
MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE
COMMONWEALTH OF KENTUCKY
FINANCIAL STATEMENTS
JUNE 30, 2014



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Independent Auditors' Report

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

Report On The Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Murray State University, (the University), a component unit of the State of Kentucky, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Murray State University as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Change In Accounting Principle

As discussed in Note 1 to the financial statements, in 2014, the University implemented the provisions of GASB Statement No. 65, *Items Previously Recognized as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 19 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.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2014, on our consideration of the University's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

RubinBrown LLP

October 1, 2014

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 (MSU) (University) for the year ended June 30, 2014. 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 four academic colleges and two schools. The University 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 11,000 students. For the 2013-14 academic year, tuition and fees increased by \$102 per semester for full time resident undergraduate students. Tuition and fees at the University continues to be 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 23 years with the release of the 2014 *U.S. News Best Colleges* list. The University is at eighth 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 25 private and public schools. The University scoring shows it to be the 14th top public regional university in the nation, the same as 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 "2014 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". The 2014 *Washington Monthly* college guide and rankings listed MSU at 17th overall and 9th among master's universities in their "Best Bang for the Buck" category.

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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 \$327.9 million, deferred outflows of \$2.5 million and liabilities of \$89.8 million. Net position, which represent the University's residual interest in assets and deferred outflows after liabilities are deducted, were \$240.6 million or 73 percent of total assets and deferred outflows. Net position increased by \$4.8 million from fiscal year 2013 to 2014.
- Fiscal operations were in accordance with the annual operating budget of approximately \$157.2 million. The University continued to be a strong employer for the region and employed 4,391 individuals, including 584 faculty and 1,156 staff members and 2,651 students. These totals include 1,393 regular and full time faculty and staff.
- Total operating state appropriations for fiscal year 2014 remained the same as for fiscal year 2013 at approximately \$48 million.
- The University secured funding from general receipts bonds in June 2013 totaling \$15.6 million for the renovation of Hester Hall and various projects under \$600,000. This residence hall was closed for fiscal year 2014. The majority of renovations were conducted in 2014 totaling \$6.8 million to date. Hester Hall opened for occupancy for the fall 2014 semester.
- 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	\$17.4 million
Market Value	\$20.6 million

These funds experienced an unrealized gain of \$1,647,227 in fiscal year 2014. This allowed for most program spending to remain constant during the fiscal year 2014. The Foundation operated with a 4.0% cap on endowment spending for the fiscal year 2014.

- The construction of the new Crisp Center in Paducah, KY was completed in the winter of 2013 and the facility opened in January 2014. This facility opened for classes for the spring 2014 semester.
- The University had leased the old Crisp Center held in Paducah, KY from the University of Kentucky for 16 years. With the opening of the new Crisp Center in Paducah, KY this lease arrangement ended on June 30, 2014.

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Management's Discussion And Analysis (*Continued*)

- The University conducted a campus wide budget review during 2013 to reallocate \$4.2 million for the fiscal year 2014 operating budget and conducted another review during 2014 to reallocate an additional \$2.1 million to be used in the fiscal year 2015 operating budget. Although these reallocations put additional strains on University operations, a balanced budget was adopted for fiscal year 2015.

Using the Financial Statements

The University's financial statements consist of Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, 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 MSU 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 Position

The Statement of Net Position present a financial picture of the University's financial condition at the end of the 2014 and 2013 fiscal years by reporting assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent) and net position. Net position, the difference between total assets plus deferred outflows less total liabilities, are an important indicator of the current financial condition, while the change in net position is an indicator of whether the overall financial position has improved or declined during the year.

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Management's Discussion And Analysis (*Continued*)

Assets

Total assets at the end of the fiscal year 2014 were \$327.9 million, of which capital assets, net of depreciation, represented the largest portion. Capital assets totaled approximately \$174.5 million or 53 percent of total assets and were primarily comprised of University-owned land, buildings, equipment, and library holdings. Cash and cash equivalents amounted to \$111.8 million or 34 percent of total assets. Total assets increased by \$4.6 million during the 2014 fiscal year. This increase in gross total assets is due primarily to the following items:

- \$4.8 million - Increase in net capital assets. Primarily driven by a \$14.6 million increase in construction-in-progress projects including \$7.3 million in Hester Hall renovations, and \$1.3 million for the new Breathitt Veterinary Center; less \$9.5 million in current year depreciation.
- \$2.0 million - Increase in restricted investments. \$1.7 million of this increase was due to the increase in market value of endowments, with an additional \$225,000 increase in restricted reserve and spendable receivables related to these endowments.
- (\$1.8 million) - Decrease in cash. This decrease in cash was the result of \$3.6 million increase in cash spent on capital purchases funded in prior years. This was offset by an increase of \$1.6 million in Auxiliary cash.

