 1 of 2

	June 30,	
	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 51,108,665	\$ 45,289,020
Accounts receivable, net	7,746,172	8,594,125
Interest receivable	1,122,437	1,235,443
Inventories	2,278,447	1,960,647
Loans to students, net	784,907	907,352
Prepaid expenses	1,256,117	870,341
Total Current Assets	64,296,745	58,856,928
Noncurrent Assets		
Restricted cash and cash equivalents	20,938,186	25,396,872
Restricted investments	26,824,125	23,343,191
Loans to students, net	3,254,984	3,740,023
Capital assets	330,960,838	322,911,724
Accumulated depreciation	(162,097,830)	(154,540,915)
Debt issuance costs, net	631,537	674,874
Total Noncurrent Assets	220,511,840	221,525,769
Total Assets	\$ 284,808,585	\$ 280,382,697

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF NET ASSETS

Page 2 of 2

	June 30,	
	2010	2009
Liabilities		
Current Liabilities		
Accounts payable	\$ 6,242,549	\$ 7,555,962
Accrued payroll	5,941,385	5,657,894
Self-insured health liability	914,092	805,439
Interest payable	740,057	779,087
Deferred revenue	2,625,541	3,287,876
Deposits - current portion	382,424	345,091
Long-term debt - current portion	3,270,330	2,950,970
Total Current Liabilities	20,116,378	21,382,319
Noncurrent Liabilities		
Deposits	287,011	291,016
Long-term debt	56,641,010	58,411,340
Total Noncurrent Liabilities	56,928,021	58,702,356
Total Liabilities	77,044,399	80,084,675
Net Assets		
Invested in capital assets, net of related debt	114,150,370	112,861,206
Restricted for:		
Nonexpendable:		
Endowment	17,208,049	14,578,960
Expendable:		
Scholarships, research, instruction and other	3,172,783	3,426,986
Loans	4,959,202	4,994,850
Capital projects	15,002,379	18,226,297
Debt service	6,135,826	6,410,405
Unrestricted	47,135,577	39,799,318
Total Net Assets	\$ 207,764,186	\$ 200,298,022

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

Page 1 of 2

Assets

	June 30,	
	2010	2009
Cash and cash equivalents	\$ 2,089,504	\$ 1,288,076
Accounts receivable, net of allowance, none in 2010 and \$18,678 in 2009	24,964	35,040
Accounts receivable - L.D. Miller Trust	307,713	248,248
Accounts receivable, Murray State University	100,223	96,776
Investments	61,437,243	54,558,605
Real estate held for investment	1,385,714	713,414
Prepaid and other current assets	41,364	44,900
Contributions receivable	1,854,168	1,031,101
Note receivable	—	56,229
Property and equipment	3,271,185	3,306,055
Total Assets	\$ 70,512,078	\$ 61,378,444

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

Page 2 of 2

Liabilities And Net Assets

	June 30,	
	2010	2009
Liabilities		
Accounts payable	\$ 135,410	\$ 20,836
Amount due to related parties	405,264	667,679
Accrued expenses	735,755	33,683
Deferred revenue	54,267	38,685
Assets held for others	18,781,839	16,318,575
Capital lease obligation	128,505	48,522
Annuities payable	3,540,468	3,433,252
Refundable advances	417,245	411,388
Total Liabilities	24,198,753	20,972,620
Net Assets		
Unrestricted	6,729,482	5,900,311
Temporarily restricted	8,697,340	5,850,353
Permanently restricted	30,886,503	28,655,160
Total Net Assets	46,313,325	40,405,824
Total Liabilities And Net Assets	\$ 70,512,078	\$ 61,378,444

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Page 1 of 2

	For The Years Ended June 30,	
	2010	2009
Operating Revenues		
Tuition and fees	\$ 79,677,614	\$ 78,206,406
Less: Discounts and allowances	(29,473,891)	(29,743,225)
Net tuition and fees	50,203,723	48,463,181
Federal grants and contracts	6,168,646	4,687,137
State grants and contracts	2,008,201	1,811,712
Private grants and contracts	446,510	448,548
Total grants and contracts	8,623,357	6,947,397
Sales and services of educational activities	3,722,111	5,037,129
Other operating revenues	1,862,215	2,114,232
Total sales, services, and other revenues	5,584,326	7,151,361
Auxiliary enterprises revenue (Revenues are pledged as security for the Housing and Dining Revenue System Bonds Series L - Q)	25,171,922	24,245,278
Less: Discounts and allowances	(682,761)	(818,495)
Net auxiliary revenue	24,489,161	23,426,783
Total Operating Revenues	88,900,567	85,988,722
Operating Expenses		
Instruction	54,869,706	55,416,671
Research	2,979,396	1,517,552
Public service	7,903,517	7,250,703
Libraries	1,926,024	2,255,357
Academic support	6,512,991	6,729,684
Student services	15,649,254	14,129,154
Institutional support	15,255,014	14,451,519
Operation and maintenance of plant	16,837,243	16,052,952
Student financial aid	10,897,613	10,093,167
Depreciation	7,946,348	8,091,601
Auxiliary enterprises	19,338,893	18,676,811
Auxiliary depreciation	1,201,183	787,325
Total Operating Expenses	161,317,182	155,452,496
Operating Loss	\$ (72,416,615)	\$ (69,463,774)

