
MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE
COMMONWEALTH OF KENTUCKY
FINANCIAL STATEMENTS
JUNE 30, 2011



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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, 2011 and 2010 and for the years 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.

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, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2011, 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 3, 2011

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, 2011. 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 doctoral levels, is composed of five academic colleges, and schools of agriculture and nursing, and contributes to the region and state through related research and public service programs. The University is a charter member of the Ohio Valley Conference and a Division I member of the NCAA. The University serves as a residential, regional university offering core programs in the liberal arts, humanities, sciences and selected high-quality professional programs for approximately 10,300 students. For the 2010-11 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. Forbes has recognized the University for the fourth consecutive year on its 2011 *America's Top Colleges* list. In addition to landing on the "Top Colleges" listing, the University was also designated one of "America's Top 100 Best College Buys." The University has been recognized for the 21st consecutive year as one of the best schools in the country in the 2012 edition of U.S. News & World Report's *America's Best Colleges*. The University was ranked 8th among the top public universities in the South and is the 14th top public university in the nation, in Master's/Comprehensive category. 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 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 \$293.7 million and liabilities of \$73.5 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$220.2 million or 75 percent of total assets. Net assets increased by \$12.4 million from fiscal year 2011 to 2010.
- Fiscal operations were in accordance with the annual operating budget of approximately \$142 million. The University continued to be a strong employer for the region and employed 4,292 individuals, including 570 faculty and 1,211 staff members and 2,511 students. These totals include 1,376 regular and full time faculty and staff.
- Total operating state appropriations for fiscal year 2011 increased by \$1 million. Total funding from the state in appropriations were \$52.8 and \$51.8 million, respectively. These include a supplement from Federal State Fiscal Stabilization Funds of \$2.9 and \$3.5 million each year, respectively.
- The University funded a 4% across-the-board salary increase, effective July 1, 2011, for all employees hired prior to April 1, 2011. Funding for this priority item was from a 5% tuition and fee increase and internal reallocations from instructional areas.
- The campus continued to work on reporting and ongoing maintenance needs of the Enterprise Resource Planning (ERP) system during 2011. The overall project will end in 2012, as the ERP system has been fully integrated into the mainstream functional and technical operations on campus.
- The University entered into a Master Lease-Purchase Agreement in June 2010 for \$1.5 million to fund an electrical generation project. This is being conducted through a partnership with the Tennessee Valley Authority and the Murray Electric System to allow the University to obtain an interruptible (lower) electric rate and to provide backup power during extended electrical outages. This project is expected to be complete in fall 2011.
- 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	\$16.8 million
Market Value	\$17.8 million

These funds experienced an unrealized gain of \$1.3 million in fiscal year 2011. This action allowed for most program spending to remain constant during the fiscal year 2011.

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Management's Discussion And Analysis (*Continued*)

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.

Statements of Net Assets

The Statement of Net Assets present a financial picture of the University's financial condition at the end of the 2011 and 2010 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 2011 were \$293.7 million, of which capital assets, net of depreciation, represented the largest portion. Capital assets totaled approximately \$166.7 million or 58 percent of total assets and were primarily comprised of University-owned land, buildings, equipment, and library holdings. Cash and cash equivalents amounted to \$82.6 million or 28 percent of total assets. Total assets increased by \$8.9 million during the 2011 fiscal year. This increase was due to a \$9.6 million increase in cash and cash equivalents, which included a \$3.1 million gift that is being used for an addition of a basketball practice facility to the CFSB Center.

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Management's Discussion And Analysis (*Continued*)

Total assets increased by \$4.4 million during the 2010. 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.

Liabilities

Total liabilities at the end of the 2011 fiscal year were \$73.5 million, a decrease of approximately \$3.5 million. This change was attributable to a net decrease in long-term debt obligations of \$3.3 million.

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.

Condensed Statements of Net Assets

	June 30, 2011	June 30, 2010	June 30, 2009
Assets			
Current assets	\$ 70,391,760	\$ 64,296,745	\$ 58,856,928
Noncurrent assets	56,588,836	51,648,832	53,154,960
Capital assets	166,678,551	168,863,008	168,370,809
Total assets	293,659,147	284,808,585	280,382,697
Liabilities			
Current liabilities	19,869,294	20,116,378	21,382,319
Noncurrent liabilities	53,614,962	56,928,021	58,702,356
Total liabilities	73,484,256	77,044,399	80,084,675
Net assets			
Invested in capital assets, net of related debt	114,667,161	114,150,370	112,861,206
Restricted for			
Nonexpendable	18,644,438	17,208,049	14,578,960
Expendable			
Scholarships, research, instruction and other	3,984,847	3,172,783	3,426,986
Loans	4,898,234	4,959,202	4,994,850
Capital	17,419,484	15,002,379	18,226,297
Debt service	5,865,932	6,135,826	6,410,405
Unrestricted	54,694,795	47,135,577	39,799,318
Total net assets	\$ 220,174,891	\$ 207,764,186	\$ 200,298,022

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Management's Discussion And Analysis (*Continued*)

Net Assets

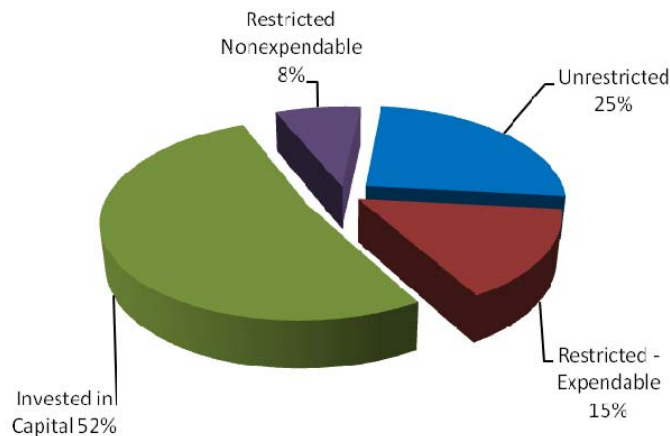
Net assets, which represent total equity, of the University were divided into three major categories, defined as follows:

- Invested in capital assets, net of related debt - This category represents the institution's equity in property, buildings, equipment, library holdings and other plant assets owned by the University, less related depreciation and outstanding balances of borrowings used to finance the purchase or construction of those assets.
- 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, 2011



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Management's Discussion And Analysis (*Continued*)

Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses and Changes in Net Assets, which are generally referred to as the activities statement or income statement, present the revenues earned and expenses incurred and income or loss from operations for the current and prior fiscal years. Activities are reported as either operating or non-operating. Changes in total net assets as presented on the Statements of Net Assets are based on the activity presented in the Statements of Revenues, Expenses and Changes in Net Assets.

The financial statements are prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. A public university's dependency on state appropriations will result in reported operating losses. The Governmental Accounting Standards Board requires state appropriations to be classified as 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 2011 fiscal year were \$93 million, including student tuition and fees, net of related discounts and allowances, of \$48.9 million, operating grants and contracts revenues of \$8 million and auxiliary services net revenue of \$26.2 million.

