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**MURRAY STATE UNIVERSITY**  
**A COMPONENT UNIT OF THE**  
**COMMONWEALTH OF KENTUCKY**  
*FINANCIAL STATEMENTS*  
*JUNE 30, 2012*

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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, 2012 and 2011 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, 2012 and 2011, and the respective changes in financial position and where applicable, cash flows 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 8, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*RubinBrown LLP*

October 8, 2012

**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, 2012. 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 10,700 students. For the 2011-12 academic year, tuition and fees increased by \$156 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. Once again, *U.S. News & World Report's Best Colleges* has recognized Murray State University among the top schools in the country. Murray State's consecutive streak of top rankings was extended to 22 years with the release of the 2013 *U.S. News Best Colleges* list. The University is at seventh place among the top public regional universities in the South. Murray State is again in the Top Tier as the only Kentucky regional public university to appear among the South's top 20 private and public schools. The University scoring shows it to be the 11<sup>th</sup> top public regional university in the nation, up three spots from last year's rankings. Factors considered in the rankings are peer assessment, graduation and retention rates, faculty resources, student selectivity, financial resources and alumni giving.

In addition to *U.S. News & World Report's* listing, the University is ranked once more as "2013 Military Friendly School" by *G.I. Jobs* magazine and listed for the third time in *the Chronicle of Higher Education's* "Great Colleges to Work For."

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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 \$301.6 million and liabilities of \$75.6 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$226.0 million or 75 percent of total assets. Net assets increased by \$5.8 million from fiscal year 2011 to 2012.
- Fiscal operations were in accordance with the annual operating budget of approximately \$147.6 million. The University continued to be a strong employer for the region and employed 4,289 individuals, including 591 faculty and 1,200 staff members and 2,498 students. These totals include 1,391 regular and full time faculty and staff.
- Total operating state appropriations for fiscal year 2012 decreased by \$2.5 million. Total funding for 2012 and 2011 from the state in appropriations were \$50.3 and \$52.8 million, respectively. The 2011 appropriation of \$52.58 million includes a supplement from Federal State Fiscal Stabilization Funds of \$2.9 million. Federal stabilization funds were not received from the state for 2012.
- 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 was completed in fall 2011.
- 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.
- The University sold general receipts bonds in July 2011 for \$7.6 million to fund the renovation of Elizabeth Hall. This residential college facility was closed for the 2011-12 academic year for renovation and opened for occupancy for fall 2012.

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### Management's Discussion And Analysis (*Continued*)

- 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 University purchased land for this facility in 2008. The McCracken County Fiscal Court is funding this project through a \$9,980,000 general obligation bond sale that was completed in the winter 2011. Repayment of this debt will be funded from the McCracken County Fiscal Court (\$4,966,178), City of Paducah (\$2,674,093), and Murray State University (\$2,339,729) over 20 years. The average annual debt service payment for each entity will be as follows:
  - \$325,000 McCracken County Fiscal Court
  - \$175,000 City of Paducah
  - \$153,000 Murray State University (approximate amount of lease payment)
- The University began 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, \$1.1 million of other donor funds restricted for athletic programs and facilities for a total project scope of \$4.2 million. Substantial completion is scheduled for November 2012.
- The University accepted a \$1 million gift in August 2011 for the completion of interior space for the Regional Business and Innovation Center (RBIC), which was renamed Heritage Hall in 2012. Other funds have been allocated to this project for a total scope of \$1.4 million. The construction work is to begin in January 2012 and is expected to be complete in October 2012.
- The University invests approximately 96 percent of its endowment funds with the Murray State University Foundation, Inc. (Foundation). The value of these funds is as follows:
  - Historical Value \$17.3 million
  - Market Value \$18.0 million

These funds experienced an unrealized loss of (\$308,794) in fiscal year 2012. However, most program spending remained constant during the fiscal year 2012. The Foundation operated with a 3.3% cap on endowment spending for the fiscal year 2012.

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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 2012 and 2011 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 2012 were \$301.6 million, of which capital assets, net of depreciation, represented the largest portion. Capital assets totaled approximately \$170.3 million or 57 percent of total assets and were primarily comprised of University-owned land, buildings, equipment, and library holdings. Cash and cash equivalents amounted to \$94.1 million or 32 percent of total assets. Total assets increased by \$8 million during the 2012 fiscal year. This increase in gross total assets is due primarily to the following items:

- \$1.7 million - Increase in accounts payable for numerous construction projects, which deferred cash distributions to the next fiscal year.
- \$2.1 million - Unexpended web tuition revenue due to departmental online incentive program for each semester, which started in the summer 2011. These funds were distributed to academic departments in 2012; with the expectation the departments may spend these funds in future years.



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### Management's Discussion And Analysis (*Continued*)

- \$1.2 million - Increase in overall cash for auxiliary units. The majority of these savings are planned to be utilized on construction/renovation.
- \$532,000 - Remaining cash from the general receipts bond sale for the renovation of Elizabeth Hall.
- \$531,000 - Increase in private endowment gifts.

Total assets increased by \$8.9 million during the 2011. This change 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 the basketball practice facility to the CFSB Center.

#### Condensed Statements of Net Assets

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b>Assets</b>			
Current assets	\$ 75,357,134	\$ 70,391,760	\$ 64,296,745
Noncurrent assets	55,963,418	56,588,836	51,648,832
Capital assets	<u>170,326,187</u>	<u>166,678,551</u>	<u>168,863,008</u>
Total assets	<u>301,646,739</u>	<u>293,659,147</u>	<u>284,808,585</u>
<b>Liabilities</b>			
Current liabilities	20,880,077	19,869,294	20,116,378
Noncurrent liabilities	<u>54,747,272</u>	<u>53,614,962</u>	<u>56,928,021</u>
Total liabilities	<u>75,627,349</u>	<u>73,484,256</u>	<u>77,044,399</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	116,715,432	114,667,161	114,150,370
Restricted for			
Nonexpendable	18,873,003	18,644,438	17,208,049
Expendable			
Scholarships, research, instruction and other	4,101,374	3,984,847	3,172,783
Loans	4,767,193	4,898,234	4,959,202
Capital	19,558,531	17,419,484	15,002,379
Debt service	2,240,995	5,865,932	6,135,826
Unrestricted	<u>59,762,862</u>	<u>54,694,795</u>	<u>47,135,577</u>
Total net assets	<u>\$ 226,019,390</u>	<u>\$ 220,174,891</u>	<u>\$ 207,764,186</u>

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Management's Discussion And Analysis (*Continued*)

***Liabilities***

Total liabilities at the end of the 2012 fiscal year were \$75.6 million, an increase of \$2.1 million. This change was due to the following:

- \$1.7 million - Increase in accounts payable for numerous construction projects.
- \$1.9 million - Increase in overall debt due to the sale of general receipts bonds for the renovation of Elizabeth Hall.
- (\$700,600) - Decrease in accrued payrolls due to timing of payroll dates.

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.

***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.

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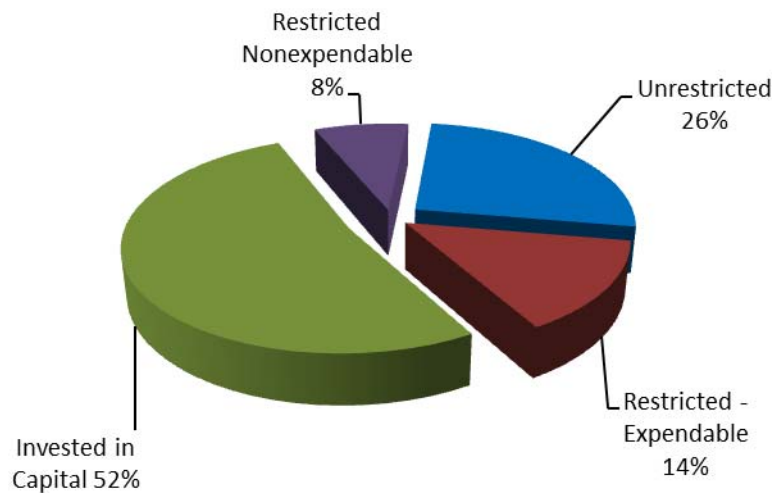
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## Management's Discussion And Analysis (*Continued*)

The allocation of net assets between these three categories is provided in the following chart:

**University Net Assets at June 30, 2012**



### 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 2012 fiscal year were \$102.2 million, including student tuition and fees, net of related discounts and allowances, of \$59.8 million, operating grants and contracts revenues of \$7.9 million, and auxiliary services net revenue of \$28.2 million.