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Page 2 of 2

	For The Years	
	Ended June 30,	
	2010	2009
Nonoperating Revenues (Expenses)		
State appropriations	\$ 48,413,800	\$ 51,884,300
State appropriations - fiscal stabilization funds	3,470,500	—
Restricted student fees (revenues are pledged as security for the City of Murray debt agreement)	642,031	644,137
Federal grants and contracts	13,940,442	9,501,216
State grants and contracts	7,281,791	8,063,120
Local and private grants and contracts	449,599	505,618
Gifts	837,494	886,643
Investment income (loss)	3,204,302	(856,752)
Interest on capital asset-related debt	(2,455,648)	(2,163,383)
Loss on deletion and disposal of capital assets	(257,520)	(62,542)
Bond amortization	(80,765)	(72,865)
Nonoperating Revenues (Expenses), Net	75,446,026	68,329,492
Income (Loss) Before Other Revenues, Expenses		
Gains and Losses	3,029,411	(1,134,282)
State Capital Appropriations	2,412,481	12,818,690
Insurance Proceeds	347,961	16,427
Capital Gifts	230,048	202,432
Additions to Permanent Endowments	1,446,263	—
Change in Net Assets	7,466,164	11,903,267
Net Assets - Beginning of Year	200,298,022	188,394,755
Net Assets - End of Year	\$ 207,764,186	\$ 200,298,022

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES For The Year Ended, June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2010
Revenues, Gains And Other Support				
Contributions	\$ 89,461	\$ 2,729,712	\$ 2,699,122	\$ 5,518,295
Revenues from operations of the Frances E. Miller Memorial Golf Course	511,027	17,877	—	528,904
Fees	314,771	15,583	—	330,354
Investment return	1,947,937	2,998,122	28,671	4,974,730
Other	3,803	236,015	(35,449)	204,369
Change in value of annuities payable	—	—	(461,001)	(461,001)
Net assets released from restrictions	3,150,322	(3,150,322)	—	—
Total Revenues, Gains And Other Support	6,017,321	2,846,987	2,231,343	11,095,651
Expenses And Losses				
Payments made on behalf of Murray State University	3,150,322	—	—	3,150,322
Frances E. Miller Memorial Golf Course	483,948	—	—	483,948
General and administrative	1,553,880	—	—	1,553,880
Total Expenses And Losses	5,188,150	—	—	5,188,150
Change In Net Assets	829,171	2,846,987	2,231,343	5,907,501
Net Assets - Beginning Of Year	5,900,311	5,850,353	28,655,160	40,405,824
Net Assets - End Of Year	\$ 6,729,482	\$ 8,697,340	\$ 30,886,503	\$ 46,313,325

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES For The Year Ended, June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2009
Revenues, Gains And Other Support				
Contributions	\$ 1,771	\$ 1,878,647	\$ 1,676,630	\$ 3,557,048
Revenues from operations of the				
Frances E. Miller Memorial Golf Course	528,299	21,041	—	549,340
Fees	278,572	25,387	—	303,959
Investment return	(2,864,693)	(6,842,067)	31,974	(9,674,786)
Other	79,712	(124,697)	82,578	37,593
Change in value of annuities payable	—	—	(318,947)	(318,947)
Net assets released from restrictions	2,633,125	(2,633,125)	—	—
Total Revenues, Gains And Other Support	656,786	(7,674,814)	1,472,235	(5,545,793)
Expenses And Losses				
Payments made on behalf of Murray State University	2,442,611	—	—	2,442,611
Frances E. Miller Memorial Golf Course	485,868	—	—	485,868
General and administrative	1,052,404	—	—	1,052,404
Total Expenses And Losses	3,980,883	—	—	3,980,883
Change In Net Assets	(3,324,097)	(7,674,814)	1,472,235	(9,526,676)
Net Assets - Beginning Of Year	9,224,408	13,525,167	27,182,925	49,932,500
Net Assets - End Of Year	\$ 5,900,311	\$ 5,850,353	\$ 28,655,160	\$ 40,405,824

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF CASH FLOWS

Page 1 of 2

	For The Years	
	Ended June 30,	
	2010	2009
Cash Flows From Operating Activities		
Tuition and fees	\$ 48,876,561	\$ 48,451,127
Grants and contracts	8,041,778	5,956,742
Payments for salaries, wages and fringes	(88,703,700)	(85,582,289)
Payments to suppliers	(33,206,519)	(31,554,468)
Payments for student financial aid	(10,897,613)	(10,093,167)
Loans issued to employees	(32,661)	(43,579)
Collections of loans to employees	31,868	37,269
Loans issued to students	(214,952)	(718,851)
Collections of loans to students	822,436	674,062
Sales and services of educational activities	4,323,841	4,752,063
Other operating revenues	1,862,415	2,115,722
Auxiliary revenues:		
Food Service	8,839,400	8,331,148
Housing	10,564,836	9,868,352
Bookstore	4,787,547	5,140,776
Other	113,114	208,565
Auxiliary payments:		
Payments for salaries, wages and fringes	(6,629,334)	(6,037,094)
Payments to suppliers	(12,322,801)	(12,145,178)
Payments for student financial aid	(386,758)	(468,723)
Net Cash Used in Operating Activities	(64,130,542)	(61,107,523)
Cash Flows From Noncapital Financing Activities		
State appropriations	48,413,800	51,884,300
State endowment match	1,446,263	—
Endowment proceeds forwarded to MSU Foundation for investment	(1,417,763)	—
Grants and contracts	25,142,332	18,069,954
Endowment income	303,422	323,783
Gifts for other than capital purposes	641,657	694,764
Agency transactions	23,022	10,208
Net Cash Provided by Noncapital Financing Activities	74,552,733	70,983,009
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt, net of discount	1,500,000	7,500,000
Restricted student fees pledged for debt service	642,031	644,137
Insurance proceeds	347,961	16,427
State capital appropriations	4,100,274	11,167,753
Purchases of capital assets	(9,941,438)	(25,802,869)
Capital gifts	81,189	146,085
Principal paid on capital debt and leases	(2,995,407)	(2,942,157)
Interest paid on capital debt and leases	(2,571,550)	(2,341,600)
Net Cash Used in Capital and Related Financing Activities	\$ (8,836,940)	\$ (11,612,224)