Total assets increased by \$22.3 million during the 2013 fiscal year due to the following:

- \$19.6 million - Increase in cash and cash equivalents. Primarily driven by a \$15.6 million increase due to the sale of the series 2013A general receipt bonds for renovations to Hester Hall, College Courts, and various other projects.
- \$1.9 million - Increase in endowment investments, including a \$1.3 million increase in the stock investments and a \$0.5 million increase in unrealized gains on investment.
- \$1.1 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.

MURRAY STATE UNIVERSITY

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Management's Discussion And Analysis (*Continued*)

Deferred Outflows of Resources

A new section of the Statement of Net Position added this fiscal year in compliance with GASB statement 65 - *Items Previously Reported as Assets and Liabilities*. This statement requires that the deferred bond refunding loss, previously reported as part of the "Long-term debt" lines, be reported instead as a deferred outflow of resources in fiscal year 2014. GASB statement 65 also requires that we restate this deferred outflow for all prior years reported within these financial statements. Deferred outflows consisted solely of bond refunding loss from the refunding of housing and dining bond series M, N, O, P, and Q. These deferred outflows were \$2.5 million for 2014 and restated as \$2.7 million for 2013, and \$2.9 million for 2012.

Liabilities

Total liabilities at the end of the 2014 fiscal year were \$89.8 million, a decrease of \$500,000. This change was due to the following:

- (\$3.6) million - Decrease in debt payable for current year payments on bonds, notes, and capital leases.
- \$1.9 million - Increase in accounts payable attributed primarily to the increase in payables for construction and renovation of \$1.3 million.
- \$725,000 - Increase in unearned revenues. \$172,000 in current unrestricted funds and \$553,000 in restricted funds primarily due to a new \$450,000 grant award for internship and professional programs.
- \$398,000 - Increase in accrued payroll due mainly to timing differences in payroll payments.

Total liabilities at the end of the 2013 fiscal year were \$90.3 million as restated, an increase of \$11.7 million. This change was due to the following:

- \$15.6 million - Increase in bonds payable for the issuance of 2013 Series A general receipt bonds.
- (\$3.9) million - Decrease in debt payable for current year payments on bonds, notes, and capital leases.

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Management's Discussion And Analysis (*Continued*)

Net Position

Net position, 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 position - Restricted nonexpendable net position 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 position - Restricted expendable net position 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 position held by the University that have no formal restrictions. Although unrestricted net position are not subject to externally imposed stipulations, substantially all of the unrestricted net position have been designated for various programs and initiatives, capital projects and working capital requirements.

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Management's Discussion And Analysis (*Continued*)

Condensed Statements of Net Position

	June 30, 2014	June 30, 2013 (Restated)	June 30, 2012 (Restated)
Assets			
Current assets	\$ 85,004,479	\$ 84,448,484	\$ 75,357,134
Noncurrent assets	68,357,845	69,100,899	55,242,435
Capital assets	174,526,454	169,768,630	170,326,187
Total assets	327,888,778	323,318,013	300,925,756
Deferred Outflows	2,515,426	2,708,574	2,901,721
Liabilities			
Current liabilities	24,504,802	20,783,959	21,028,979
Noncurrent liabilities	65,287,203	69,474,146	57,500,091
Total liabilities	89,792,005	90,258,105	78,529,070
Net position			
Invested in capital assets, net of related debt	117,117,865	117,493,949	115,994,450
Restricted for			
Nonexpendable	21,452,081	19,793,944	18,873,003
Expendable			
Scholarships, research, instruction and other	5,812,240	6,107,393	4,101,374
Loans	4,843,824	4,832,714	4,767,193
Capital	15,838,815	14,851,538	19,558,531
Debt service	1,553,637	1,671,296	2,240,995
Unrestricted	73,993,737	71,017,648	59,762,862
Total net position	\$ 240,612,199	\$ 235,768,482	\$ 225,298,408