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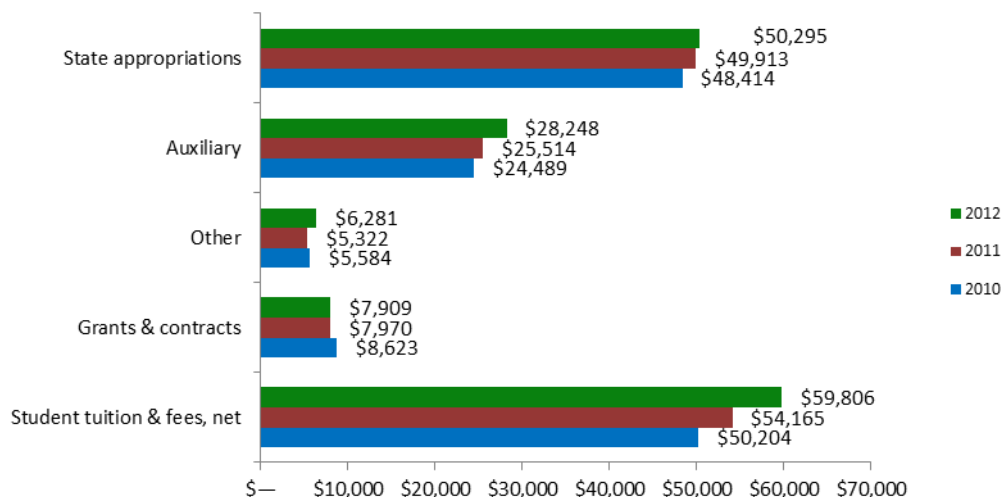
## Management's Discussion And Analysis (*Continued*)

During 2012, operating revenues increased by \$9.3 million. This increase is comprised primarily of an increase of \$5.6 million from net student tuition and fees, \$1 million from academic and student services programming, and \$2.7 million from auxiliary services.

The University received a net of \$50.3 and \$49.9 million in state appropriations for operations, respectively for 2012 and 2011. State appropriations are required to be classified as nonoperating revenues; however, these funds were used to support University operating activities.

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

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



### ***Expenses***

Total operating expenses for the 2012 fiscal year were \$170.1 million. Academic affairs, which include instruction, research, libraries and academic support, represent the largest portion of the operating expenses totaling \$70.1 million or 42 percent. Student affairs, which include student services, financial aid and auxiliary services, was \$47.4 million or 28 percent and other expenses which include public service, institutional support, depreciation and operation and maintenance amounted to \$52.6 million or 30 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.

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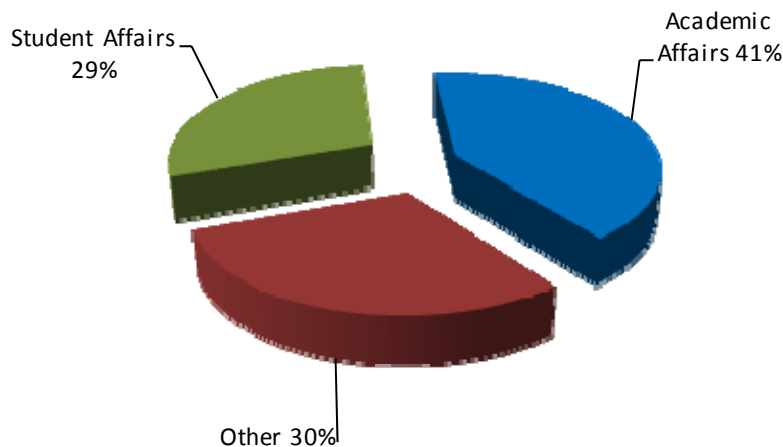
## Management's Discussion And Analysis (*Continued*)

Operating expenses increased for the year ended June 30, 2012, by \$6.7 million. The primary reasons for increases in operating expenses are as follows:

- \$2.9 million - Increases in salaries, wages, and related benefits from a 4% across the board raise, effective July 1, 2011.
- \$304,200 - Increase in wages and related benefits from the second phase of non-exempt employee compensation study, effective July 1, 2011.
- \$1.1 million - Increase for employer health insurance contributions.
- \$867,400 - Increase in instructional programming.
- \$780,900 - Increase in purchases for resale by Dining Services and the University Bookstore.

Operating expenses by type are reflected in the following chart:

**University Operating Expenses  
Year Ended June 30, 2012**



# MURRAY STATE UNIVERSITY

## A Component Unit of the Commonwealth of Kentucky

### Management's Discussion And Analysis (*Continued*)

The net loss from operations for the year ended June 30, 2012, was \$67.9 million. Nonoperating revenues, net of expenses, of \$72.7 million, insurance reimbursements of \$285,000, capital gifts of \$184,000, and endowment gifts of \$535,000 resulted in an increase in net assets of \$5.8 million for the year ended June 30, 2012. This increase in net assets is attributable to unexpended instructional budgets from a departmental online incentive program of \$2.1 million, auxiliary reserves for construction/renovation of \$1.2 million, savings in overall utilities due to energy savings projects of \$1 million, unspent bond proceeds for the renovation of Elizabeth Hall of \$532,000, and endowment proceeds of \$531,000.

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. This 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.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Operating revenues</b>			
Student tuition and fees, net	\$ 59,805,670	\$ 54,165,226	\$ 50,203,723
Grants and contracts	7,909,199	7,969,506	8,623,357
Other	6,281,038	5,321,545	5,584,326
Auxiliary, net	28,248,321	25,514,058	24,489,161
Total operating revenues	<u>102,244,228</u>	<u>92,970,335</u>	<u>88,900,567</u>
<b>Operating expenses</b>			
Instruction	57,431,018	54,224,542	54,869,706
Other educational and general	82,912,044	80,651,327	77,961,052
Depreciation	7,870,697	7,944,588	7,946,348
Auxiliary enterprises	20,688,688	19,439,844	19,338,893
Auxiliary depreciation	1,238,711	1,212,438	1,201,183
Total operating expenses	<u>170,141,158</u>	<u>163,472,739</u>	<u>161,317,182</u>
Operating loss	<u>(67,896,930)</u>	<u>(70,502,404)</u>	<u>(72,416,615)</u>
<b>Nonoperating revenues</b>			
State appropriations	50,295,400	49,912,700	48,413,800
Other nonoperating revenues	22,441,702	31,683,495	27,032,226
Total nonoperating revenues	<u>72,737,102</u>	<u>81,596,195</u>	<u>75,446,026</u>
Other revenues			
State capital appropriations and other	<u>1,004,327</u>	<u>1,316,914</u>	<u>4,436,753</u>
Increase in net assets	5,844,499	12,410,705	7,466,164
<b>Net assets, beginning of year</b>	<u>220,174,891</u>	<u>207,764,186</u>	<u>200,298,022</u>
<b>Net assets, end of year</b>	<u>\$ 226,019,390</u>	<u>\$ 220,174,891</u>	<u>\$ 207,764,186</u>

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### Management's Discussion And Analysis (*Continued*)

#### Statements of Cash Flows

The Statements of Cash Flows provide a summary of the sources and uses of cash by defined categories. The principal purposes of the Statements of Cash Flows are to provide information about the University's cash receipts and payments during the years and to help assess the University's ability to generate future net cash flows and meet obligations as they become due, as well as its need for external financing.

#### For the year ended June 30, 2012:

The net cash used in operating activities reflects the net cash used for general operations of the University, which decreased by (\$2.4 million) during 2012. This decrease was primarily due to increases in net tuition and fees.

The cash flows from noncapital financing activities, decreased by (\$5.5 million) during 2012. This change was primarily due to a decrease in State CUETF endowment gifts transferred to the MSU Foundation of (\$1.3 million), decreases in grants and contracts cash of (\$3.4 million), and decreases of gifts of (\$3.1 million) that was received in 2011.

The net cash flows used in capital and related financing activities represent cash used for the acquisition, construction and renovation of capital assets, decreased by (\$349,000) during 2012. The majority of this change is due to the overall changes in debt due to new bonds issued for Elizabeth Hall renovations, the refinancing the housing and dining system bonds and Wellness Center, and annual bond payments. The net of these activities were an increase in proceeds from capital debt of \$3.9 million. The other primary factor related to this change was an increase in purchase of capital assets of (\$3.6 million) related to the renovation of Elizabeth Hall.

The cash flows provided by investing activities represent the cash activities of investments, which increased by \$3.7 million for 2012. This change was primarily due the refinancing of \$21 million of housing and dining bonds. Due to this refinancing the university was able to liquidate restricted investments of \$1.7 million from repair and maintenance reserves to use for unrestricted purposes and liquidate \$2.2 million of investments from sinking fund reserves to use toward the reduction of the refinancing debt.