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF CASH FLOWS

Page 2 of 2

	For The Years Ended June 30,	
	2010	2009
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	\$ 3,750,108	\$ 2,885,813
Purchases of investments	(5,813,279)	(2,171,178)
Interest receipts on investments	1,838,879	1,228,831
Net Cash Provided by (Used in) Investing Activities	(224,292)	1,943,466
Net Increase in Cash and Cash Equivalents	1,360,959	206,728
Cash and Cash Equivalents - Beginning of Year	70,685,892	70,479,164
Cash and Cash Equivalents - End of Year	\$ 72,046,851	\$ 70,685,892
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Cash and cash equivalents	\$ 51,108,665	\$ 45,289,020
Restricted cash and cash equivalents	20,938,186	25,396,872
Total Cash and Cash Equivalents	\$ 72,046,851	\$ 70,685,892
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (72,416,615)	\$ (69,463,774)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	9,147,531	8,878,926
Bad debt	541,163	321,300
Changes in assets and liabilities:		
Accounts and loans receivable, net	(1,021,110)	(1,454,845)
Inventories	(317,800)	104,578
Prepaid expenses	(385,776)	(146,424)
Accounts payable	355,208	(367,306)
Self-insured health liability	108,653	(446,720)
Accrued payroll	283,491	1,632,767
Deposits	35,103	23,168
Deferred revenue	(460,390)	(189,193)
Net Cash Used in Operating Activities	\$ (64,130,542)	\$ (61,107,523)
Supplemental Disclosure of Cash Flow Information		
Gifts of capital assets	\$ 148,859	\$ 56,341
Accounts payable incurred for capital asset purchases	1,218,109	2,572,566
Changes in fair value of investments	1,175,007	(1,370,159)

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

NOTES TO FINANCIAL STATEMENTS
June 30, 2010 And 2009

1. Summary of Significant Accounting Policies

Nature of Operations

Murray State University (University) is a state-supported institution of higher education located in Murray, Kentucky, and is accredited by the Southern Association of Colleges and Schools. The University awards graduate and undergraduate degrees from five colleges and one school and serves a student population of approximately 10,100. The University is a component unit of the Commonwealth of Kentucky and is included in the general purpose financial statements of the Commonwealth.

Reporting Entity

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. (the Foundation) as a discretely presented component unit of the University. The Foundation is a private nonprofit organization that reports under generally accepted accounting principles set forth by FASB standards. 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 Foundation's financial information in the University's financial report for these differences.

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. The University has elected to not apply FASB pronouncements issued after November 30, 1989.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*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 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* and are recognized when all applicable eligibility requirements are met.

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 nonexchange type agreements defined in accordance with GASB No. 33 or in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

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

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

Capital Assets

All capital assets, as defined by University policy, are recorded at cost at the date of acquisition or, if donated, at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to functional expense categories. 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:

Asset	Estimated Life
Buildings	40 years
Nonbuilding 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 \$76,872 and \$367,673 for the years ended June 30, 2010 and 2009, 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 each of the years ended June 30, 2010 and 2009, was \$36,328 and \$33,050, respectively.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*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 Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*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 (excluding Pell and similarly funded federal and state grants for student financial aid) 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, Pell and similarly funding federal and state grants for student financial aid, 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 grants, including federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues, while Pell grants are recorded as 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. Financial aid expense represents payments made to students.

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 Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*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.

2. Accounts Receivable

Accounts receivable as of June 30 consisted of:

	<u>2010</u>	<u>2009</u>
Current accounts receivable:		
Student tuition and fees	\$ 4,217,159	\$ 3,108,290
Grants and contracts	3,234,361	2,897,913
Auxiliary fees	1,084,866	916,300
MSU and Racer Foundations	822,269	1,089,842
Employee computer loans	17,770	16,978
Outside sales	499,364	446,056
State agencies	—	—
Commonwealth of KY – science complex phase III	41,962	1,931,700
Capital construction receivable – vendors	—	444
Allowance for doubtful accounts	(2,171,579)	(1,813,398)
Total current accounts receivable	<u>\$ 7,746,172</u>	<u>\$ 8,594,125</u>

3. Inventories

Inventories as of June 30 consisted of:

	<u>2010</u>	<u>2009</u>
University bookstore - resale	\$ 1,726,485	\$ 1,375,918
Physical plant - supplies	440,286	490,624
Food services - resale and supplies	100,777	84,053
Central stores - supplies	10,899	10,052
Total inventories	<u>\$ 2,278,447</u>	<u>\$ 1,960,647</u>

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (Continued)

4. Loans Receivable

Student loans made through the Federal Perkins Loan Program (Program) comprise substantially all of the loans receivable at June 30, 2010 and 2009. 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. The allowance for uncollectible loans at June 30, 2010 and 2009 amounted to \$210,416.

Loans receivable as of June 30 consisted of:

	<u>2010</u>	<u>2009</u>
Current loans receivable:		
University loan programs	\$ 78,480	\$ 79,951
Federal nursing program	84,133	86,075
Federal Perkins program	622,294	741,326
Total current loans receivable, net	<u>784,907</u>	<u>907,352</u>
Noncurrent loans receivable:		
Federal nursing program	356,467	344,970
Federal Perkins program	2,898,517	3,395,053
Total noncurrent loans receivable, net	<u>3,254,984</u>	<u>3,740,023</u>
Total loans receivable, net	<u>\$ 4,039,891</u>	<u>\$ 4,647,375</u>

5. Deposits, Investments and Investment Income (Loss)

Deposits

At June 30, 2010 and 2009, the carrying amounts of the University's bank balances and deposits were \$72,046,851 and \$70,685,892, respectively.

Effective October 3, 2008, the Federal Deposit Insurance Corporation (FDIC) increased its insurance limits on time and savings, as well as demand deposits to \$250,000 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.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (Continued)

The University also maintains cash deposits with the Commonwealth of Kentucky, as overseen by the State Investment Commission (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 three distinct classifications or "pools." The Short-Term Pool consists primarily of General Fund cash balances and provides liquidity for the remaining pools. 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 other than compliance with the provisions of state law.