During 2011, operating revenues increased by \$4.1 million. This increase is comprised primarily of an increase of \$4 million from net student tuition and fees.

For 2011, the University received a net of \$49.9 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.

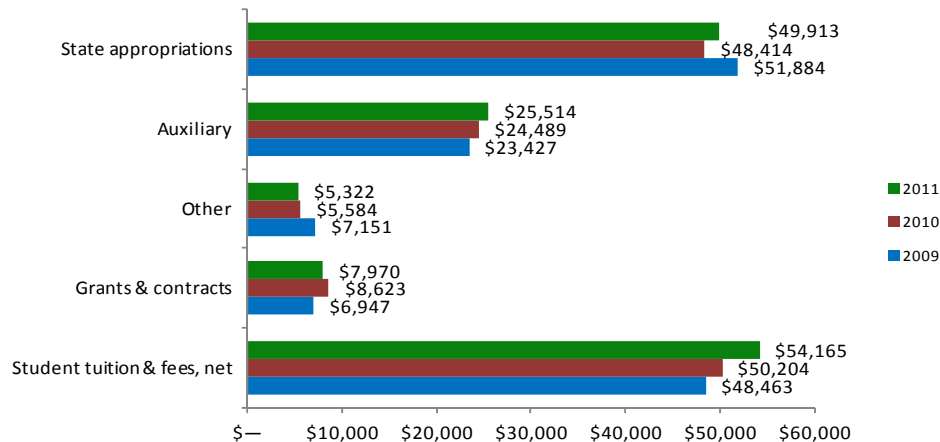
MURRAY STATE UNIVERSITY

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Management's Discussion And Analysis (*Continued*)

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

**Operating Revenues and State Appropriations
(In Thousands)**



Expenses

Total operating expenses for the 2011 fiscal year were \$163.5 million. Academic affairs, which include instruction, research, libraries and academic support, represent a significant portion of the operating expenses totaling \$67.1 million or 41 percent. Student affairs, which include student services, financial aid and auxiliary services, was \$48.3 million or 30 percent and other expenses which include public service, institutional support, depreciation and operation and maintenance amounted to \$48.1 million or 29 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, 2011, by \$2.2 million. The primary reasons for increases in operating expenses include \$1.2 million for libraries, \$900,000 for student financial aid.

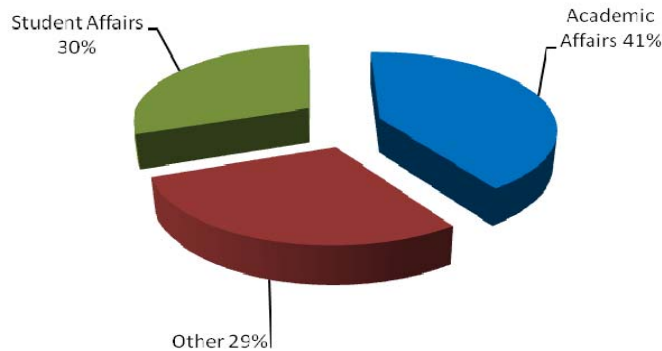
MURRAY STATE UNIVERSITY

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Management's Discussion And Analysis (*Continued*)

Operating expenses by type are reflected in the following chart:

University Operating Expenses Year Ended June 30, 2011



The net loss from operations for the year ended June 30, 2011, was \$70.6 million. Nonoperating revenues, net of expenses, of \$81.7 million, capital funding not requiring debt of \$1.2 million, and endowment gifts of \$87,000 resulted in an increase in net assets of \$12.4 million for the year ended June 30, 2011. The overall increase in net assets of \$12.4 is attributable to an increase in net tuition of \$3.1 million, gifts of \$4.9 million, increases in investment income primarily due to unrealized gains on endowment assets of \$600,000, and increases in federal grants primarily due to increases in Pell Grant awards of \$1.5 million.

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.

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

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues			
Student tuition and fees, net	\$ 54,165,226	\$ 50,203,723	\$ 48,463,181
Grants and contracts	7,969,506	8,623,357	6,947,397
Other	5,321,545	5,584,326	7,151,361
Auxiliary, net	25,514,058	24,489,161	23,426,783
Total operating revenues	<u>92,970,335</u>	<u>88,900,567</u>	<u>85,988,722</u>
Operating expenses			
Instruction	54,224,542	54,869,706	55,416,671
Other educational and general	80,651,327	77,961,052	72,480,088
Depreciation	7,944,588	7,946,348	8,091,601
Auxiliary enterprises	19,439,844	19,338,893	18,676,811
Auxiliary depreciation	1,212,438	1,201,183	787,325
Total operating expenses	<u>163,472,739</u>	<u>161,317,182</u>	<u>155,452,496</u>
Operating loss	<u>(70,502,404)</u>	<u>(72,416,615)</u>	<u>(69,463,774)</u>
Nonoperating revenues			
State appropriations	49,912,700	48,413,800	51,884,300
Other nonoperating revenues	31,683,495	27,032,226	16,445,192
Total nonoperating revenues	<u>81,596,195</u>	<u>75,446,026</u>	<u>68,329,492</u>
Other revenues			
State capital appropriations and other	<u>1,316,914</u>	<u>4,436,753</u>	<u>13,037,549</u>
Increase in net assets	12,410,705	7,466,164	11,903,267
Net assets, beginning of year	<u>207,764,186</u>	<u>200,298,022</u>	<u>188,394,755</u>
Net assets, end of year	<u>\$ 220,174,891</u>	<u>\$ 207,764,186</u>	<u>\$ 200,298,022</u>

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, 2011:

The net cash used in operating activities reflects the net cash used for general operations of the University, which decreased by \$3.6 million during 2011. This decrease was primarily due to increases in net tuition and fees.

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Management's Discussion And Analysis (*Continued*)

The cash flows from noncapital financing activities, increased by \$4 million during 2011. This change was primarily due to gifts of \$3.1 million.

The net cash flows used in capital and related financing activities represent cash used for the acquisition, construction and renovation of capital assets, increased by \$2.3 million during 2011. The majority of this change is due to a \$1.5 million decrease in the amount of debt issued and a \$500,000 net decrease in state capital project allotments and purchases of capital assets related to the construction of the Chemistry Building.

The cash flows provided by investing activities represent the cash activities of investments, which increased by \$3.9 million for 2011. This change was primarily due a decrease in the earnings yield on investments and a \$1.3 million liquidation of an escrow investment to fund the electrical generation project.

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.

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Management's Discussion And Analysis (*Continued*)

Condensed Statements of Cash Flows

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash provided/(used by):			
Operating activities	\$ (60,538,693)	\$ (64,130,542)	\$ (61,107,523)
Noncapital financing activities	78,540,832	74,552,733	70,983,009
Capital and related financing activities	(11,121,319)	(8,836,940)	(11,612,224)
Investing activities	<u>3,689,932</u>	<u>(224,292)</u>	<u>1,943,466</u>
Net increase in cash	<u>10,570,752</u>	<u>1,360,959</u>	<u>206,728</u>
Cash and cash equivalents, beginning of year	<u>72,046,851</u>	<u>70,685,892</u>	<u>70,479,164</u>
Cash and cash equivalents, end of year	<u>\$ 82,617,603</u>	<u>\$ 72,046,851</u>	<u>\$ 70,685,892</u>

Capital Assets and Debt Administration

The University had a \$6.9 million increase in capital assets during the fiscal year ended June 30, 2011. This change is due to multiple projects and capital equipment purchases, with the largest being \$1.4 million for the electrical generation project, \$600,000 for an equine barn, \$300,000 for Carmen Pavilion renovations, \$300,000 for the renovation of first floor of the Applied Science building and capital equipment purchase in all functional areas of \$2.2 million.