#### 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.

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

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## Management's Discussion And Analysis (*Continued*)

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.

### Condensed Statements of Cash Flows

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Cash provided/(used by):</b>			
Operating activities	\$ (58,149,455)	\$ (60,538,693)	\$ (64,130,542)
Noncapital financing activities	72,907,264	78,540,832	74,552,733
Capital and related financing activities	(10,772,703)	(11,121,319)	(8,836,940)
Investing activities	<u>7,449,333</u>	<u>3,689,932</u>	<u>(224,292)</u>
Net increase in cash	<u>11,434,439</u>	<u>10,570,752</u>	<u>1,360,959</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>82,617,603</u>	<u>72,046,851</u>	<u>70,685,892</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 94,052,042</u></u>	<u><u>\$ 82,617,603</u></u>	<u><u>\$ 72,046,851</u></u>

### Capital Assets and Debt Administration

The University had a \$10.6 million increase in capital assets, before accumulated depreciation, during the fiscal year ended June 30, 2012. This change is due to multiple construction projects, with the largest being \$6.7 million for the renovation of Elizabeth Hall, \$1.5 million for the campus backup generator, \$566,000 for the renovation of the Lowry Center, 3<sup>rd</sup> floor, used for recruitment activities of transfer students, \$368,000 for the adaptivolt energy saving project, and \$362,000 for the renovation of Carman Pavilion.



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Management's Discussion And Analysis (*Continued*)

Capital assets as of June 30, 2012, and changes during the year are as follows:

	<b>Balance</b>	<b>Net Change</b>
	<b>June 30, 2012</b>	<b>2011-12</b>
Land	\$ 9,898,280	\$ 72,617
Construction in progress	14,525,948	6,864,525
Museum and collectibles	572,135	10,558
Buildings	248,807,393	1,535,656
Non-building improvements	14,157,308	2,530,182
Equipment	27,344,320	(276,986)
Software	1,932,019	—
Library holdings	30,206,536	(47,452)
Livestock	396,750	(115,000)
Accumulated depreciation	<u>(177,514,502)</u>	<u>(6,926,464)</u>
Total	<u>\$ 170,326,187</u>	<u>\$ 3,647,636</u>

During 2012 the University issued \$7.6 million of new debt for the renovation of Elizabeth Hall and decreased debt by \$21 million from the refinancing housing and dining debt with general receipts bonds that totaled \$20.3 million.

Debt as of June 30, 2012, and changes during the year are as follows:

	<b>Balance</b>	<b>Net Change</b>
	<b>June 30, 2012</b>	<b>2011-12</b>
Housing and Dining System Revenue Bonds	\$ —	\$ (21,000,000)
General Receipts Bonds	46,075,000	25,640,000
Consolidated Educational Buildings Revenue Bonds	—	(365,000)
Bond discount	(264,423)	350,109
Bond premium	189,880	189,880
Bond deferred refunding loss	(2,500,739)	(2,500,739)
City of Murray payable	9,380,000	145,000
City of Murray payable deferred refunding loss	(400,983)	(400,983)
Other (see Notes to Financial Statements 11)	4,566,463	(756,079)
	<u>767,000</u>	<u>(131,000)</u>
Total	<u>\$ 57,812,198</u>	<u>\$ 1,171,188</u>

## MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

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### Management's Discussion And Analysis (*Continued*)

#### **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 fiscal year 2012 general fund revenues picture for the Commonwealth of Kentucky continued to improve though on a more modest trajectory. Final 2012 revenues were \$83.3 million, or .9 percent higher than the official revenue estimate which projected a 2.8 percent increase in revenues.

Commonwealth revenues are estimated to increase by 2.4 percent for fiscal year 2013. Areas of concern include the expected continuation of decreasing coal severance tax revenues, the ongoing problem of serious underfunding of the state pension systems and the looming year-end "fiscal cliff" at the federal level.

- The University requested funding of \$30 million from the Commonwealth of Kentucky in the 2010-12 biennial budgets 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.
- The University provides health insurance to employees through a self-funded program. As reflected in national trends, the costs of health claims will continue to be a major expense for the University.
- The University 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 budgeted to use \$1.9 million of unrestricted net asset reserves for fiscal year 2013. There is an ongoing campus-wide review to determine permanent sources of funding for fiscal year 2014.

## **MURRAY STATE UNIVERSITY**

A Component Unit of the Commonwealth of Kentucky

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Management's Discussion And Analysis (*Continued*)

### **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**  
A Component Unit of the Commonwealth of Kentucky

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**STATEMENTS OF NET ASSETS**  
**Page 1 of 2**

	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 64,911,788	\$ 57,671,691
Accounts receivable, net	6,338,609	7,581,543
Interest receivable	—	1,016,825
Inventories	2,045,517	2,105,688
Loans to students, net	801,564	722,487
Prepaid expenses	1,259,656	1,293,526
<b>Total Current Assets</b>	<b>75,357,134</b>	<b>70,391,760</b>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	29,140,254	24,945,912
Restricted investments	22,715,483	27,714,051
Loans to students, net	3,386,698	3,333,664
Capital assets	347,840,689	337,266,589
Accumulated depreciation	(177,514,502)	(170,588,038)
Debt issuance costs, net	720,983	595,209
<b>Total Noncurrent Assets</b>	<b>226,289,605</b>	<b>223,267,387</b>
<b>Total Assets</b>	<b>\$ 301,646,739</b>	<b>\$ 293,659,147</b>

**MURRAY STATE UNIVERSITY**  
A Component Unit of the Commonwealth of Kentucky

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**STATEMENTS OF NET ASSETS**  
**Page 2 of 2**

	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 7,091,726	\$ 4,781,238
Accrued payroll	6,031,810	6,732,420
Self-insured health liability	588,477	629,454
Interest payable	623,037	712,613
Deferred revenue	2,787,667	3,300,024
Deposits - current portion	317,704	325,902
Long-term debt - current portion	3,439,656	3,387,643
<b>Total Current Liabilities</b>	<b>20,880,077</b>	<b>19,869,294</b>
<b>Noncurrent Liabilities</b>		
Deposits	374,730	361,595
Long-term debt	54,372,542	53,253,367
<b>Total Noncurrent Liabilities</b>	<b>54,747,272</b>	<b>53,614,962</b>
<b>Total Liabilities</b>	<b>75,627,349</b>	<b>73,484,256</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	116,715,432	114,667,161
Restricted for:		
Nonexpendable:		
Endowment	18,873,003	18,644,438
Expendable:		
Scholarships, research, instruction and other	4,101,374	3,984,847
Loans	4,767,193	4,898,234
Capital projects	19,558,531	17,419,484
Debt service	2,240,995	5,865,932
Unrestricted	59,762,862	54,694,795
<b>Total Net Assets</b>	<b>\$ 226,019,390</b>	<b>\$ 220,174,891</b>

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# MURRAY STATE UNIVERSITY FOUNDATION, INC.

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## STATEMENTS OF FINANCIAL POSITION

Page 1 of 2

	Assets	
	June 30,	
	2012	2011
Cash and cash equivalents	\$ 1,797,133	\$ 6,882,358
Accounts receivable	420,726	708,972
Investments	73,939,496	68,236,141
Real estate held for investment	139,520	213,086
Prepaid and other current assets	55,447	56,484
Contributions receivable, net	2,836,890	2,013,323
Property and equipment	4,531,641	4,689,789
<b>Total Assets</b>	<b>\$ 83,720,853</b>	<b>\$ 82,800,153</b>

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# MURRAY STATE UNIVERSITY FOUNDATION, INC.