Cash and cash equivalents as of June 30 consisted of:

	<u>2010</u>	<u>2009</u>
Depository accounts:		
Local bank deposits, collateral held as a pledge in the University's name	\$ 13,142,865	\$ 6,570,328
Cash on hand	71,422	81,051
Foreign currency deposits	142,739	401,859
State Investment Pool - collateral required by KRS 41.240	<u>58,689,825</u>	<u>63,632,654</u>
Total deposits	<u>\$ 72,046,851</u>	<u>\$ 70,685,892</u>

Cash and cash equivalents as presented in the balance sheet captions as of June 30 include:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents, current	\$ 51,108,665	\$ 45,289,020
Restricted cash and cash equivalents	<u>20,938,186</u>	<u>25,396,872</u>
Total deposits	<u>\$ 72,046,851</u>	<u>\$ 70,685,892</u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

Investments

Investments carried at fair value as of June 30 consisted of:

	<u>2010</u>	<u>2009</u>
Money market funds restricted for capital purposes	\$ 8,901,189	\$ 7,730,488
Restricted assets held by the Foundation	<u>17,922,936</u>	<u>15,612,703</u>
Total investments	<u>\$ 26,824,125</u>	<u>\$ 23,343,191</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 state endowment matching funds. These consist of endowment funds, as well as expendable restricted funds. Assets held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

The assets in the Foundation investment pool are invested as of June 30 as follows:

	<u>2010</u>	<u>2009</u>
Percentage of pool invested in:		
Mutual funds in equity securities	55 %	56 %
Mutual funds in fixed income securities	45	41
Other	<u>—</u>	<u>3</u>
Total investments	<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 investments with a maturity of less than one year because they are redeemable in full immediately. In addition, the funds held in the State Investment Pool have a maturity of less than one year because they are redeemable in full immediately.

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

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. Credit ratings for the money market mutual funds and State Investment Pool are not available and are therefore, considered unrated.

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 (Loss)

Investment income (loss) for the years ended June 30 consisted of:

	<u>2010</u>	<u>2009</u>
Assets held by the University:		
Interest income	\$ 1,717,368	\$ 2,555,474
Assets held by MSU Foundation:		
Investment income restricted reserve funds	4,432	2,218
Investment income (loss) endowment funds	307,495	(1,028,965)
Net decrease in fair value of restricted reserve investments	—	(1,015,320)
Net increase (decrease) in fair value of endowment investments	<u>1,175,007</u>	<u>(1,370,159)</u>
Total investment income (loss)	<u>\$ 3,204,302</u>	<u>\$ (856,752)</u>

6. Endowments

Changes in endowment assets for the years ended June 30 are as follows:

	<u>2010</u>	<u>2009</u>
Endowment assets, beginning of year	<u>\$ 14,578,960</u>	<u>\$ 15,846,751</u>
Investment return		
Investment income	—	2,218
Net appreciation (depreciation)	<u>1,175,007</u>	<u>(1,370,159)</u>
Total investment return	<u>1,175,007</u>	<u>(1,367,941)</u>
Contributions	<u>1,454,082</u>	<u>100,150</u>
Endowment assets, end of year	<u>\$ 17,208,049</u>	<u>\$ 14,578,960</u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

7. Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2010
Land	\$ 9,596,196	\$ —	\$ 73,229	\$ (20)	\$ 9,669,405
Construction in progress	15,146,889	9,179,895	(17,803,283)	(1,560,578)	4,962,923
Museum and collectibles	551,643	6,983	—	—	558,626
Total capital assets not being depreciated	25,294,728	9,186,878	(17,730,054)	(1,560,598)	15,190,954
Buildings	230,665,610	—	16,657,168	(1,004,956)	246,317,822
Nonbuilding improvements	11,298,409	—	114,811	—	11,413,220
Equipment	23,461,063	1,545,948	829,381	(388,396)	25,447,996
Library holdings	29,671,839	668,756	—	(223,518)	30,117,077
Livestock	716,750	50,000	—	(225,000)	541,750
Software	1,803,325	—	128,694	—	1,932,019
Total other capital assets	297,616,996	2,264,704	17,730,054	(1,841,870)	315,769,884
Total capital assets before depreciation	322,911,724	11,451,582	—	(3,402,468)	330,960,838
Less accumulated depreciation:					
Buildings	106,290,726	5,745,275	—	(947,154)	111,088,847
Improvements other than buildings	6,114,856	527,830	—	—	6,642,686
Equipment	18,014,232	1,593,004	—	(374,036)	19,233,200
Library holdings	23,721,169	995,607	—	(212,343)	24,504,433
Livestock	174,516	44,313	—	(57,083)	161,746
Software	225,416	241,502	—	—	466,918
Total accumulated depreciation	154,540,915	9,147,531	—	(1,590,616)	162,097,830
Capital assets, net	\$ 168,370,809				\$ 168,863,008

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance June 30, 2008	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2009
Land	\$ 8,596,196	\$ —	\$ 1,000,000	\$ —	\$ 9,596,196
Construction in progress	19,008,886	29,426,243	(31,555,555)	(1,732,685)	15,146,889
Museum and collectibles	532,393	19,250	—	—	551,643
Total capital assets not being depreciated	28,137,475	29,445,493	(30,555,555)	(1,732,685)	25,294,728
Buildings	203,089,003	—	27,799,527	(222,920)	230,665,610
Nonbuilding improvements	10,345,706	—	952,703	—	11,298,409
Equipment	22,451,164	1,009,899	—	—	23,461,063
Library holdings	29,008,765	841,794	—	(178,720)	29,671,839
Livestock	726,750	—	—	(10,000)	716,750
Software	—	—	1,803,325	—	1,803,325
Total other capital assets	265,621,388	1,851,693	30,555,555	(411,640)	297,616,996
Total capital assets before depreciation	293,758,863	31,297,186	—	(2,144,325)	322,911,724
Less accumulated depreciation:					
Buildings	100,977,395	5,490,278	—	(176,947)	106,290,726
Improvements other than buildings	5,569,524	545,332	—	—	6,114,856
Equipment	16,488,974	1,523,554	—	1,704	18,014,232
Library holdings	22,851,336	1,039,617	—	(169,784)	23,721,169
Livestock	121,454	54,729	—	(1,667)	174,516
Software	—	225,416	—	—	225,416
Total accumulated depreciation	146,008,683	8,878,926	—	(346,694)	154,540,915
Capital assets, net	\$ 147,750,180				\$ 168,370,809