Capital assets as of June 30, 2011, and changes during the year are as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Net Change</u> <u>2010-11</u>
Land	\$ 9,825,663	\$ 156,258
Construction in progress	7,661,423	2,698,500
Museum and collectibles	561,577	2,951
Buildings	247,271,737	953,915
Non-building improvements	11,627,126	213,906
Equipment	27,621,306	2,173,310
Software	1,932,019	—
Library holdings	30,253,988	136,911
Livestock	511,750	(30,000)
Accumulated depreciation	<u>(170,588,038)</u>	<u>(8,490,208)</u>
Total	<u>\$ 166,678,551</u>	<u>\$ (2,184,457)</u>

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

The University did not issue any new debt during the year ended June 30, 2011.

Debt as of June 30, 2011, is summarized below:

	Balance June 30, 2011
Housing and Dining System Revenue Bonds	\$ 21,000,000
General Receipts Bonds	20,435,000
Consolidated Educational Buildings Revenue Bonds	365,000
Bond discount	(614,532)
City of Murray	9,235,000
Other (see Notes to Financial Statements 11)	<u>6,220,542</u>
Total	<u>\$ 56,641,010</u>

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

- The 2011 General Fund Revenues picture for the Commonwealth of Kentucky has substantially improved, showing an increase of 6.5% compared to the prior year. At present, revenues are projected to increase by an additional 1.3% in 2012.

There are still uncertainties on the expenditures side, which include funding of the Medicaid program, stabilization of the state pension systems, and any upcoming U.S. congressional action.

From the present vantage point, Kentucky has weathered the recent recession better than most states.

MURRAY STATE UNIVERSITY

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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. This facility remains as the University's top capital project for \$33 million for the 2012-14 biennial capital budget request.
- 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.
- In May 2011, the University approved a Memorandum of Understanding with the McCracken County Fiscal Court, City of Paducah, Kentucky, and the Greater Paducah Economic Development Council (GPEDC) to continue to provide instruction and expanded offerings to meet the needs of the business community and to support economic growth for the region. This agreement will facilitate the construction and funding of a new extended campus facility in Paducah, Kentucky. The McCracken County Fiscal Court plans to fund this project through a \$10 million general obligation bond sale in the winter 2011. Repayment of this debt will be funded from the McCracken County Fiscal Court, City of Paducah, and Murray State University. The University purchased land for this facility in 2008.
- The University is expected to begin construction on an 18,000 square foot basketball practice facility, which will be an addition to the CFSB Center. Funding for this major addition will be a \$3.1 million gift accepted in 2010, \$500,000 of other donor funds restricted for athletic programs and facilities and \$400,000 from other sources for a total project scope of \$4,000,000. A design plan is nearing completion and construction is scheduled to begin in the winter 2011. Substantial completion is scheduled for November 2012.
- The University sold general receipts bonds in July 2011 for \$7.6 million to fund the renovation of Elizabeth Hall. This residential college facility is closed for the 2011-12 academic year for renovation and is expected to open for occupancy for fall 2012.
- The University continues to review options and needs for residential college facilities. These include major renovations and/or replacements and are based on long-term occupancy projections and rental rates.
- The University issued \$20.3 million of general receipts bonds in July 2011 for the refunding of housing and dining bonds series M, N, O, P and Q. This refunding allowed for the university to close the 1965 trust indenture and related supplements under which these bonds were issued. This action removes some of the financial constraints on the housing and dining system required by this trust indenture.

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Management's Discussion And Analysis (*Continued*)

- The University accepted a \$1 million gift in August 2011 for the completion of interior space for the Regional Business and Innovation Center (RBIC). Other funds have been allocated to this project for a total scope of \$1,178,000. The construction work is to begin in January 2012 and is expected to be complete in October 2012.

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,	
	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 57,671,691	\$ 51,108,665
Accounts receivable, net	7,581,543	7,746,172
Interest receivable	1,016,825	1,122,437
Inventories	2,105,688	2,278,447
Loans to students, net	722,487	784,907
Prepaid expenses	1,293,526	1,256,117
Total Current Assets	70,391,760	64,296,745
Noncurrent Assets		
Restricted cash and cash equivalents	24,945,912	20,938,186
Restricted investments	27,714,051	26,824,125
Loans to students, net	3,333,664	3,254,984
Capital assets	337,266,589	330,960,838
Accumulated depreciation	(170,588,038)	(162,097,830)
Debt issuance costs, net	595,209	631,537
Total Noncurrent Assets	223,267,387	220,511,840
Total Assets	\$ 293,659,147	\$ 284,808,585

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF NET ASSETS

Page 2 of 2

	June 30,	
	2011	2010
Liabilities		
Current Liabilities		
Accounts payable	\$ 4,781,238	\$ 6,242,549
Accrued payroll	6,732,420	5,941,385
Self-insured health liability	629,454	914,092
Interest payable	712,613	740,057
Deferred revenue	3,300,024	2,625,541
Deposits - current portion	325,902	382,424
Long-term debt - current portion	3,387,643	3,270,330
Total Current Liabilities	19,869,294	20,116,378
Noncurrent Liabilities		
Deposits	361,595	287,011
Long-term debt	53,253,367	56,641,010
Total Noncurrent Liabilities	53,614,962	56,928,021
Total Liabilities	73,484,256	77,044,399
Net Assets		
Invested in capital assets, net of related debt	114,667,161	114,150,370
Restricted for:		
Nonexpendable:		
Endowment	18,644,438	17,208,049
Expendable:		
Scholarships, research, instruction and other	3,984,847	3,172,783
Loans	4,898,234	4,959,202
Capital projects	17,419,484	15,002,379
Debt service	5,865,932	6,135,826
Unrestricted	54,694,795	47,135,577
Total Net Assets	\$ 220,174,891	\$ 207,764,186

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

Page 1 of 2

Assets

	June 30,	
	2011	2010
Cash and cash equivalents	\$ 6,882,358	\$ 2,089,504
Accounts receivable	708,972	432,900
Investments	68,236,141	61,437,243
Real estate held for investment	213,086	1,385,714
Prepaid and other current assets	56,484	41,364
Contributions receivable, net	2,013,323	1,854,168
Property and equipment	4,689,789	3,271,185
Total Assets	\$ 82,800,153	\$ 70,512,078