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## STATEMENTS OF FINANCIAL POSITION

Page 2 of 2

### Liabilities And Net Assets

	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Liabilities</b>		
Accounts payable	\$ 75,342	\$ 91,594
Amount due to related parties	368,254	380,416
Accrued expenses	48,998	31,493
Deferred revenue	49,536	42,014
Assets held for others	21,734,952	21,493,063
Capital lease obligation	159,266	215,430
Annuities payable	3,952,842	4,042,079
Refundable advances	402,319	448,761
<b>Total Liabilities</b>	<b>26,791,509</b>	<b>26,744,850</b>
<b>Net Assets</b>		
Unrestricted	9,443,805	9,712,913
Temporarily restricted	13,615,732	13,025,857
Permanently restricted	33,869,807	33,316,533
<b>Total Net Assets</b>	<b>56,929,344</b>	<b>56,055,303</b>
<b>Total Liabilities And Net Assets</b>	<b>\$ 83,720,853</b>	<b>\$ 82,800,153</b>

# 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,	
	2012	2011
<b>Operating Revenues</b>		
Tuition and fees	\$ 93,343,856	\$ 85,698,929
Less: Discounts and allowances	(33,538,186)	(31,533,703)
Net tuition and fees	59,805,670	54,165,226
Federal grants and contracts	5,978,398	6,167,534
State grants and contracts	1,626,992	1,428,075
Private grants and contracts	303,809	373,897
Total grants and contracts	7,909,199	7,969,506
Sales and services of educational activities	3,298,098	3,479,692
Other operating revenues	2,982,940	1,841,853
Total sales, services, and other revenues	6,281,038	5,321,545
Auxiliary enterprises revenues (revenues for 2011 were pledged as security for the Housing and Dining Revenue System Boards Series L-Q)	28,911,467	26,182,461
Less: Discounts and allowances	(663,146)	(668,403)
Net auxiliary revenue	28,248,321	25,514,058
<b>Total Operating Revenues</b>	102,244,228	92,970,335
<b>Operating Expenses</b>		
Instruction	57,431,018	54,224,542
Research	2,592,831	3,046,698
Public service	8,409,323	8,193,126
Libraries	3,132,627	3,157,656
Academic support	6,976,471	6,659,091
Student services	14,791,333	16,310,527
Institutional support	18,782,552	15,938,841
Operation and maintenance of plant	15,561,619	15,635,782
Student financial aid	12,665,288	11,709,606
Depreciation	7,870,697	7,944,588
Auxiliary enterprises	20,688,688	19,439,844
Auxiliary depreciation	1,238,711	1,212,438
<b>Total Operating Expenses</b>	170,141,158	163,472,739
<b>Operating Loss</b>	\$ (67,896,930)	\$ (70,502,404)



# 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,	
	2012	2011
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations	\$ 50,295,400	\$ 49,912,700
State appropriations - fiscal stabilization funds	—	2,885,600
Restricted student fees (revenues are pledged as security for the City of Murray debt agreement)	667,555	656,313
Federal grants and contracts	14,420,740	15,446,860
State grants and contracts	6,438,812	6,045,573
Local and private grants and contracts	547,264	444,551
Gifts	1,311,013	4,905,444
Investment income, net	1,157,906	3,767,864
Interest on capital asset-related debt	(1,631,662)	(2,304,859)
Loss on deletion and disposal of capital assets	(154,101)	(83,086)
Bond amortization	(315,825)	(80,765)
<b>Nonoperating Revenues (Expenses), Net</b>	<b>72,737,102</b>	<b>81,596,195</b>
<b>Income Before Other Revenues, Expenses, Gains and Losses</b>	<b>4,840,172</b>	<b>11,093,791</b>
<b>State Capital Appropriations</b>	<b>—</b>	<b>725,304</b>
<b>Insurance Proceeds</b>	<b>284,810</b>	<b>43,930</b>
<b>Capital Gifts</b>	<b>184,114</b>	<b>456,844</b>
<b>Additions to Permanent Endowments</b>	<b>535,403</b>	<b>90,836</b>
<b>Change in Net Assets</b>	<b>5,844,499</b>	<b>12,410,705</b>
<b>Net Assets - Beginning of Year</b>	<b>220,174,891</b>	<b>207,764,186</b>
<b>Net Assets - End of Year</b>	<b>\$ 226,019,390</b>	<b>\$ 220,174,891</b>

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# MURRAY STATE UNIVERSITY FOUNDATION, INC.

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## STATEMENTS OF ACTIVITIES For The Year Ended, June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>Revenues, Gains And Other Support</b>				
Contributions	\$ 1,100	\$ 2,627,229	\$ 696,236	\$ 3,324,565
Revenues from operations of the				
Frances E. Miller Memorial Golf Course	518,897	25,979	—	544,876
Fees	374,410	—	—	374,410
Investment return, net	562,425	94,947	25,573	682,945
Other	21,510	219,306	55,564	296,380
Change in value of annuities payable	—	66,352	(224,099)	(157,747)
Net assets released from restrictions	2,443,938	(2,443,938)	—	—
<b>Total Revenues, Gains And Other Support</b>	<b>3,922,280</b>	<b>589,875</b>	<b>553,274</b>	<b>5,065,429</b>
<b>Expenses And Losses</b>				
Payments made on behalf of Murray State University	2,443,938	—	—	2,443,938
Operations of the Frances E. Miller Memorial Golf Course	485,448	—	—	485,448
General and administrative	1,262,002	—	—	1,262,002
<b>Total Expenses And Losses</b>	<b>4,191,388</b>	<b>—</b>	<b>—</b>	<b>4,191,388</b>
<b>Change In Net Assets</b>	<b>(269,108)</b>	<b>589,875</b>	<b>553,274</b>	<b>874,041</b>
<b>Net Assets, Beginning Of Year</b>	<b>9,712,913</b>	<b>13,025,857</b>	<b>33,316,533</b>	<b>56,055,303</b>
<b>Net Assets, End Of Year</b>	<b>\$ 9,443,805</b>	<b>\$ 13,615,732</b>	<b>\$ 33,869,807</b>	<b>\$ 56,929,344</b>

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# MURRAY STATE UNIVERSITY FOUNDATION, INC.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>Revenues, Gains And Other Support</b>				
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)	—	—
<b>Total Revenues, Gains And Other Support</b>	<b>7,532,108</b>	<b>4,328,517</b>	<b>2,430,030</b>	<b>14,290,655</b>
<b>Expenses And Losses</b>				
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
<b>Total Expenses And Losses</b>	<b>4,548,677</b>	<b>—</b>	<b>—</b>	<b>4,548,677</b>
<b>Change In Net Assets</b>	<b>2,983,431</b>	<b>4,328,517</b>	<b>2,430,030</b>	<b>9,741,978</b>
<b>Net Assets - Beginning Of Year</b>	<b>6,729,482</b>	<b>8,697,340</b>	<b>30,886,503</b>	<b>46,313,325</b>
<b>Net Assets - End Of Year</b>	<b>\$ 9,712,913</b>	<b>\$ 13,025,857</b>	<b>\$ 33,316,533</b>	<b>\$ 56,055,303</b>

**MURRAY STATE UNIVERSITY**  
A Component Unit of the Commonwealth of Kentucky

**STATEMENTS OF CASH FLOWS**  
Page 1 of 2

	<b>For The Years Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash Flows From Operating Activities</b>		
Tuition and fees	\$ 60,228,747	\$ 53,875,186
Grants and contracts	7,967,758	9,540,845
Payments for salaries, wages and fringes	(96,937,907)	(91,329,350)
Payments to suppliers	(30,715,548)	(31,826,258)
Payments for student financial aid	(12,665,288)	(11,709,606)
Loans issued to employees	(39,875)	(41,215)
Collections of loans to employees	46,175	39,508
Loans issued to students	(1,615,017)	(811,031)
Collections of loans to students	1,482,906	794,771
Sales and services of educational activities	3,622,047	3,009,231
Other operating revenues	2,983,280	1,844,013
Auxiliary revenues:		
Food Service	10,605,852	9,562,428
Housing	11,826,285	11,002,685
Bookstore	5,557,133	4,743,835
Other	192,685	206,109
Auxiliary payments:		
Payments for salaries, wages and fringes	(6,957,857)	(6,660,415)
Payments to suppliers	(13,442,322)	(12,405,135)
Payments for student financial aid	(288,509)	(374,294)
<b>Net Cash Used in Operating Activities</b>	<b>(58,149,455)</b>	<b>(60,538,693)</b>
<b>Cash Flows From Noncapital Financing Activities</b>		
State appropriations	50,295,400	49,912,700
State endowment match	—	89,993
Endowment proceeds forwarded to MSU Foundation for investment	(45,677)	(1,133,650)
Grants and contracts	21,406,816	24,822,584
Endowment income	305,046	428,111
Gifts for other than capital purposes	956,594	4,416,585
Agency transactions	(10,915)	4,509
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>72,907,264</b>	<b>78,540,832</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from capital debt, net of discount	34,232,766	—
Restricted student fees pledged for debt service	667,555	656,313
Insurance proceeds	284,810	43,930
State capital appropriations	570	765,679
Purchases of capital assets	(10,620,143)	(7,061,872)
Capital gifts	173,556	289,129
Principal paid on capital debt and leases	(33,652,080)	(3,314,766)
Interest paid on capital debt and leases	(1,859,737)	(2,499,732)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>\$ (10,772,703)</b>	<b>\$ (11,121,319)</b>