8. Accounts Payable

Accounts payable at June 30 consisted of:

	2010	2009
Current accounts payable:		
Vendors	\$ 4,496,488	\$ 6,111,251
Payroll benefits and withholdings	1,640,615	1,322,183
MSU Foundation	94,181	65,426
Loans	11,265	57,102
Total accounts payable	\$ 6,242,549	\$ 7,555,962

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (*Continued*)

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. Employees who join KTRS after July 1, 2008, contribute 6.16% of their salary plus an additional 1% (nonrefundable) for the medical insurance fund for a total of 7.16%, and the University also contributes 14.84% 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, 2010, 2009 and 2008, were \$4,402,970, \$4,570,119 and \$4,180,478, 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 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.

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (*Continued*)

Funding of the plan is from eligible employees who contribute 5% of their salary through payroll deductions and the University, which also contributes 11.61% of current eligible employees' salaries to the nonhazardous KERS fund. Additionally, nonhazardous employees who began participating with KERS on or after September 1, 2008, contribute a total of 6%, consisting of 5% credited to the member's account, plus 1% to be deposited to the KRS insurance fund. Employees covered by the hazardous KERS fund contribute 8% of gross salary and the University contributes 24.69% of gross salaries. Hazardous employees who began participating with KERS on or after September 1, 2008, contribute a total of 9% of gross salary, with 8% credited to the member's account and 1% deposited to the KRS insurance fund. 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, 2010, 2009 and 2008, were \$1,843,849, \$1,662,025 and \$1,368,904, 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, 2010, the University paid approximately 93% of total plan expenses for permanent full-time employees and their families. The University's contribution to cover claims paid under the plan for years ended June 30, 2010 and 2009, totaled \$7,185,732 and \$5,272,538, respectively. Stop loss and administrative fees are disclosed in the chart below. The University's stop-loss insurance limits its exposure for claims to \$100,000 per individual.

Changes in the liability for self insurance for the years ended June 30 are as follows:

	<u>2010</u>	<u>2009</u>
Liability, beginning of year	\$ 805,439	\$ 1,252,159
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	8,638,963	6,761,123
Administrative and stop-loss fees	(842,123)	(966,974)
Claims paid	<u>(7,688,187)</u>	<u>(6,240,869)</u>
Liability, end of year	<u>\$ 914,092</u>	<u>\$ 805,439</u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

10. Deferred Revenue

Deferred revenue as of June 30 consisted of:

	<u>2010</u>	<u>2009</u>
Current deferred revenue:		
Prepaid tuition and fees	\$ 1,854,427	\$ 1,860,077
International studies programs	—	555,311
Grants and contracts	752,742	610,853
Auxiliary enterprises	—	41,318
Capital state appropriations	18,372	220,317
	<u>18,372</u>	<u>220,317</u>
Total current deferred revenue	<u>\$ 2,625,541</u>	<u>\$ 3,287,876</u>

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, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Long-Term Portion</u>
Bonds payable	\$ 45,980,000	\$ —	\$ (1,900,000)	\$ 44,080,000	\$ 2,280,000	\$ 41,800,000
Less bond discounts	(703,405)	—	44,437	(658,968)	(44,437)	(614,531)
Bonds payable, net of discounts	45,276,595	—	(1,855,563)	43,421,032	2,235,563	41,185,469
City of Murray payable	9,550,000	—	(150,000)	9,400,000	165,000	9,235,000
Master lease notes payable	5,282,715	1,500,000	(714,407)	6,068,308	745,767	5,322,541
Capital leases	1,253,000	—	(231,000)	1,022,000	124,000	898,000
	<u>1,253,000</u>	<u>—</u>	<u>(231,000)</u>	<u>1,022,000</u>	<u>124,000</u>	<u>898,000</u>
Total bonds, notes and capital leases	<u>\$ 61,362,310</u>	<u>\$ 1,500,000</u>	<u>\$ (2,950,970)</u>	<u>\$ 59,911,340</u>	<u>\$ 3,270,330</u>	<u>\$ 56,641,010</u>

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2009:

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Notes To Financial Statements (Continued)

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year	Long-Term Portion
Bonds payable	\$ 40,345,000	\$ 7,665,000	\$ (2,030,000)	\$ 45,980,000	\$ 1,900,000	\$ 44,080,000
Less bond discounts	(650,781)	(92,439)	39,815	(703,405)	(44,437)	(658,968)
Bonds payable, net of discounts	39,694,219	7,572,561	(1,990,185)	45,276,595	1,855,563	43,421,032
City of Murray payable	9,685,000	—	(135,000)	9,550,000	150,000	9,400,000
Master lease notes payable	6,059,870	—	(777,155)	5,282,715	714,407	4,568,308
Capital leases	1,253,000	—	—	1,253,000	231,000	1,022,000
Total bonds, notes and capital leases	<u>\$ 56,692,089</u>	<u>\$ 7,572,561</u>	<u>\$ (2,902,340)</u>	<u>\$ 61,362,310</u>	<u>\$ 2,950,970</u>	<u>\$ 58,411,340</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
2011	\$	2,280,000	\$ 1,034,767	\$ 3,314,767	\$ 2,496,548	\$ 5,811,315
2012		2,360,000	1,072,079	3,432,079	2,369,702	5,801,781
2013		2,080,000	1,126,942	3,206,942	2,236,560	5,443,502
2014		2,160,000	1,182,850	3,342,850	2,109,833	5,452,683
2015		2,240,000	1,240,843	3,480,843	1,976,147	5,456,990
2016-2020		12,545,000	4,022,827	16,567,827	7,735,639	24,303,466
2021-2025		11,980,000	2,150,000	14,130,000	4,579,520	18,709,520
2026-2030		8,435,000	2,705,000	11,140,000	1,488,109	12,628,109
2031-2033		—	1,955,000	1,955,000	162,789	2,117,789
Total	\$	<u>44,080,000</u>	<u>\$ 16,490,308</u>	<u>\$ 60,570,308</u>	<u>\$ 25,154,847</u>	<u>\$ 85,725,155</u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (Continued)