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

Page 2 of 2

Liabilities And Net Assets

	June 30,	
	2011	2010
Liabilities		
Accounts payable	\$ 91,594	\$ 135,410
Amount due to related parties	380,416	405,264
Accrued expenses	31,493	735,755
Deferred revenue	42,014	54,267
Assets held for others	21,493,063	18,781,839
Capital lease obligation	215,430	128,505
Annuities payable	4,042,079	3,540,468
Refundable advances	448,761	417,245
Total Liabilities	26,744,850	24,198,753
Net Assets		
Unrestricted	9,712,913	6,729,482
Temporarily restricted	13,025,857	8,697,340
Permanently restricted	33,316,533	30,886,503
Total Net Assets	56,055,303	46,313,325
Total Liabilities And Net Assets	\$ 82,800,153	\$ 70,512,078

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,	
	2011	2010
Operating Revenues		
Tuition and fees	\$ 85,698,929	\$ 79,677,614
Less: Discounts and allowances	(31,533,703)	(29,473,891)
Net tuition and fees	54,165,226	50,203,723
Federal grants and contracts	6,167,534	6,168,646
State grants and contracts	1,428,075	2,008,201
Private grants and contracts	373,897	446,510
Total grants and contracts	7,969,506	8,623,357
Sales and services of educational activities	3,479,692	3,722,111
Other operating revenues	1,841,853	1,862,215
Total sales, services, and other revenues	5,321,545	5,584,326
Auxiliary enterprises revenue (Revenues are pledged as security for the Housing and Dining Revenue System Bonds Series L - Q)	26,182,461	25,171,922
Less: Discounts and allowances	(668,403)	(682,761)
Net auxiliary revenue	25,514,058	24,489,161
Total Operating Revenues	92,970,335	88,900,567
Operating Expenses		
Instruction	54,224,542	54,869,706
Research	3,046,698	2,979,396
Public service	8,193,126	7,903,517
Libraries	3,157,656	1,926,024
Academic support	6,659,091	6,512,991
Student services	16,310,527	15,649,254
Institutional support	15,938,841	15,255,014
Operation and maintenance of plant	15,635,782	16,837,243
Student financial aid	11,709,606	10,897,613
Depreciation	7,944,588	7,946,348
Auxiliary enterprises	19,439,844	19,338,893
Auxiliary depreciation	1,212,438	1,201,183
Total Operating Expenses	163,472,739	161,317,182
Operating Loss	(70,502,404)	(72,416,615)

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,	
	2011	2010
Nonoperating Revenues (Expenses)		
State appropriations	\$ 49,912,700	\$ 48,413,800
State appropriations - fiscal stabilization funds	2,885,600	3,470,500
Restricted student fees (revenues are pledged as security for the City of Murray debt agreement)	656,313	642,031
Federal grants and contracts	15,446,860	13,940,442
State grants and contracts	6,045,573	7,281,791
Local and private grants and contracts	444,551	449,599
Gifts	4,905,444	837,494
Investment income	3,767,864	3,204,302
Interest on capital asset-related debt	(2,304,859)	(2,455,648)
Loss on deletion and disposal of capital assets	(83,086)	(257,520)
Bond amortization	(80,765)	(80,765)
Nonoperating Revenues (Expenses), Net	81,596,195	75,446,026
Income Before Other Revenues, Expenses		
Gains and Losses	11,093,791	3,029,411
State Capital Appropriations	725,304	2,412,481
Insurance Proceeds	43,930	347,961
Capital Gifts	456,844	230,048
Additions to Permanent Endowments	90,836	1,446,263
Change in Net Assets	12,410,705	7,466,164
Net Assets - Beginning Of Year	207,764,186	200,298,022
Net Assets - End Of Year	\$ 220,174,891	\$ 207,764,186

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES For The Year Ended, June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2011
Revenues, Gains And Other Support				
Contributions	\$ 1,020,163	\$ 1,853,519	\$ 2,511,312	\$ 5,384,994
Revenues from operations of the Frances E. Miller Memorial Golf Course	542,128	23,936	—	566,064
Fees	583,198	13,032	—	596,230
Investment return	2,565,875	4,882,461	46,791	7,495,127
Other	37,428	338,885	(330,655)	45,658
Change in value of annuities payable	—	—	202,582	202,582
Net assets released from restrictions	2,783,316	(2,783,316)	—	—
Total Revenues, Gains And Other Support	7,532,108	4,328,517	2,430,030	14,290,655
Expenses And Losses				
Payments made on behalf of Murray State University	2,787,803	—	—	2,787,803
Frances E. Miller Memorial Golf Course	450,337	—	—	450,337
General and administrative	1,310,537	—	—	1,310,537
Total Expenses And Losses	4,548,677	—	—	4,548,677
Change In Net Assets	2,983,431	4,328,517	2,430,030	9,741,978
Net Assets - Beginning Of Year	6,729,482	8,697,340	30,886,503	46,313,325
Net Assets - End Of Year	\$ 9,712,913	\$ 13,025,857	\$ 33,316,533	\$ 56,055,303

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
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF CASH FLOWS

Page 1 of 2

	For The Years Ended June 30,	
	2011	2010
Cash Flows From Operating Activities		
Tuition and fees	\$ 53,875,186	\$ 48,876,561
Grants and contracts	9,540,845	8,041,778
Payments for salaries, wages and fringes	(91,329,350)	(88,703,700)
Payments to suppliers	(31,826,258)	(33,206,519)
Payments for student financial aid	(11,709,606)	(10,897,613)
Loans issued to employees	(41,215)	(32,661)
Collections of loans to employees	39,508	31,868
Loans issued to students	(811,031)	(214,952)
Collections of loans to students	794,771	822,436
Sales and services of educational activities	3,009,231	4,323,841
Other operating revenues	1,844,013	1,862,415
Auxiliary revenues:		
Food Service	9,562,428	8,839,400
Housing	11,002,685	10,564,836
Bookstore	4,743,835	4,787,547
Other	206,109	113,114
Auxiliary payments:		
Payments for salaries, wages and fringes	(6,660,415)	(6,629,334)
Payments to suppliers	(12,405,135)	(12,322,801)
Payments for student financial aid	(374,294)	(386,758)
Net Cash Used in Operating Activities	(60,538,693)	(64,130,542)
Cash Flows From Noncapital Financing Activities		
State appropriations	49,912,700	48,413,800
State endowment match	89,993	1,446,263
Endowment proceeds forwarded to		
MSU Foundation for investment	(1,133,650)	(1,417,763)
Grants and contracts	24,822,584	25,142,332
Endowment income	428,111	303,422
Gifts for other than capital purposes	4,416,585	641,657
Agency transactions	4,509	23,022
Net Cash Provided by Noncapital Financing Activities	78,540,832	74,552,733
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt, net of discount	—	1,500,000
Restricted student fees pledged for debt service	656,313	642,031
Insurance proceeds	43,930	347,961
State capital appropriations	765,679	4,100,274
Purchases of capital assets	(7,061,872)	(9,941,438)
Capital gifts	289,129	81,189
Principal paid on capital debt and leases	(3,314,766)	(2,995,407)
Interest paid on capital debt and leases	(2,499,732)	(2,571,550)
Net Cash Used in Capital and Related Financing Activities	\$ (11,121,319)	\$ (8,836,940)