**MURRAY STATE UNIVERSITY**  
A Component Unit of the Commonwealth of Kentucky

**STATEMENTS OF CASH FLOWS**

Page 2 of 2

	<b>For The Years Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales and maturities of investments	\$ 5,271,267	\$ 2,322,421
Purchases of investments	(413)	(734,914)
Interest receipts on investments	2,178,479	2,102,425
<b>Net Cash Provided by Investing Activities</b>	<b>7,449,333</b>	<b>3,689,932</b>
<b>Net Increase in Cash and Cash Equivalents</b>	11,434,439	10,570,752
<b>Cash and Cash Equivalents - Beginning of Year</b>	82,617,603	72,046,851
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 94,052,042</b>	<b>\$ 82,617,603</b>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>		
Cash and cash equivalents	\$ 64,911,788	\$ 57,671,691
Restricted cash and cash equivalents	29,140,254	24,945,912
<b>Total Cash and Cash Equivalents</b>	<b>\$ 94,052,042</b>	<b>\$ 82,617,603</b>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (67,896,930)	\$ (70,502,404)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	9,109,408	9,157,026
Bad debt	805,914	815,059
Changes in assets and liabilities:		
Accounts and loans receivable, net	473,872	(862,978)
Inventories	60,171	172,759
Prepaid expenses	33,870	(37,409)
Accounts payable	504,063	(476,766)
Self-insured health liability	(40,977)	(284,638)
Accrued payroll	(700,610)	791,035
Deposits	15,852	13,553
Deferred revenue	(514,088)	676,070
<b>Net Cash Used in Operating Activities</b>	<b>\$ (58,149,455)</b>	<b>\$ (60,538,693)</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Gifts of capital assets	\$ 10,558	\$ 167,715
Accounts payable incurred for capital asset purchases	1,912,301	193,807
Changes in fair value of investments	(308,794)	1,342,940

**MURRAY STATE UNIVERSITY**  
A Component Unit of the Commonwealth of Kentucky

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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012 and 2011**

**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 10,700. 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

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### 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

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## 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:

<b>Asset</b>	<b>Estimated Life</b>
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 \$287,402 and \$167,429 for the years ended June 30, 2012 and 2011, 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 was \$43,003 and \$36,328 for the years ended June 30, 2012 and 2011, respectively.



## MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

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### Notes To Financial Statements (*Continued*)

#### ***Compensated Absences***

For employees participating in the Kentucky Teachers Retirement System (KTRS), 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 while participating in the KTRS plan, but not yet realized. For employees participating in optional retirement plans (ORP), sick time is accrued as it is earned.

#### ***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 - 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.

*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.

## MURRAY STATE UNIVERSITY

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### Notes To Financial Statements (*Continued*)

*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.

#### ***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*.

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

***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.

***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>2012</u>	<u>2011</u>
Current accounts receivable:		
Student tuition and fees	\$ 5,169,526	\$ 4,912,314
Grants and contracts	1,494,665	2,297,071
Auxiliary fees	1,473,532	1,200,424
MSU and Racer Foundations	782,013	794,359
Employee computer and bicycle loans	13,178	19,478
Outside sales	682,886	994,692
Capital construction receivable - vendors	1,161	—
Allowance for doubtful accounts	(3,278,352)	(2,636,795)
	<u>\$ 6,338,609</u>	<u>\$ 7,581,543</u>

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

**3. Inventories**

Inventories as of June 30 consisted of:

	<u>2012</u>	<u>2011</u>
University bookstore - resale	\$ 1,488,590	\$ 1,554,297
Physical plant - supplies	342,397	348,804
Food services - resale and supplies	135,348	135,267
Art	42,367	44,135
CFSB concessions	14,282	10,116
Central stores - supplies	22,533	13,069
	<u>          </u>	<u>          </u>
Total inventories	<u>\$ 2,045,517</u>	<u>\$ 2,105,688</u>

**4. Loans Receivable**

Student loans made through the Federal Perkins Loan Program (Program) comprise substantially all of the loans receivable at June 30, 2012 and 2011. 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, 2012 and 2011 was \$227,206 and \$214,302, respectively.

Loans receivable as of June 30 consisted of:

	<u>2012</u>	<u>2011</u>
Current loans receivable:		
University loan programs	\$ 66,682	\$ 46,380
Federal nursing program	81,164	70,938
Federal Perkins program	653,718	605,169
Total current loans receivable, net	<u>801,564</u>	<u>722,487</u>
Noncurrent loans receivable:		
Federal nursing program	290,414	297,466
Federal Perkins program	3,096,284	3,036,198
Total noncurrent loans receivable, net	<u>3,386,698</u>	<u>3,333,664</u>
	<u>          </u>	<u>          </u>
Total loans receivable, net	<u>\$ 4,188,262</u>	<u>\$ 4,056,151</u>

## MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

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### Notes To Financial Statements (*Continued*)

#### 5. Deposits, Investments and Investment Income

##### *Deposits*

At June 30, 2012 and 2011, the carrying amounts of the University's bank balances and deposits were \$94,052,042 and \$82,617,603, respectively.

Currently the University maintains its deposits, outside of those held by the Commonwealth of Kentucky, in noninterest-bearing accounts at FDIC-insured institutions. With the passage of the Federal Dodd-Frank Act deposits held in noninterest-bearing transaction accounts with FDIC-insured institutions will be fully insured regardless of the amount in the account up to December 31, 2012. This action allows for the financial institutions to provide an interest earning credit to reduce service fees charged to the University.

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.

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Notes To Financial Statements (*Continued*)

Cash and cash equivalents as of June 30 consisted of:

	<u>2012</u>	<u>2011</u>
Depository accounts:		
Local bank deposits, insured or collateral held as a pledge in the University's name	\$ 11,026,760	\$ 8,022,173
Cash on hand	125,727	53,433
Foreign currency deposits	144,343	44,932
State Investment Pool - collateral required by KRS 41.240	<u>82,755,212</u>	<u>74,497,065</u>
Total deposits	<u>\$ 94,052,042</u>	<u>\$ 82,617,603</u>

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

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents, current	\$ 64,911,788	\$ 57,671,691
Restricted cash and cash equivalents	<u>29,140,254</u>	<u>24,945,912</u>
Total deposits	<u>\$ 94,052,042</u>	<u>\$ 82,617,603</u>

***Investments***

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

	<u>2012</u>	<u>2011</u>
Money market funds restricted for capital purposes	\$ 2,042,828	\$ 7,313,682
Restricted assets held by the Foundation	<u>20,672,655</u>	<u>20,400,369</u>
Total investments	<u>\$ 22,715,483</u>	<u>\$ 27,714,051</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.

# MURRAY STATE UNIVERSITY

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## Notes To Financial Statements (*Continued*)

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>2012</u>	<u>2011</u>
Percentage of pool invested in:		
Certificates of deposit and money market mutual funds	7%	3%
Mutual funds	27%	29%
Equity securities	49%	47%
Fixed income securities	16%	20%
Other	1%	1%
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.

*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.

*Foreign Currency Risk.* Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The University's investment policy does not address foreign currency risk. The University's current level of foreign currency exposure is considered immaterial.

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

***Investment Income***

Investment income for the years ended June 30 consisted of:

	<u>2012</u>	<u>2011</u>
Assets held by the University:		
Interest income	\$ 1,039,870	\$ 1,033,762
Assets held by MSU Foundation:		
Investment income restricted reserve funds	1,956	2,613
Investment income endowment funds	424,874	1,388,549
Net increase (decrease) in fair value of endowment investments	<u>(308,794)</u>	<u>1,342,940</u>
Total investment income	<u>\$ 1,157,906</u>	<u>\$ 3,767,864</u>

**6. Endowments**

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

	<u>2012</u>	<u>2011</u>
Endowment assets, beginning of year	\$ 18,644,438	\$ 17,208,049
Investment return		
Investment income	1,956	2,613
Net appreciation (depreciation)	<u>(308,794)</u>	<u>1,342,940</u>
Total investment return	<u>(306,838)</u>	<u>1,345,553</u>
Contributions	<u>535,403</u>	<u>90,836</u>
Endowment assets, end of year	<u>\$ 18,873,003</u>	<u>\$ 18,644,438</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, 2012, was as follows:

	Balance June 30, 2011	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2012
Land	\$ 9,825,663	\$ —	\$ 72,617	\$ —	\$ 9,898,280
Construction in progress	7,661,423	11,395,523	(4,298,058)	(232,940)	14,525,948
Museum and collectibles	561,577	10,558	—	—	572,135
Total capital assets not being depreciated	<u>18,048,663</u>	<u>11,406,081</u>	<u>(4,225,441)</u>	<u>(232,940)</u>	<u>24,996,363</u>
Buildings	247,271,737	—	1,550,618	(14,962)	248,807,393
Nonbuilding improvements	11,627,126	—	2,530,182	—	14,157,308
Equipment	27,621,306	1,383,811	144,641	(1,805,438)	27,344,320
Library holdings	30,253,988	354,193	—	(401,645)	30,206,536
Livestock	511,750	—	—	(115,000)	396,750
Software	1,932,019	—	—	—	1,932,019
Total other capital assets	<u>319,217,926</u>	<u>1,738,004</u>	<u>4,225,441</u>	<u>(2,337,045)</u>	<u>322,844,326</u>
Total capital assets before depreciation	<u>337,266,589</u>	<u>13,144,085</u>	<u>—</u>	<u>(2,569,985)</u>	<u>347,840,689</u>
Less accumulated depreciation:					
Buildings	116,663,148	5,655,432	—	(13,840)	122,304,740
Improvements other than buildings	7,209,749	661,013	—	—	7,870,762
Equipment	20,754,089	1,664,248	—	(1,748,375)	20,669,962
Library holdings	25,074,073	851,651	—	(381,562)	25,544,162
Livestock	178,559	35,562	—	(39,167)	174,954
Software	708,420	241,502	—	—	949,922
Total accumulated depreciation	<u>170,588,038</u>	<u>9,109,408</u>	<u>—</u>	<u>(2,182,944)</u>	<u>177,514,502</u>
Capital assets, net	<u>\$ 166,678,551</u>				<u>\$ 170,326,187</u>

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

Capital asset activity for the year ended June 30, 2011, was as follows:

	<b>Balance June 30, 2010</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deletions/ Retirements</b>	<b>Balance June 30, 2011</b>
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	<u>15,190,954</u>	<u>5,286,157</u>	<u>(1,311,189)</u>	<u>(1,117,259)</u>	<u>18,048,663</u>
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	<u>315,769,884</u>	<u>2,895,594</u>	<u>1,311,189</u>	<u>(758,741)</u>	<u>319,217,926</u>
Total capital assets before depreciation	<u>330,960,838</u>	<u>8,181,751</u>	<u>—</u>	<u>(1,876,000)</u>	<u>337,266,589</u>
Less accumulated depreciation:					
Buildings	111,088,847	5,601,203	—	(26,902)	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	<u>162,097,830</u>	<u>9,157,027</u>	<u>—</u>	<u>(666,819)</u>	<u>170,588,038</u>
Capital assets, net	<u>\$ 168,863,008</u>				<u>\$ 166,678,551</u>

**8. Accounts Payable**

Accounts payable at June 30 consisted of:

	<b>2012</b>	<b>2011</b>
Current accounts payable:		
Vendors	\$ 5,401,788	\$ 3,895,389
Payroll benefits and withholdings	1,551,367	799,246
MSU Foundation	128,160	61,288
Loans	10,411	25,315
Total accounts payable	<u>\$ 7,091,726</u>	<u>\$ 4,781,238</u>

# MURRAY STATE UNIVERSITY

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## Notes To Financial Statements (*Continued*)

### 9. Employee Benefits

#### *Kentucky Teachers Retirement System*

All employees required to hold a degree and occupying full-time positions, defined as seven-tenths (7/10) of normal full-time service on a daily or weekly basis, are required by state law to participate in the Kentucky Teachers Retirement System (KTRS) or an optional retirement plan, as allowed by KRS161.567. KTRS, a cost sharing, multiple-employer, public employee retirement system, provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age 60 or has less than 27 years of participation in the plan. The plan also provides for disability, death and survivor benefits and medical insurance.

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

Funding for the plan is provided from eligible employees who contribute 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:

	<b>Employees joined:</b>	
	<b><u>Before July 1, 2008</u></b>	<b><u>After July 1, 2008</u></b>
Employee Contributions	6.50%	7.16%
Employer Contributions	14.18%	14.84%
Optional Retirement Plan Participants	—	5.10%

The University's overall contributions to KTRS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$5,850,913, \$5,358,140 and \$5,321,936, respectively, and were equal to the required contributions.

# MURRAY STATE UNIVERSITY

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## Notes To Financial Statements (*Continued*)

### ***Kentucky Employee Retirement System***

Substantially, all other full-time University employees are required by law to participate in the Kentucky Employee Retirement System (KERS), a cost sharing multiple-employer, public employee retirement system. KERS provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age 65 or has less than 27 years of service. The plan also provides for disability, death and survivor benefits and medical insurance.

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

	<b>Employees joined:</b>	
	<b>Before</b>	<b>After</b>
	<b>September 1, 2008</b>	<b>September 1, 2008</b>
Non-Hazardous:		
Employee Contributions	5%	6%
Employer Contributions	19.82%	19.82%
Hazardous:		
Employee Contributions	8%	9%
Employer Contributions	28.98%	28.98%

The University's contributions to KERS for the years ended June 30, 2012, 2011 and 2010, were \$3,108,668, \$2,561,430 and \$1,812,805, respectively, and were equal to the required contributions.

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Notes To Financial Statements (*Continued*)

***University Health Self-Insurance Program***

The University maintains a self-insurance program for employees' health insurance. For the fiscal year ended June 30, 2012, the University paid approximately 82% 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, 2012 and 2011, totaled \$8,277,242 and \$7,242,932, 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>2012</u>	<u>2011</u>
Liability, beginning of year	\$ 629,454	\$ 914,092
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	10,063,963	8,910,709
Administrative and stop-loss fees	(1,079,344)	(974,386)
Claims paid	<u>(9,025,596)</u>	<u>(8,220,961)</u>
Liability, end of year	<u>\$ 588,477</u>	<u>\$ 629,454</u>

**10. Deferred Revenue**

Deferred revenue as of June 30 consisted of:

	<u>2012</u>	<u>2011</u>
Current deferred revenue:		
Prepaid tuition and fees	\$ 2,125,232	\$ 1,889,512
Grants and contracts	639,699	1,383,749
Auxiliary enterprises	<u>22,736</u>	<u>26,763</u>
Total current deferred revenue	<u>\$ 2,787,667</u>	<u>\$ 3,300,024</u>

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

**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, 2012:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>	<b>Long-Term Portion</b>
Bonds payable	\$ 41,800,000	\$ 27,935,000	\$ (23,660,000)	\$ 46,075,000	\$ 2,430,000	\$ 43,645,000
Less bond discounts	(614,532)	—	350,109	(264,423)	(17,012)	(247,411)
Plus bond premiums	—	200,607	(10,727)	189,880	12,873	177,007
Less bond deferred refunding loss	—	(2,645,624)	144,885	(2,500,739)	(173,861)	(2,326,878)
Bonds payable, net of discounts, premiums	41,185,468	25,489,983	(23,175,733)	43,499,718	2,252,000	41,247,718
City of Murray payable	9,235,000	9,250,000	(9,105,000)	9,380,000	285,000	9,095,000
Less bond deferred refunding loss	—	(405,000)	4,017	(400,983)	(19,286)	(381,697)
City of Murray payable, net	9,235,000	8,845,000	(9,100,983)	8,979,017	265,714	8,713,303
Master lease notes payable	5,322,542	—	(756,079)	4,566,463	783,942	3,782,521
Capital leases	898,000	—	(131,000)	767,000	138,000	629,000
Total bonds, notes and capital leases	<u>\$ 56,641,010</u>	<u>\$ 34,334,983</u>	<u>\$ (33,163,795)</u>	<u>\$ 57,812,198</u>	<u>\$ 3,439,656</u>	<u>\$ 54,372,542</u>

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2011:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>	<b>Long-Term Portion</b>
Bonds payable	\$ 44,080,000	\$ —	\$ (2,280,000)	\$ 41,800,000	\$ 2,360,000	\$ 39,440,000
Less bond discounts	(658,968)	—	44,436	(614,532)	(44,437)	(570,095)
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	1,022,000	—	(124,000)	898,000	131,000	767,000
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>

**MURRAY STATE UNIVERSITY**

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## Notes To Financial Statements (Continued)

**Maturity Information**

A schedule of the mandatory principal and interest payments (excluding bond discounts) is presented below:

<b>Years Ending June 30</b>	<b>Bonds</b>	<b>Notes</b>	<b>Total Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2013	\$ 2,430,000	\$ 1,206,942	\$ 3,636,942	\$ 2,052,715	\$ 5,689,657
2014	2,480,000	1,262,850	3,742,850	1,947,886	5,690,736
2015	2,535,000	1,320,843	3,855,843	1,837,972	5,693,815
2016	2,600,000	1,374,960	3,974,960	1,723,862	5,698,822
2017	2,685,000	1,436,248	4,121,248	1,604,164	5,725,412
2018-2022	13,665,000	2,406,620	16,071,620	6,355,836	22,427,456
2023-2027	14,000,000	2,375,000	16,375,000	3,420,678	19,795,678
2028-2032	5,680,000	2,725,000	8,405,000	734,834	9,139,834
2033	—	605,000	605,000	21,175	626,175
<b>Total</b>	<b>\$ 46,075,000</b>	<b>\$ 14,713,463</b>	<b>\$ 60,788,463</b>	<b>\$ 19,699,122</b>	<b>\$ 80,487,585</b>