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Original Issue	Balance Due June 30, 2010	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2010-2011
Housing and Dining System Revenue				
Bonds Payable				
Series M bonds dated June 1, 1997, with interest from 4.00% to 5.40%; final principal payment due September 1, 2017; Winslow Cafeteria	\$ 825,000	\$ 430,000	\$ 22,926	\$ 45,000
Series N bonds dated April 1, 1999, with interest from 4.35% to 4.90%; final principal payment due September 1, 2019; fire safety for residence halls	6,370,000	3,860,000	172,101	315,000
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	1,200,000	58,847	75,000
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	1,895,000	67,232	110,000
Series Q bonds dated December 1, 2005, with interest from 4.00% to 4.59%; final principal payment due September 1, 2027; Clark Hall	15,800,000	14,730,000	624,812	570,000
Total housing and dining system revenue bonds payable	<u>\$ 27,105,000</u>	<u>\$ 22,115,000</u>	<u>\$ 945,918</u>	<u>\$ 1,115,000</u>

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Notes To Financial Statements (*Continued*)

	Original Issue	Balance Due June 30, 2010	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2010-2011
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	\$ 2,855,000	\$ 720,000	\$ 35,594	\$ 355,000
General Receipts Bonds Payable				
Series A 2007 bonds dated July 31, 2007, with an interest rate of 4.00% to 4.50%; final principal payment date September 1, 2027; Richmond Hall	\$ 14,550,000	\$ 13,580,000	\$ 591,747	\$ 515,000
Series A 2009 bonds dated April 22, 2009, with an interest rate of 2.50% to 4.20%; final principal payment date September 1, 2028; completion of Richmond Hall and under \$600,000 various projects	7,665,000	7,665,000	263,650	295,000
Total general receipts bonds payable	\$ 22,215,000	\$ 21,245,000	\$ 855,397	\$ 810,000
Bonds payable before discount	\$ 52,175,000	\$ 44,080,000	\$ 1,836,909	\$ 2,280,000
Less bond discount	—	(658,968)	—	(44,437)
Total bonds payable	<u>\$ 52,175,000</u>	<u>\$ 43,421,032</u>	<u>\$ 1,836,909</u>	<u>\$ 2,235,563</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; Wellness Center	\$ 10,000,000	\$ 9,400,000	\$ 439,395	\$ 165,000

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

	Original Issue	Balance Due June 30, 2010	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2010-2011
Master Lease Payable				
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	\$ 16,544	\$ 4,433	\$ 16,544
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	4,551,764	190,664	532,754
Energy savings projects - Master lease dated June 29, 2010, with interest of 2.85%; final principal payment due June 29, 2017	<u>1,500,000</u>	<u>1,500,000</u>	<u>—</u>	<u>196,469</u>
Total master lease payable	<u><u>\$ 10,439,876</u></u>	<u><u>\$ 6,068,308</u></u>	<u><u>\$ 195,097</u></u>	<u><u>\$ 745,767</u></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	\$ 2,200,000	\$ 1,022,000	\$ 61,118	\$ 124,000
Less: Capitalized Interest	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (76,871)</u>	<u>\$ —</u>
Total All Bond Issues, Notes Payable and Capital Leases	<u><u>\$ 74,814,876</u></u>	<u><u>\$ 59,911,340</u></u>	<u><u>\$ 2,455,648</u></u>	<u><u>\$ 3,270,330</u></u>

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, 2010 and 2009, 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:

	2010	2009
Capital lease assets, at cost	\$ 2,200,000	\$ 2,200,000
Less accumulated depreciation	<u>(1,650,000)</u>	<u>(1,595,000)</u>
Net book value	<u><u>\$ 550,000</u></u>	<u><u>\$ 605,000</u></u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

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

<u>Years Ending June 30</u>	<u>Total</u>
2011	\$ 179,030
2012	179,532
2013	179,576
2014	179,179
2015	179,349
2016-2017	<u>358,339</u>
	1,255,005
Less amount representing interest	<u>(233,005)</u>
Present value of capital lease obligations	<u><u>\$ 1,022,000</u></u>

12. Deposits

The deposits held as of June 30 consisted of:

	<u>2010</u>	<u>2009</u>
Current:		
Horse stall rentals	\$ 5,580	\$ 5,380
Racer card declining balances	92,051	93,826
Housing deposits	182,961	167,075
Agency account balances	<u>101,832</u>	<u>78,810</u>
Total current deposits	382,424	345,091
Noncurrent:		
Housing deposits	<u>287,011</u>	<u>291,016</u>
Total deposits	<u><u>\$ 669,435</u></u>	<u><u>\$ 636,107</u></u>

Noncurrent housing deposit additions were \$81,870 and \$183,866 for the years ended June 30, 2010 and 2009, respectively. Noncurrent housing deposit deductions were \$85,875 and \$192,885 for the years ended June 30, 2010 and 2009, respectively.