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,	
	2011	2010
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	\$ 2,322,421	\$ 3,750,108
Purchases of investments	(734,914)	(5,813,279)
Interest receipts on investments	2,102,425	1,838,879
Net Cash Provided by (Used in) Investing Activities	3,689,932	(224,292)
Net Increase in Cash and Cash Equivalents	10,570,752	1,360,959
Cash and Cash Equivalents - Beginning of Year	72,046,851	70,685,892
Cash and Cash Equivalents - End of Year	\$ 82,617,603	\$ 72,046,851
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Cash and cash equivalents	\$ 57,671,691	\$ 51,108,665
Restricted cash and cash equivalents	24,945,912	20,938,186
Total Cash and Cash Equivalents	\$ 82,617,603	\$ 72,046,851
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (70,502,404)	\$ (72,416,615)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	9,157,026	9,147,531
Bad debt	815,059	541,163
Changes in assets and liabilities:		
Accounts and loans receivable, net	(862,978)	(1,021,110)
Inventories	172,759	(317,800)
Prepaid expenses	(37,409)	(385,776)
Accounts payable	(476,766)	355,208
Self-insured health liability	(284,638)	108,653
Accrued payroll	791,035	283,491
Deposits	13,553	35,103
Deferred revenue	676,070	(460,390)
Net Cash Used in Operating Activities	\$ (60,538,693)	\$ (64,130,542)
Supplemental Disclosure of Cash Flow Information		
Gifts of capital assets	\$ 167,175	\$ 148,859
Accounts payable incurred for capital asset purchases	193,807	1,218,109
Changes in fair value of investments	1,342,940	1,175,007

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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 two schools and serves a student population of approximately 10,300. The University is a component unit of the Commonwealth of Kentucky and is included in the general purpose financial statements of the Commonwealth.

Reporting Entity

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement 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 Financial Accounting Standards Board (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 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 \$167,429 and \$76,872 for the years ended June 30, 2011 and 2010, 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 acquisition rather than capitalized.

Debt Issuance Costs

Debt issuance costs incurred have been deferred and are being amortized over the life of the related debt using the straight-line method. Total amortization expense for each of the years ended June 30, 2011 and 2010, was \$36,328.

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 are expected to be realized as paid time off or used to purchase service credits upon retirement. These are recognized as expense when the time off occurs or when service credit payments are incurred. 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) federal, state and local grants and contracts (excluding Pell and similarly funded federal and state grants for student financial aid) and (3) sales and services of auxiliary enterprises, net of discounts and allowances.

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, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities – an Amendment of GASB Statement 34*.

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>2011</u>	<u>2010</u>
Current accounts receivable:		
Student tuition and fees	\$ 4,912,314	\$ 4,217,159
Grants and contracts	2,297,071	3,234,361
Auxiliary fees	1,200,424	1,084,866
MSU and Racer Foundations	794,379	822,269
Employee computer and bicycle loans	19,478	17,770
Outside sales	994,672	499,364
Commonwealth of KY - science complex phase III	—	41,962
Allowance for doubtful accounts	<u>(2,636,795)</u>	<u>(2,171,579)</u>
Total current accounts receivable	<u>\$ 7,581,543</u>	<u>\$ 7,746,172</u>

3. Inventories

Inventories as of June 30 consisted of:

	<u>2011</u>	<u>2010</u>
University bookstore - resale	\$ 1,554,297	\$ 1,726,485
Physical plant - supplies	348,804	440,286
Food services - resale and supplies	135,267	100,777
Art	44,135	—
CFSB concessions	10,116	—
Central stores - supplies	<u>13,069</u>	<u>10,899</u>
Total inventories	<u>\$ 2,105,688</u>	<u>\$ 2,278,447</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, 2011 and 2010. 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, 2011 and 2010 was \$214,302 and \$210,416, respectively.

Loans receivable as of June 30 consisted of:

	<u>2011</u>	<u>2010</u>
Current loans receivable:		
University loan programs	\$ 46,380	\$ 78,480
Federal nursing program	70,938	84,133
Federal Perkins program	605,169	622,294
Total current loans receivable, net	<u>722,487</u>	<u>784,907</u>
Noncurrent loans receivable:		
Federal nursing program	297,466	356,467
Federal Perkins program	3,036,198	2,898,517
Total noncurrent loans receivable, net	<u>3,333,664</u>	<u>3,254,984</u>
Total loans receivable, net	<u>\$ 4,056,151</u>	<u>\$ 4,039,891</u>

5. Deposits, Investments and Investment Income (Loss)

Deposits

At June 30, 2011 and 2010, the carrying amounts of the University's bank balances and deposits were \$82,617,603 and \$72,046,851, 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. The University maintains its deposits in interest bearing accounts and 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

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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 two distinct classifications or "pools." The Short-Term Pool consists primarily of General Fund cash balances and provides liquidity for the remaining pools. The Intermediate-Term Pool represents Agency fund investments, state held component unit and fiduciary fund accounts held for the benefit of others by the state. Shares of each pool represent a divisible interest in the underlying securities and are not federally insured or guaranteed by the U.S. Government, Federal Deposit Insurance Corporation or any federal agency. 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>2011</u>	<u>2010</u>
Depository accounts:		
Local bank deposits, collateral held as a pledge in the University's name	\$ 8,022,173	\$ 13,142,865
Cash on hand (overdraft)	53,433	71,422
Foreign currency deposits	44,932	142,739
State Investment Pool - collateral required by KRS 41.240	<u>74,497,065</u>	<u>58,689,825</u>
Total deposits	<u>\$ 82,617,603</u>	<u>\$ 72,046,851</u>

Cash and cash equivalents as presented in the statements of net assets captions as of June 30 include:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents, current	\$ 57,671,691	\$ 51,108,665
Restricted cash and cash equivalents	<u>24,945,912</u>	<u>20,938,186</u>
Total deposits	<u>\$ 82,617,603</u>	<u>\$ 72,046,851</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>2011</u>	<u>2010</u>
Money market funds restricted for capital purposes	\$ 7,313,681	\$ 8,901,188
Restricted assets held by the Foundation	<u>20,400,370</u>	<u>17,922,937</u>
Total investments	<u>\$ 27,714,051</u>	<u>\$ 26,824,125</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>2011</u>	<u>2010</u>
Percentage of pool invested in:		
Certificates of deposit and money market mutual funds	3%	4%
Mutual funds	29%	28%
Equity securities	47%	45%
Fixed income securities	20%	22%
Other	<u>1%</u>	<u>1%</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.