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

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Original Issue	Balance Due June 30, 2012	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2012-2013
<b>Consolidated Educational Buildings</b>				
<b>Revenue Bonds Payable</b>				
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	\$ —	\$ 11,248	\$ —
<b>General Receipts Bonds Payable</b>				
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	\$ 12,530,000	\$ 550,012	\$ 560,000
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	7,065,000	261,949	310,000
Series A 2011 bonds dated July 12, 2011, with an interest rate of 2.00% to 4.50%; final principal payment date September 1, 2031; renovation of Elizabeth College	7,645,000	7,645,000	239,196	285,000
Series B 2011 refunding bonds dated July 26, 2011, with an interest rate of 2.00% to 3.75%; final principal payment date September 1, 2021; refunding of housing and Dining bonds series M, N, & O	4,670,000	4,160,000	95,558	480,000
Series C 2011 refunding bonds dated July 12, 2011, with an interest rate of 2.00% to 4.00%; final principal payment date September 1, 2027; refunding of housing and Dining bonds series P & Q	15,620,000	14,675,000	455,021	795,000
Total general receipts bonds payable	\$ 50,150,000	\$ 46,075,000	\$ 1,601,736	\$ 2,430,000
Bonds payable before discount	\$ 53,005,000	\$ 46,075,000	\$ 1,612,984	\$ 2,430,000
Less bond discount	—	(264,423)	—	(17,012)
Plus bond premium	—	189,880	—	12,873
Less bond deferred refunding loss	—	(2,500,739)	144,884	(173,861)
Total bonds payable	\$ 53,005,000	\$ 43,499,718	\$ 1,757,868	\$ 2,252,000



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

	Original Issue	Balance Due June 30, 2012	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2012-2013
<b>City of Murray Payable</b>				
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	\$ 205,000	\$ 187,059	\$ 205,000
Agreement dated April 17, 2012, with interest of 1.00% to 3.50%; final principal payment due June 1, 2033; Wellness Center	9,250,000	9,175,000	47,556	80,000
City of Murray payable before discount deferred refunding loss	19,250,000	9,380,000	234,615	285,000
Less bond deferred refunding loss	—	(400,983)	4,018	(19,286)
<b>Total City of Murray payable</b>	<b>\$ 19,250,000</b>	<b>\$ 8,979,017</b>	<b>\$ 238,633</b>	<b>\$ 265,714</b>
<b>Master Lease Notes Payable</b>				
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	\$ 3,465,059	\$ 144,505	\$ 575,992
Energy savings projects - Master lease dated June 29, 2010, with interest of 2.85%; final principal payment due June 29, 2017	1,500,000	1,101,404	34,988	207,950
<b>Total master lease payable</b>	<b>\$ 8,207,876</b>	<b>\$ 4,566,463</b>	<b>\$ 179,493</b>	<b>\$ 783,942</b>
<b>Capital Leases</b>				
University of Kentucky dated June 25, 1998, with interest rate at 5.14%; final principal payment due January 1, 2017; Crisp Center	\$ 2,200,000	\$ 767,000	\$ 48,532	\$ 138,000
<b>Less: Capitalized Interest</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (287,402)</b>	<b>\$ —</b>
<b>Total All Bond Issues, Notes Payable and Capital Leases</b>	<b>\$ 82,662,876</b>	<b>\$ 57,812,198</b>	<b>\$ 1,631,662</b>	<b>\$ 3,439,656</b>

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, 2012 and 2011, the sinking fund and reserve fund requirements have been funded as required.

## MURRAY STATE UNIVERSITY

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### Notes To Financial Statements (*Continued*)

On July 26, 2011, the Board of Regents issued \$4,670,000 General Receipts Refunding Bonds, 2011 Series B. The 2011 Series B bonds shall pay interest semiannually on March 1 and September 1. The transaction was considered to be a current refunding and the Housing and Dining System Revenue Bonds Series M, N and O were fully refunded on July 26, 2011. The 2011 Series B bonds bear interest at rates varying from 2.00% to 3.75% and mature serially through fiscal year 2021. The 2011 Series B bonds refunded the Housing and Dining Revenue Bonds Series M, N and O, which had an average interest rate of 4.7%, 4.6% and 4.5%, respectively. The current refunding decreased the University's total debt service payments by \$992,000 and results in an economic loss (difference between the present values of the old and new debt service payments) of \$322,614.

On July 12, 2011, the Board of Regents issued \$15,620,000 General Receipts Refunding Bonds, 2011 Series C to advance refund \$15,945,000 of outstanding Housing and Dining System Revenue Bonds Series P and Q. A sufficient amount of the proceeds were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 15 years by approximately \$1,815,000 and resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$723,592.

Pursuant to the original memorandum of agreement between the University and the City of Murray, Kentucky, for the Wellness Center, the City issued \$9,250,000 Kentucky General Obligations Bonds, Series 2012 to refund in advance of maturity the City's outstanding Series 2002 Bonds maturing on or after June 1, 2014. The University through the agreement participates in the retirement of the bonds through annual appropriations and pledges of certain revenue streams. The refunding was accounted for on the University's financial statements as an advanced refunding whereby the proceeds for the refunding debt was deposited into an irrevocable trust with an escrow agent to provide future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for these bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 21 years by \$2,130,666 and resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,649,631.

The refundings above resulted in a deferred amount on refunding which is reported in the accompanying basic financial statements as a reduction from revenue bonds payable, and is being charged to operating through 2021 using the straight-line method.

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

***Capital Leases***

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

	<u>2012</u>	<u>2011</u>
Capital lease assets, at cost	\$ 2,200,000	\$ 2,200,000
Less accumulated depreciation	<u>(1,760,000)</u>	<u>(1,705,000)</u>
Net book value	<u>\$ 440,000</u>	<u>\$ 495,000</u>

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

<u>Years Ending June 30</u>	<u>Total</u>
2013	\$ 179,576
2014	179,179
2015	179,349
2016	179,057
2017	<u>179,282</u>
	896,443
Less amount representing interest	<u>(129,443)</u>
Present value of capital lease obligations	<u>\$ 767,000</u>

**12. Deposits**

The deposits held as of June 30 consisted of:

	<u>2012</u>	<u>2011</u>
Current:		
Horse stall rentals	\$ 8,080	\$ 7,740
Racer card declining balances	77,481	84,831
Housing deposits	136,717	126,990
Agency account balances	<u>95,426</u>	<u>106,341</u>
Total current deposits	317,704	325,902
Noncurrent:		
Housing deposits	<u>374,730</u>	<u>361,595</u>
Total deposits	<u>\$ 692,434</u>	<u>\$ 687,497</u>

Noncurrent housing deposit additions were \$176,635 and \$226,984 for the years ended June 30, 2012 and 2011, respectively. Noncurrent housing deposit deductions were \$163,500 and \$152,400 for the years ended June 30, 2012 and 2011, respectively.

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

**13. Unrestricted Net Assets**

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

	<u>2012</u>	<u>2011</u>
Unrestricted net assets		
Allocated for:		
Prior year carryovers for		
Departmental operations	\$ 17,992,017	\$ 15,286,849
Encumbrances	746,269	532,300
Working capital	6,136,272	7,397,344
Revenue contingency	2,514,770	2,495,635
General contingency	31,473,534	28,082,667
Self insurance	900,000	900,000
	<u>900,000</u>	<u>900,000</u>
Total unrestricted net assets	<u>\$ 59,762,862</u>	<u>\$ 54,694,795</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, 2012 and 2011, the Foundation made payments of \$2,443,938 and \$2,783,318, respectively, on behalf of the University from restricted sources. Accounts receivable at June 30, 2012 and 2011, from the Foundation were \$368,254 and \$380,416, respectively. Accounts payable to the Foundation as of June 30, 2012 and 2011, 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>2012</u>	<u>2011</u>
Money market mutual funds	\$ 5,117,996	\$ 2,053,462
Certificates of deposit	283,200	283,200
Equity securities	36,135,096	31,901,697
Cash value of life insurance policies	485,110	455,011
Mutual funds	19,915,625	19,698,624
Asset-backed bonds	40,681	389,028
Mortgage-backed bonds	4,095,215	4,038,032
Government bonds	3,382,771	4,456,062
Municipal bonds	361,855	289,826
Corporate bonds	4,121,947	4,671,199
	<u>\$ 73,939,496</u>	<u>\$ 68,236,141</u>