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

13. Unrestricted Net Assets

The University's designations of unrestricted net assets at June 30 consisted of:

	<u>2010</u>	<u>2009</u>
Unrestricted net assets		
Allocated for:		
Prior year carryovers		
Renovation and maintenance	\$ 2,531,697	\$ 2,725,918
Departmental operations	13,089,360	14,441,179
Encumbrances	620,055	807,896
Working capital	6,586,123	5,386,844
Revenue contingency	2,420,690	2,594,215
General contingency	20,973,560	12,943,266
Self insurance	914,092	900,000
	<u>914,092</u>	<u>900,000</u>
Total unrestricted net assets	<u>\$ 47,135,577</u>	<u>\$ 39,799,318</u>

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, 2010 and 2009, the Foundation made payments of \$3,150,322 and \$2,442,611, respectively, on behalf of the University from restricted sources. Accounts receivable at June 30, 2010 and 2009, from the Foundation were \$405,264 and \$667,679, respectively. Accounts payable to the Foundation as of June 30, 2010 and 2009, 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
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

Significant notes to the Foundation's financial statements are as follows:

a) Investments and Investment Return

Investments at June 30 consisted of:

	<u>2010</u>	<u>2009</u>
Money market mutual funds	\$ 2,580,639	\$ 1,419,192
Certificates of deposit	33,200	283,200
Equity securities	27,888,891	24,617,889
Cash value of life insurance policies	412,459	383,481
Mutual funds	17,015,238	14,996,362
Asset-backed bonds	523,349	427,285
Mortgage-backed bonds	3,859,969	3,856,443
Government bonds	5,644,923	4,025,407
Municipal bonds	464,707	208,765
Corporate bonds	3,013,868	4,340,581
	<u>\$ 61,437,243</u>	<u>\$ 54,558,605</u>

Total investment return is comprised of the following:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 1,468,855	\$ 1,599,017
Realized gains (losses) on investments reported at fair value	2,880	(3,878,456)
Unrealized gains (losses) on investments reported at fair value	3,502,995	(7,395,347)
	<u>\$ 4,974,730</u>	<u>\$ (9,674,786)</u>

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors.

b) Assets Held for Others

Assets held for others represent resources in the possession of, but not under the control of, the Foundation. Assets held for others as of June 30 were as follows:

	<u>2010</u>	<u>2009</u>
Murray State University	\$ 17,922,937	\$ 15,613,869
Murray State University Alumni Association	849,171	694,954
Others	9,731	9,752
	<u>\$ 18,781,839</u>	<u>\$ 16,318,575</u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

c) Annuities and Trusts Payable

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from donors are recorded at fair value on the date of the gift. The Foundation has recorded a liability at June 30, 2010 and 2009, of \$770,750 and \$691,355, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 2% to 7.6%.

The Foundation administers several charitable remainder unitrusts and annuity trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime), either in the form of a percentage of the fair value of the trust's assets (unitrust) or in the form of a specified dollar amount (annuity trust). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the future interest of the Foundation is recorded in the statement of activities as temporarily restricted contributions in the period the trust is established. Assets (investments) held in the charitable remainder trusts are recorded at fair value in the Foundation's statement of financial position. The present value of the estimated future payments were \$2,769,718 and \$2,741,897 at June 30, 2010 and 2009, respectively, which was calculated using discount rates ranging from 5% to 8%, and applicable mortality tables.

d) Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Scholarships	\$ 2,840,592	\$ 101,474
Instruction/institutional support	5,587,453	5,571,537
Chairs and professorships	<u>269,295</u>	<u>177,342</u>
	<u>\$ 8,697,340</u>	<u>\$ 5,850,353</u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

Permanently restricted net assets at June 30 are restricted to:

	<u>2010</u>	<u>2009</u>
Investment in perpetuity, the income of which is expendable to support:		
Scholarships	\$ 24,345,204	\$ 22,512,074
Instruction/institutional support	4,930,290	4,640,656
Chairs and professorships	1,090,326	992,772
Operations of the Golf Course	190,855	190,621
Any activity of the Foundation	329,828	319,037
	<u>\$ 30,886,503</u>	<u>\$ 28,655,160</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

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 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 Racer 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. The Racer Foundation financial statements are not presented in the University's financial statements since they were not material to the University's financial statements.

Accounts receivable from the Racer Foundation was \$417,005 for each of the years ended June 30, 2010 and 2009. Complete financial statements for the Racer Foundation can be obtained from the MSU Athletic Foundation Office, Stewart Stadium, Murray, Kentucky 42071.

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

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (Continued)

Claims and Litigation

The University is a defendant in various lawsuits. It is the opinion of management and its legal counsel, based in part on the doctrine of sovereign immunity and other statutory provisions, that the ultimate outcome of litigation will not have a material effect on the future operations or financial position of the University.

Commitments

The University has outstanding commitments under construction contracts of approximately \$2,185,000 and \$5,658,000 as of June 30, 2010 and 2009, 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.

16. Natural Expense Classifications with Functional Classifications

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

Fund Classification	Year Ended June 30, 2010					
	Natural Classification					
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	\$ 47,499,044	\$ 6,449,637	\$ 136,967	\$ 384,457	\$ 399,601	\$ 54,869,706
Research	1,304,341	1,475,944	6,564	177,744	14,803	2,979,396
Public service	5,591,044	1,835,378	259,975	217,120	—	7,903,517
Libraries	1,411,659	416,625	3	97,737	—	1,926,024
Academic support	4,254,996	1,794,433	229,297	230,586	3,679	6,512,991
Student services	9,487,828	5,927,341	89,196	75,647	69,242	15,649,254
Institutional support	13,981,123	966,682	119,349	161,648	26,212	15,255,014
Operations and maintenance	5,892,669	5,344,467	5,549,321	50,786	—	16,837,243
Financial aid	—	—	—	—	10,897,613	10,897,613
Depreciation	—	7,946,348	—	—	—	7,946,348
Auxiliary	6,629,334	12,298,093	—	24,709	386,757	19,338,893
Auxiliary depreciation	—	1,201,183	—	—	—	1,201,183
Total expenses	\$ 96,052,038	\$ 45,656,131	\$ 6,390,672	\$ 1,420,434	\$ 11,797,907	\$ 161,317,182