Investment Income

Investment income for the years ended June 30 consisted of:

	<u>2011</u>	<u>2010</u>
Assets held by the University:		
Interest income	\$ 1,033,762	\$ 1,717,368
Assets held by MSU Foundation:		
Investment income restricted reserve funds	2,613	4,432
Investment income endowment funds	1,388,549	307,495
Net increase in fair value of endowment investments	<u>1,342,940</u>	<u>1,175,007</u>
Total investment income	<u>\$ 3,767,864</u>	<u>\$ 3,204,302</u>

6. Endowments

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

	<u>2011</u>	<u>2010</u>
Endowment assets, beginning of year	\$ 17,208,049	\$ 14,578,960
Investment return		
Investment income	2,613	—
Net appreciation	<u>1,342,940</u>	<u>1,175,007</u>
Total investment return	<u>1,345,553</u>	<u>1,175,007</u>
Contributions	<u>90,836</u>	<u>1,454,082</u>
Endowment assets, end of year	<u>\$ 18,644,438</u>	<u>\$ 17,208,049</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, 2011, was as follows:

	Balance June 30, 2010	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2011
Land	\$ 9,669,405	\$ 20	\$ 156,238	\$ —	\$ 9,825,663
Construction in progress	4,962,923	5,283,186	(1,467,427)	(1,117,259)	7,661,423
Museum and collectibles	558,626	2,951	—	—	561,577
Total capital assets not being depreciated	15,190,954	5,286,157	(1,311,189)	(1,117,259)	18,048,663
Buildings	246,317,822	—	987,542	(33,627)	247,271,737
Nonbuilding improvements	11,413,220	—	213,906	—	11,627,126
Equipment	25,447,996	2,358,161	109,741	(294,592)	27,621,306
Library holdings	30,117,077	517,433	—	(380,522)	30,253,988
Livestock	541,750	20,000	—	(50,000)	511,750
Software	1,932,019	—	—	—	1,932,019
Total other capital assets	315,769,884	2,895,594	1,311,189	(758,741)	319,217,926
Total capital assets before depreciation	330,960,838	8,181,751	—	(1,876,000)	337,266,589
Less accumulated depreciation:					
Buildings	111,088,847	5,601,202	—	(26,901)	116,663,148
Improvements other than buildings	6,642,686	567,063	—	—	7,209,749
Equipment	19,233,200	1,778,477	—	(257,588)	20,754,089
Library holdings	24,504,433	931,136	—	(361,496)	25,074,073
Livestock	161,746	37,646	—	(20,833)	178,559
Software	466,918	241,502	—	—	708,420
Total accumulated depreciation	162,097,830	9,157,026	—	(666,818)	170,588,038
Capital assets, net	\$ 168,863,008				\$ 166,678,551

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Notes To Financial Statements (*Continued*)

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

8. Accounts Payable

Accounts payable at June 30 consisted of:

	2011	2010
Current accounts payable:		
Vendors	\$ 3,895,389	\$ 4,496,488
Payroll benefits and withholdings	799,246	1,640,615
MSU Foundation	61,288	94,181
Loans	25,315	11,265
Total accounts payable	\$ 4,781,238	\$ 6,242,549

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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 a percentage of their salary through payroll deductions and the University, which also contributes the required percentage of their current eligible employees' salaries to the KTRS. Kentucky Revised Statutes and the KTRS Board of Trustees establish contribution rate requirements of the plan members and the University, based on when participants join the plan. Contribution Rates are as follows:

	Employees joined:	
	<u>Before July 1, 2009</u>	<u>After July 1, 2009</u>
Employee Contributions	6.33%	14.01%
Employer Contributions	7.16%	14.84%
Optional Retirement Plan Participants	—	5.10%

The University's overall contributions to KTRS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$5,358,140, \$5,321,936 and \$5,234,531, respectively.

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.

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Notes To Financial Statements (Continued)

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) 696-8800.

Funding of the plan is from eligible employees who contribute a percentage of their salary through payroll deductions and the University, which also contributes a percentage of current eligible employees' salaries to the nonhazardous KERS fund. University Public Safety Officers participate in the hazardous duty fund of KERS. The Kentucky Revised Statutes and the Board of Trustees of the Kentucky Retirement Systems determine contribution rates each biennium. Contribution Rates are as follows:

	Employees joined:	
	Before	After
	September 1, 2008	September 1, 2008
Employee:		
Non-Hazardous	5%	6%
Hazardous	8%	9%
Employer:		
Non-Hazardous	16.98%	16.98%
Hazardous	26.12%	26.12%

The University's contributions to KERS for the years ended June 30, 2011, 2010 and 2009, were \$2,561,430, \$1,812,805 and \$1,600,722, 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, 2011, the University paid approximately 88% 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, 2011 and 2010, totaled \$7,242,932 and \$7,185,732, 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>2011</u>	<u>2010</u>
Liability, beginning of year	\$ 914,092	\$ 805,439
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	8,910,709	8,638,963
Administrative and stop-loss fees	(974,386)	(842,123)
Claims paid	<u>(8,220,961)</u>	<u>(7,688,187)</u>
Liability, end of year	<u>\$ 629,454</u>	<u>\$ 914,092</u>

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Notes To Financial Statements (*Continued*)

10. Deferred Revenue

Deferred revenue as of June 30 consisted of:

	<u>2011</u>	<u>2010</u>
Current deferred revenue:		
Prepaid tuition and fees	\$ 1,889,512	\$ 1,872,799
Grants and contracts	1,383,749	752,742
Auxiliary enterprises	<u>26,763</u>	<u>—</u>
Total current deferred revenue	<u>\$ 3,300,024</u>	<u>\$ 2,625,541</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, 2011:

	<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	\$ 44,080,000	\$ —	\$ (2,280,000)	\$ 41,800,000	\$ 2,360,000	\$ 39,440,000
Less bond discounts	<u>(658,968)</u>	<u>—</u>	<u>44,436</u>	<u>(614,532)</u>	<u>(44,437)</u>	<u>(570,095)</u>
Bonds payable, net of discounts	43,421,032	—	(2,235,564)	41,185,468	2,315,563	38,869,905
City of Murray payable	9,400,000	—	(165,000)	9,235,000	185,000	9,050,000
Master lease notes payable	6,068,308	—	(745,766)	5,322,542	756,080	4,566,462
Capital leases	<u>1,022,000</u>	<u>—</u>	<u>(124,000)</u>	<u>898,000</u>	<u>131,000</u>	<u>767,000</u>
Total bonds, notes and capital leases	<u>\$ 59,911,340</u>	<u>\$ —</u>	<u>\$ (3,270,330)</u>	<u>\$ 56,641,010</u>	<u>\$ 3,387,643</u>	<u>\$ 53,253,367</u>

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Notes To Financial Statements (*Continued*)

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2010:

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year	Long-Term Portion
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
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>

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
2012	\$	2,360,000	\$ 1,072,080	\$ 3,432,080	\$ 2,361,245	\$ 5,793,325
2013		2,080,000	1,126,942	3,206,942	2,227,767	5,434,709
2014		2,160,000	1,182,850	3,342,850	2,100,690	5,443,540
2015		2,240,000	1,240,843	3,480,843	1,966,641	5,447,484
2016		2,330,000	1,299,960	3,629,960	1,825,315	5,455,275
2017-2021		12,525,000	3,112,867	15,637,867	7,042,324	22,680,191
2022-2026		12,180,000	2,250,000	14,430,000	3,960,468	18,390,468
2027-2031		5,925,000	2,835,000	8,760,000	1,044,535	9,804,535
2032-2033		—	1,335,000	1,335,000	67,971	1,402,971
Total	\$	<u>41,800,000</u>	<u>\$ 15,455,542</u>	<u>\$ 57,255,542</u>	<u>\$ 22,596,956</u>	<u>\$ 79,852,498</u>