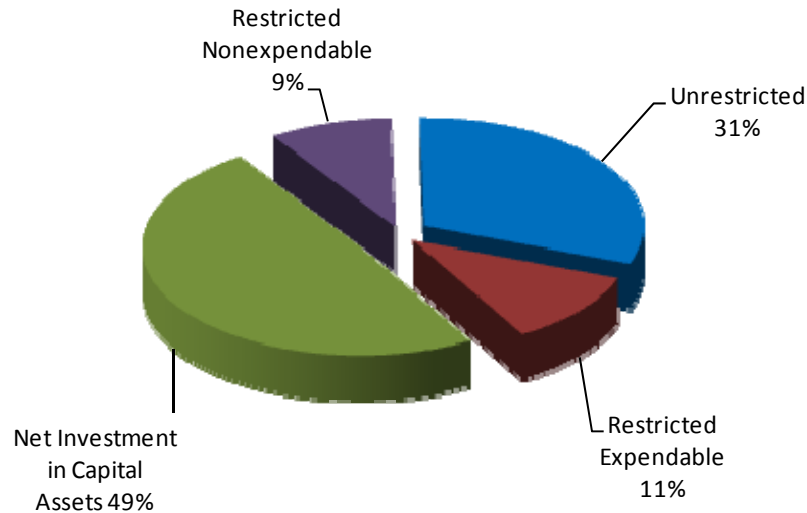
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Management's Discussion And Analysis (*Continued*)

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

University Net Position at June 30, 2014



Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position, 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 position as presented on the Statements of Net Position are based on the activity presented in the Statements of Revenues, Expenses and Changes in Net Position.

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 2014 fiscal year were \$110.2 million, including student tuition and fees, net of related discounts and allowances, of \$66.0 million, operating grants and contracts revenues of \$6.1 million, sales, services and other revenues of \$6.6 million, and auxiliary services net revenue of \$31.5 million.

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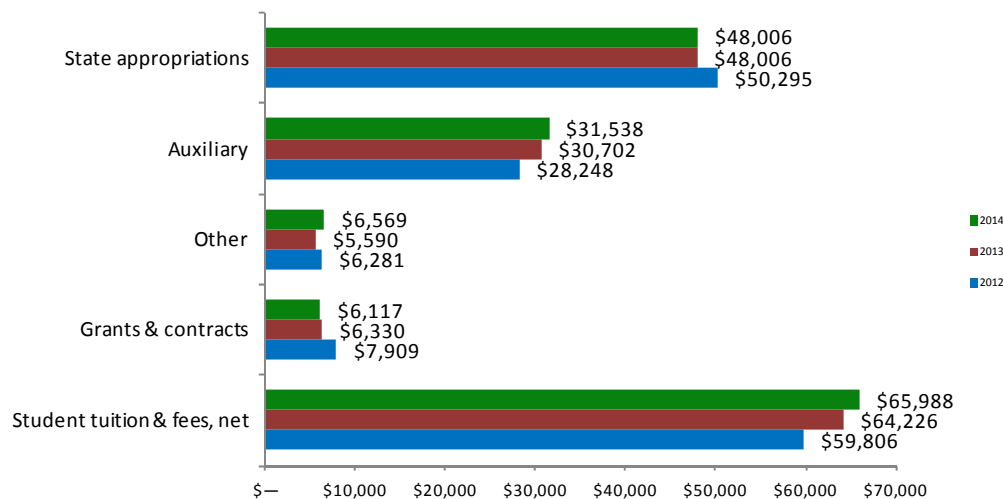
Management's Discussion And Analysis (*Continued*)

During 2014, operating revenues increased by \$3.4 million. This increase is comprised primarily of an increase of \$1.8 million from net student tuition and fees, \$979,000 from sales, services, and other revenues, and \$837,000 increase from auxiliary services, with a \$213,000 decrease in operating grants and contracts revenue.

The University received \$48 million in state appropriations for operations, for both 2014 and 2013. 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 2014 fiscal year were \$178.6 million. Academic affairs, which include instruction, research, libraries and academic support, represent the largest portion of the operating expenses totaling \$73.3 million or 41 percent. Student affairs, which include student services, financial aid and auxiliary services, was \$50.0 million or 28 percent and other expenses which include public service, institutional support, depreciation and operation and maintenance amounted to \$55.2 million or 31 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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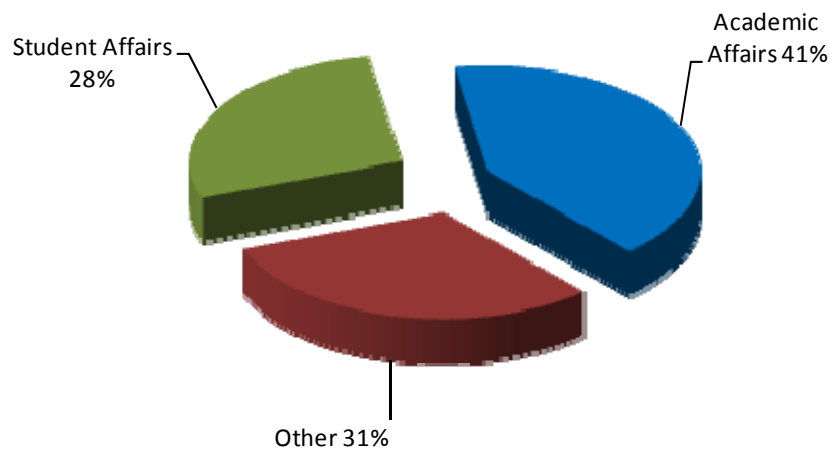
Management's Discussion And Analysis (*Continued*)