Total investment return is comprised of the following:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 1,489,541	\$ 1,806,323
Realized gains on investments reported at fair value	298,188	1,230,782
Unrealized gains on investments reported at fair value	(1,104,784)	4,458,022
	<u>\$ 682,945</u>	<u>\$ 7,495,127</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>2012</u>	<u>2011</u>
Murray State University	\$ 20,672,655	\$ 20,400,370
Murray State University Alumni Association	1,051,585	1,082,101
Others	10,712	10,592
	<u>\$ 21,734,952</u>	<u>\$ 21,493,063</u>

# MURRAY STATE UNIVERSITY

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## Notes To Financial Statements (Continued)

### ***c) Annuities and Trusts Payable***

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from donors are recorded at fair value on the date of the gift. The Foundation has recorded a liability at June 30, 2012 and 2011 of \$132,406 and \$139,126, respectively, which represents the present value of the future gift 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 \$3,820,436 and \$3,902,953 at June 30, 2012 and 2011, 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>2012</u>	<u>2011</u>
Scholarships	\$ 7,259,148	\$ 6,861,050
Instruction and institutional support	6,020,604	5,831,803
Chairs and professorships	<u>335,980</u>	<u>333,004</u>
	<u>\$ 13,615,732</u>	<u>\$ 13,025,857</u>

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

Permanently restricted net assets at June 30 are restricted to:

	<u>2012</u>	<u>2011</u>
Investment in perpetuity, the income of which is expendable to support:		
Scholarships	\$ 26,236,325	\$ 25,993,152
Instruction and institutional support	5,744,430	5,573,360
Chairs and professorships	1,341,526	1,216,012
Operations of the Golf Course	191,373	191,150
Any activity of the Foundation	356,153	342,859
	<u>\$ 33,869,807</u>	<u>\$ 33,316,533</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>2012</u>	<u>2011</u>
Scholarships	\$ 1,108,198	\$ 1,066,733
Instruction and institutional support	1,335,740	1,716,583
	<u>\$ 2,443,938</u>	<u>\$ 2,783,316</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 \$413,760 and \$413,963 for the years ended June 30, 2012 and 2011, 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 \$6,157,700 and \$838,000 as of June 30, 2012 and 2011, 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, 2012					
	Natural Classification					
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	\$ 51,120,908	\$ 5,600,701	\$ 149,507	\$ 559,902	\$ —	\$ 57,431,018
Research	1,545,706	933,631	5,759	100,312	7,423	2,592,831
Public service	5,812,251	2,282,573	247,192	67,307	—	8,409,323
Libraries	1,766,390	1,339,030	105	27,102	—	3,132,627
Academic support	4,297,341	2,305,444	216,749	156,937	—	6,976,471
Student services	8,920,138	5,662,060	95,580	109,023	4,532	14,791,333
Institutional support	16,996,991	1,404,418	121,517	259,626	—	18,782,552
Operations and maintenance	6,488,716	3,785,861	5,249,048	37,994	—	15,561,619
Financial aid	—	—	—	—	12,665,288	12,665,288
Depreciation	—	7,870,697	—	—	—	7,870,697
Auxiliary	6,957,857	10,609,559	2,705,283	127,480	288,509	20,688,688
Auxiliary depreciation	—	1,238,711	—	—	—	1,238,711
<b>Total expenses</b>	<b>\$ 103,906,298</b>	<b>\$ 43,032,685</b>	<b>\$ 8,790,740</b>	<b>\$ 1,445,683</b>	<b>\$ 12,965,752</b>	<b>\$ 170,141,158</b>

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
<b>Total expenses</b>	<b>\$ 97,646,366</b>	<b>\$ 42,553,434</b>	<b>\$ 9,114,430</b>	<b>\$ 1,721,682</b>	<b>\$ 12,436,827</b>	<b>\$ 163,472,739</b>

## 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 Susan E. Bauernfeind Student Recreation and Wellness Center is the University's only reportable segment for fiscal year 2012.

##### *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, included all student housing, dining and student center facilities and related enterprises facilities that now exist at the main campus in Murray, Kentucky. The University issued revenue bonds for this system to finance certain activities of its housing and dining auxiliary enterprise. However, the University refunded all outstanding bonds issued under the 1965 Trust Indenture with general receipts bonds in 2012. Therefore, all general revenues of the University are obligated, if needed, for sources of repayment and specific Housing and Dining System revenues are no longer pledged for any outstanding debt.

Financial information of the Housing and Dining System segment are no longer required to be disclosed for 2012; however, for comparative purposes the fiscal year 2011 information is reported below. The bonds issued under the 1965 Trust Indenture were payable from and constituted a charge upon the gross revenue derived by the University from the operation of its Housing and Dining System. The revenues of the system consisted 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 did 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 year ended June 30, 2011 of the University's Housing and Dining segment is as follows:

***Housing and Dining System – Statements of Net Assets***

Current assets	\$ 4,770,426
Noncurrent assets	9,283,295
Capital assets, net of accumulated depreciation	<u>17,850,161</u>
Total assets	<u>31,903,882</u>
Liabilities	
Current liabilities	509,871
Noncurrent liabilities	<u>21,336,423</u>
Total liabilities	<u>21,846,294</u>
Net assets	
Invested in capital assets, net of related debt	—
Restricted	
Expendable capital	4,488,641
Expendable debt service	4,233,590
Unrestricted	<u>1,335,357</u>
Total net assets	<u>\$ 10,057,588</u>

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

Operating revenues	\$ 21,071,000
Operating expenses	(14,573,967)
Depreciation expense	<u>(757,897)</u>
Operating income	5,739,136
Nonoperating expenses	<u>(2,945,031)</u>
Change in net assets	2,794,105
Net assets, beginning of year	<u>7,263,483</u>
Net assets, end of year	<u>\$ 10,057,588</u>

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Notes To Financial Statements (*Continued*)

***Housing and Dining System - Condensed Statements of Cash Flows***

Cash flows from	
Operating activities	\$ 6,390,473
Noncapital financing activities	(2,155,133)
Capital and related financing activities	(2,615,122)
Investing activities	<u>(79,734)</u>
Net increase in cash	1,540,484
Cash, beginning of year	<u>6,842,845</u>
Cash, end of year	<u><u>\$ 8,383,329</u></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.

The City of Murray refunded the original bonds in the spring of 2012 to take advantage of an overall decrease in net interest costs. The terms of original agreement between the University and the City of Murray remained unchanged, with the exception of changes in the amount of debt and interest payments.

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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>2012</u>	<u>2011</u>
Assets		
Current assets	\$ 216,306	\$ 168,852
Noncurrent assets	1,481,395	1,542,353
Capital assets, net of accumulated depreciation	<u>8,587,514</u>	<u>8,856,229</u>
Total assets	<u>10,285,215</u>	<u>10,567,434</u>
Liabilities		
Current liabilities	38,062	51,967
Noncurrent liabilities	<u>8,979,018</u>	<u>9,235,000</u>
Total liabilities	<u>9,017,080</u>	<u>9,286,967</u>
Net assets		
Invested in capital assets, net of related debt	(391,504)	(114,697)
Restricted		
Expendable capital	715,314	528,008
Expendable debt service	728,070	704,910
Unrestricted	<u>216,255</u>	<u>162,246</u>
Total net assets	<u>\$ 1,268,135</u>	<u>\$ 1,280,467</u>

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

	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 77,682	\$ 87,161
Operating expenses	(517,669)	(622,520)
Depreciation expense	<u>(268,715)</u>	<u>(268,715)</u>
Operating loss	(708,702)	(804,074)
Nonoperating revenues	<u>696,370</u>	<u>887,968</u>
Change in net assets	(12,332)	83,894
Net assets, beginning of year	<u>1,280,467</u>	<u>1,196,573</u>
Net assets, end of year	<u>\$ 1,268,135</u>	<u>\$ 1,280,467</u>

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Notes To Financial Statements (*Continued*)

***Wellness Center - Condensed Statements of Cash Flows***

	<u>2012</u>	<u>2011</u>
Cash flows from		
Operating activities	\$ (427,654)	\$ (535,358)
Noncapital financing activities	553,163	515,279
Capital and related financing activities	117,485	138,493
Investing activities	<u>14,131</u>	<u>78,247</u>
Net increase in cash	257,125	196,661
Cash, beginning of year	<u>1,440,525</u>	<u>1,243,864</u>
Cash, end of year	<u><u>\$ 1,697,650</u></u>	<u><u>\$ 1,440,525</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.