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Notes To Financial Statements (Continued)

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Original Issue	Balance Due June 30, 2011	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2011-2012
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	\$ 385,000	\$ 20,765	\$ 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	3,545,000	158,388	330,000
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	1,125,000	55,525	80,000
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	1,785,000	64,577	110,000
Series Q bonds dated December 1, 2005, with interest from 4.00% to 4.375%; final principal payment due September 1, 2027; Clark Hall	15,800,000	14,160,000	602,211	590,000
Total housing and dining system revenue bonds payable	27,105,000	21,000,000	901,466	1,155,000

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Notes To Financial Statements (*Continued*)

	Original Issue	Balance Due June 30, 2011	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2011-2012
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	\$ 365,000	\$ 24,001	\$ 365,000
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	13,065,000	571,279	535,000
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	7,370,000	283,776	305,000
Total general receipts bonds payable	22,215,000	20,435,000	855,055	840,000
Bonds payable before discount	52,175,000	41,800,000	1,780,522	2,360,000
Less: Bond discount	—	(614,532)	—	(44,437)
Total bonds payable	\$ 52,175,000	\$ 41,185,468	\$ 1,780,522	\$ 2,315,563
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	\$ 9,235,000	\$ 433,724	\$ 185,000

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Notes To Financial Statements (*Continued*)

	Original Issue	Balance Due June 30, 2011	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2011-2012
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	\$ —	\$ 165	\$ —
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	4,019,010	162,083	553,952
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>1,303,532</u>	<u>40,763</u>	<u>202,128</u>
Total master lease payable	<u><u>\$ 10,439,876</u></u>	<u><u>\$ 5,322,542</u></u>	<u><u>\$ 203,011</u></u>	<u><u>\$ 756,080</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	<u>\$ 2,200,000</u>	<u>\$ 898,000</u>	<u>\$ 55,030</u>	<u>\$ 131,000</u>
Less: Capitalized Interest	<u>—</u>	<u>—</u>	<u>(167,429)</u>	<u>—</u>
Total All Bond Issues, Notes Payable and Capital Leases	<u><u>\$ 74,814,876</u></u>	<u><u>\$ 56,641,010</u></u>	<u><u>\$ 2,304,858</u></u>	<u><u>\$ 3,387,643</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, 2011 and 2010, 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:

	2011	2010
Capital lease assets, at cost	\$ 2,200,000	\$ 2,200,000
Less accumulated depreciation	<u>(1,705,000)</u>	<u>(1,650,000)</u>
Net book value	<u><u>\$ 495,000</u></u>	<u><u>\$ 550,000</u></u>

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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>
2012	\$ 179,532
2013	179,576
2014	179,179
2015	179,349
2016	179,057
2017	<u>179,282</u>
	1,075,975
Less amount representing interest	<u>(177,975)</u>
Present value of capital lease obligations	<u>\$ 898,000</u>

12. Deposits

The deposits held as of June 30 consisted of:

	<u>2011</u>	<u>2010</u>
Current:		
Horse stall rentals	\$ 7,740	\$ 5,580
Racer card declining balances	84,831	92,051
Housing deposits	126,990	182,961
Agency account balances	<u>106,341</u>	<u>101,832</u>
Total current deposits	325,902	382,424
Noncurrent:		
Housing deposits	<u>361,595</u>	<u>287,011</u>
Total deposits	<u>\$ 687,497</u>	<u>\$ 669,435</u>

Noncurrent housing deposit additions were \$226,984 and \$81,870 for the years ended June 30, 2011 and 2010, respectively. Noncurrent housing deposit deductions were \$152,400 and \$85,875 for the years ended June 30, 2011 and 2010, respectively.

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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>2011</u>	<u>2010</u>
Unrestricted net assets		
Allocated for:		
Prior year carryovers for		
Departmental operations	\$ 15,286,849	\$ 13,089,360
Encumbrances	532,300	620,055
Working capital	7,397,344	6,586,123
Revenue contingency	2,495,635	2,420,690
General contingency	28,082,667	23,505,257
Self insurance	900,000	914,092
	<u>900,000</u>	<u>914,092</u>
Total unrestricted net assets	<u>\$ 54,694,795</u>	<u>\$ 47,135,577</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, 2011 and 2010, the Foundation made payments of \$2,787,803 and \$3,150,322, respectively, on behalf of the University from restricted sources. Accounts receivable at June 30, 2011 and 2010, from the Foundation were \$380,416 and \$405,264, respectively. Accounts payable to the Foundation as of June 30, 2011 and 2010, respectively, were not significant. Complete financial statements for the Foundation can be obtained from the MSU Foundation Office, 100 Nash House, Murray, Kentucky 42071.

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

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

a) Investments and Investment Return

Investments at June 30 consisted of:

	<u>2011</u>	<u>2010</u>
Money market mutual funds	\$ 2,053,462	\$ 2,580,639
Certificates of deposit	283,200	33,200
Equity securities	31,901,697	27,888,891
Cash value of life insurance policies	455,011	412,459
Mutual funds	19,698,624	17,015,238
Asset-backed bonds	389,028	523,349
Mortgage-backed bonds	4,038,032	3,859,969
Government bonds	4,456,062	5,644,923
Municipal bonds	289,826	464,707
Corporate bonds	4,671,199	3,013,868
	<u>\$ 68,236,141</u>	<u>\$ 61,437,243</u>

Total investment return is comprised of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 1,806,323	\$ 1,468,855
Realized gains on investments reported at fair value	1,230,782	2,880
Unrealized gains on investments reported at fair value	4,458,022	3,502,995
	<u>\$ 7,495,127</u>	<u>\$ 4,974,730</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>2011</u>	<u>2010</u>
Murray State University	\$ 20,400,370	\$ 17,922,937
Murray State University Alumni Association	1,082,101	849,171
Others	10,592	9,731
	<u>\$ 21,493,063</u>	<u>\$ 18,781,839</u>

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

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, 2011 and 2010, of \$139,126 and \$770,750, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 1.8% 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 \$3,902,953 and \$2,769,718 at June 30, 2011 and 2010, respectively, which was calculated using discount rates ranging from 1.8% 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>2011</u>	<u>2010</u>
Scholarships	\$ 6,861,050	\$ 2,840,592
Instruction/institutional support	5,831,803	5,587,453
Chairs and professorships	<u>333,004</u>	<u>269,295</u>
	<u>\$ 13,025,857</u>	<u>\$ 8,697,340</u>

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

Permanently restricted net assets at June 30 are restricted to:

	<u>2011</u>	<u>2010</u>
Investment in perpetuity, the income of which is expendable to support:		
Scholarships	\$ 25,993,152	\$ 24,345,204
Instruction/institutional support	5,573,360	4,930,290
Chairs and professorships	1,216,012	1,090,326
Operations of the Golf Course	191,150	190,855
Operating activities of the Foundation	342,859	329,828
	<u>\$ 33,316,533</u>	<u>\$ 30,886,503</u>

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

	<u>2011</u>	<u>2010</u>
Scholarships	\$ 1,066,733	\$ 1,235,778
Instruction/institutional support	1,716,583	1,914,544
	<u>\$ 2,783,316</u>	<u>\$ 3,150,322</u>

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 \$413,963 and \$417,005 for the years ended June 30, 2011 and 2010, respectively. Complete financial statements for the Racer Foundation can be obtained from the MSU Athletic Foundation Office, Stewart Stadium, Murray, Kentucky 42071.