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

Fund Classification	Year Ended June 30, 2009					
	Natural Classification					
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	\$ 46,791,401	\$ 7,162,005	\$ 156,852	\$ 930,407	\$ 376,006	\$ 55,416,671
Research	1,049,971	433,294	—	24,896	9,391	1,517,552
Public service	5,146,837	1,653,510	312,279	136,714	1,363	7,250,703
Libraries	1,422,648	736,699	91	95,919	—	2,255,357
Academic support	4,035,910	2,376,899	72,317	243,470	1,088	6,729,684
Student services	8,614,885	5,198,170	99,572	161,331	55,196	14,129,154
Institutional support	13,373,407	629,502	317,301	131,309	—	14,451,519
Operations and maintenance	5,515,043	4,614,556	5,900,958	22,395	—	16,052,952
Financial aid	—	—	—	—	10,093,167	10,093,167
Depreciation	—	8,091,601	—	—	—	8,091,601
Auxiliary	6,062,911	11,890,453	—	254,724	468,723	18,676,811
Auxiliary depreciation	—	787,325	—	—	—	787,325
Total expenses	<u>\$ 92,013,013</u>	<u>\$ 43,574,014</u>	<u>\$ 6,859,370</u>	<u>\$ 2,001,165</u>	<u>\$ 11,004,934</u>	<u>\$ 155,452,496</u>

17. 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 activities of its housing and dining auxiliary enterprise. These bonds will be payable from and will constitute a charge upon the gross revenue to be derived by the University from the operation of its Housing and Dining System. The revenues of the system consist of the gross amount of rentals received by the University for the use and occupancy of the facilities of the housing system and the net income from dining operations. These revenues do not include those generated by the University bookstore.

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*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 – Statements of Net Assets

	<u>2010</u>	<u>2009</u>
Assets		
Current assets	\$ 4,276,905	\$ 3,406,938
Noncurrent assets	7,872,613	7,728,737
Capital assets, net of accumulated depreciation	<u>18,050,111</u>	<u>18,733,204</u>
Total assets	<u>30,199,629</u>	<u>29,868,879</u>
Liabilities		
Current liabilities	569,579	521,916
Noncurrent liabilities	<u>22,366,567</u>	<u>23,424,625</u>
Total liabilities	<u>22,936,146</u>	<u>23,946,541</u>
Net assets		
Invested in capital assets, net of related debt	—	—
Restricted		
Expendable capital	3,179,558	3,277,879
Expendable debt service	4,199,095	3,988,776
Unrestricted	<u>(115,170)</u>	<u>(1,344,317)</u>
Total net assets	<u>\$ 7,263,483</u>	<u>\$ 5,922,338</u>

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

	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 19,483,224	\$ 18,253,933
Operating expenses	(14,350,354)	(13,593,314)
Depreciation expense	<u>(746,641)</u>	<u>(785,827)</u>
Operating income	4,386,229	3,874,792
Nonoperating expenses	<u>(3,045,084)</u>	<u>(2,028,481)</u>
Change in net assets	1,341,145	1,846,311
Net assets, beginning of year	<u>5,922,338</u>	<u>4,076,027</u>
Net assets, end of year	<u>\$ 7,263,483</u>	<u>\$ 5,922,338</u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

Housing and Dining System - Condensed Statements of Cash Flows

	<u>2010</u>	<u>2009</u>
Cash flows from		
Operating activities	\$ 5,011,911	\$ 4,920,377
Noncapital financing activities	(2,225,763)	(1,235,082)
Capital and related financing activities	(2,088,481)	(3,013,561)
Investing activities	<u>121,624</u>	<u>230,786</u>
Net increase in cash	819,291	902,520
Cash, beginning of year	<u>6,023,554</u>	<u>5,121,034</u>
Cash, end of year	<u>\$ 6,842,845</u>	<u>\$ 6,023,554</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.

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Notes To Financial Statements (*Continued*)

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 Statements of Net Assets

	<u>2010</u>	<u>2009</u>
Assets		
Current assets	\$ 105,074	\$ 59,709
Noncurrent assets	1,420,616	1,333,715
Capital assets, net of accumulated depreciation	<u>9,124,945</u>	<u>9,393,660</u>
Total assets	<u>10,650,635</u>	<u>10,787,084</u>
Liabilities		
Current liabilities	54,062	55,173
Noncurrent liabilities	<u>9,400,000</u>	<u>9,550,000</u>
Total liabilities	<u>9,454,062</u>	<u>9,605,173</u>
Net assets		
Invested in capital assets, net of related debt	1,022	131,741
Restricted		
Expendable capital	470,928	457,433
Expendable debt service	625,298	539,313
Unrestricted	<u>99,325</u>	<u>53,424</u>
Total net assets	<u>\$ 1,196,573</u>	<u>\$ 1,181,911</u>

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

	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 60,464	\$ 68,526
Operating expenses	(555,991)	(488,445)
Depreciation expense	<u>(268,715)</u>	<u>(268,715)</u>
Operating loss	(764,242)	(688,634)
Nonoperating revenues	<u>778,904</u>	<u>763,920</u>
Change in net assets	14,662	75,286
Net assets, beginning of year	<u>1,181,911</u>	<u>1,106,625</u>
Net assets, end of year	<u>\$ 1,196,573</u>	<u>\$ 1,181,911</u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (*Continued*)

Wellness Center - Condensed Statements of Cash Flows

	<u>2010</u>	<u>2009</u>
Cash flows from		
Operating activities	\$ (495,527)	\$ (419,919)
Noncapital financing activities	497,161	478,181
Capital and related financing activities	51,525	67,544
Investing activities	<u>91,646</u>	<u>97,616</u>
Net increase in cash	144,805	223,422
Cash, beginning of year	<u>1,099,059</u>	<u>875,637</u>
Cash, end of year	<u><u>\$ 1,243,864</u></u>	<u><u>\$ 1,099,059</u></u>

18. 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.

19. Current Economic Conditions

The current economic environment presents the University with unprecedented circumstances and challenges which, in some cases, have resulted in declines in contributions, governmental support and grant revenue. The financial statements have been prepared using values and information currently available to the University.