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (*Continued*)

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.

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 \$838,000 and \$2,185,000 as of June 30, 2011 and 2010, 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.

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (Continued)

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, 2011					
	Natural Classification					
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	\$ 48,004,849	\$ 5,393,261	\$ 147,644	\$ 502,312	\$ 176,476	\$ 54,224,542
Research	1,448,622	1,473,065	6,679	70,497	47,835	3,046,698
Public service	5,770,628	2,118,517	252,671	48,627	2,683	8,193,126
Libraries	1,624,156	1,357,548	120	175,832	—	3,157,656
Academic support	4,107,861	1,983,082	227,924	291,143	49,081	6,659,091
Student services	9,932,153	5,916,958	92,259	292,306	76,851	16,310,527
Institutional support	13,930,529	1,685,988	128,589	193,735	—	15,938,841
Operations and maintenance	6,167,153	3,780,994	5,663,283	24,352	—	15,635,782
Financial aid	—	—	—	—	11,709,606	11,709,606
Depreciation	—	7,944,588	—	—	—	7,944,588
Auxiliary	6,660,415	9,686,995	2,595,261	122,878	374,295	19,439,844
Auxiliary depreciation	—	1,212,438	—	—	—	1,212,438
Total expenses	\$ 97,646,366	\$ 42,553,434	\$ 9,114,430	\$ 1,721,682	\$ 12,436,827	\$ 163,472,739

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*)

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.

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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>2011</u>	<u>2010</u>
Assets		
Current assets	\$ 4,770,426	\$ 4,276,905
Noncurrent assets	9,283,295	7,872,613
Capital assets, net of accumulated depreciation	<u>17,850,161</u>	<u>18,050,111</u>
Total assets	<u>31,903,882</u>	<u>30,199,629</u>
Liabilities		
Current liabilities	509,871	569,579
Noncurrent liabilities	<u>21,336,423</u>	<u>22,366,567</u>
Total liabilities	<u>21,846,294</u>	<u>22,936,146</u>
Net assets		
Invested in capital assets, net of related debt	(2,484,091)	(3,437,767)
Restricted		
Expendable capital	4,488,641	3,179,558
Expendable debt service	4,233,590	4,199,095
Unrestricted	<u>3,819,448</u>	<u>3,322,597</u>
Total net assets	<u>\$ 10,057,588</u>	<u>\$ 7,263,483</u>

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

	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 21,071,000	\$ 19,483,224
Operating expenses	(14,573,967)	(14,350,354)
Depreciation expense	<u>(757,897)</u>	<u>(746,641)</u>
Operating income	5,739,136	4,386,229
Nonoperating expenses	<u>(2,945,031)</u>	<u>(3,045,084)</u>
Change in net assets	2,794,105	1,341,145
Net assets, beginning of year	<u>7,263,483</u>	<u>5,922,338</u>
Net assets, end of year	<u>\$ 10,057,588</u>	<u>\$ 7,263,483</u>

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

Housing and Dining System - Condensed Statements of Cash Flows

	<u>2011</u>	<u>2010</u>
Cash flows from		
Operating activities	\$ 6,390,473	\$ 5,011,911
Noncapital financing activities	(2,155,133)	(2,225,763)
Capital and related financing activities	(2,615,122)	(2,088,481)
Investing activities	(79,734)	121,624
Net increase in cash	1,540,484	819,291
Cash, beginning of year	<u>6,842,845</u>	<u>6,023,554</u>
Cash, end of year	<u>\$ 8,383,329</u>	<u>\$ 6,842,845</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>2011</u>	<u>2010</u>
Assets		
Current assets	\$ 168,852	\$ 105,074
Noncurrent assets	1,542,353	1,420,616
Capital assets, net of accumulated depreciation	<u>8,856,229</u>	<u>9,124,945</u>
Total assets	<u>10,567,434</u>	<u>10,650,635</u>
Liabilities		
Current liabilities	51,967	54,062
Noncurrent liabilities	<u>9,235,000</u>	<u>9,400,000</u>
Total liabilities	<u>9,286,967</u>	<u>9,454,062</u>
Net assets		
Invested in capital assets, net of related debt	(114,697)	1,022
Restricted		
Expendable capital	528,008	470,928
Expendable debt service	704,910	625,298
Unrestricted	<u>162,246</u>	<u>99,325</u>
Total net assets	<u>\$ 1,280,467</u>	<u>\$ 1,196,573</u>

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

	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 87,161	\$ 60,464
Operating expenses	(622,520)	(555,991)
Depreciation expense	<u>(268,715)</u>	<u>(268,715)</u>
Operating loss	(804,074)	(764,242)
Nonoperating revenues	<u>887,968</u>	<u>778,904</u>
Change in net assets	83,894	14,662
Net assets, beginning of year	<u>1,196,573</u>	<u>1,181,911</u>
Net assets, end of year	<u>\$ 1,280,467</u>	<u>\$ 1,196,573</u>

Wellness Center - Condensed Statements of Cash Flows

	<u>2011</u>	<u>2010</u>
Cash flows from		
Operating activities	\$ (535,358)	\$ (495,527)
Noncapital financing activities	515,279	497,161
Capital and related financing activities	138,493	51,525
Investing activities	<u>78,247</u>	<u>91,646</u>
Net increase in cash	196,661	144,805
Cash, beginning of year	<u>1,243,864</u>	<u>1,099,059</u>
Cash, end of year	<u><u>\$ 1,440,525</u></u>	<u><u>\$ 1,243,864</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.

20. Subsequent Event

In July 2011, the University issued three separate series of general receipts bonds, 2011 Series A, B, and C. The proceeds of the 2011 Series A Bonds amounted to \$7,645,000 and will be primarily used by the University to finance the renovation of Elizabeth Hall. Specifically, the renovations are related to the Hall's interior architecture; upgrades to HVAC, electrical, lighting, and plumbing; and asbestos abatement.

The proceeds of the 2011 Series B Bonds amounted to \$4,670,000 and are being issued for the purpose of currently refunding the prior Series M Bonds, prior Series N Bonds and prior Series O Bonds. Additional information on these refunded bonds is provided in Note 11.

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Notes To Financial Statements (*Continued*)

The proceeds of the 2011 Series C Bonds amounted to \$15,620,000 and are being issued as an advance refunding and will be deposited in escrow to pay the interest and principal requirements of the prior Series P Bonds and prior Series Q Bonds through and including the dates these bonds can first be optionally redeemed. The 2011 Series C Bonds will redeem and retire the remaining prior Series P and Series Q Bonds. Additional information on these refunded bonds is provided in Note 11.