Operating expenses increased for the year ended June 30, 2014, by \$7.5 million. The primary reasons for increases in operating expenses are as follows:

- \$2.7 million - Increase in operation and maintenance of plant. This increase was caused by an increase in expenses related to capital projects including \$1.1 million for fan coil replacement in White and Hart Halls, \$741,000 for furnishings in the new Crisp Center, \$453,000 for accounting suite renovations in the business building, and a \$309,000 net increase in smaller campus wide renovation projects.
- \$2.5 million - Increase in instructional expenses including a \$1.7 million increase in educational and general fund salaries and benefits. \$946,000 of this increase was for salaries and wages, \$315,000 for health contributions, and \$309,000 for retirement contributions.
- \$910,000 - Increase in institutional support expenses including \$715,000 increase in bad debt expense due to one large targeted receivable deemed uncollectible.

Operating expenses by type are reflected in the following chart:

**University Operating Expenses
Year Ended June 30, 2014**



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Management's Discussion And Analysis (*Continued*)

The net loss from operations for the year ended June 30, 2014, was \$68.4 million. Nonoperating revenues, net of expenses, of \$73.1 million, insurance reimbursements of \$40,000, capital gifts of \$36,000 and additions to endowments of \$5,600 resulted in an increase in net position of \$4.8 million for the year ended June 30, 2014. This increase in net position is the result of an increase in operating revenues of \$3.4 million and an increase in investment income of \$1.3 million.

The net loss from operations for the year ended June 30, 2013, was \$64.3 million. Nonoperating revenues, net of expenses, of \$71.7 million, state capital appropriations of \$2 million, insurance reimbursements of \$41,000, and capital gifts of \$977,000 resulted in an increase in net position of \$10.5 million for the year ended June 30, 2013. This increase in net position is attributable to an increase in net student tuition and fees of \$4.5 million, an increase in unrealized gains on investment of \$1.2 million, auxiliary reserves for construction/renovation of \$1.1 million, and unspent web tuition revenues of \$1.1 million.

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

	2014	2013 (Restated)	2012 (Restated)
Operating revenues			
Student tuition and fees, net	\$ 65,988,011	\$ 64,226,109	\$ 59,805,670
Grants and contracts	6,117,059	6,330,336	7,909,199
Other	6,569,393	5,590,166	6,281,038
Auxiliary, net	31,538,445	30,701,678	28,248,321
Total operating revenues	<u>110,212,908</u>	<u>106,848,289</u>	<u>102,244,228</u>
Operating expenses			
Instruction	61,028,117	58,527,594	57,431,018
Other educational and general	86,079,615	81,403,150	82,912,044
Depreciation	8,244,719	8,431,901	7,870,697
Auxiliary enterprises	21,947,340	21,477,661	20,688,688
Auxiliary depreciation	1,277,967	1,264,334	1,238,711
Total operating expenses	<u>178,577,758</u>	<u>171,104,640</u>	<u>170,141,158</u>
Operating loss	<u>(68,364,850)</u>	<u>(64,256,351)</u>	<u>(67,896,930)</u>
Nonoperating revenues			
State appropriations	48,005,800	48,005,800	50,295,400
Other nonoperating revenues	25,120,252	23,702,981	21,720,720
Total nonoperating revenues	<u>73,126,052</u>	<u>71,708,781</u>	<u>72,016,120</u>
Other revenues			
State capital appropriations and other	<u>82,515</u>	<u>3,017,644</u>	<u>1,004,327</u>
Increase in net assets	4,843,717	10,470,074	5,123,517
Net position, beginning of year	<u>235,768,482</u>	<u>225,298,408</u>	<u>220,174,891</u>
Net position, end of year	<u>\$ 240,612,199</u>	<u>\$ 235,768,482</u>	<u>\$ 225,298,408</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, 2014:

The net cash used in operating activities reflects the net cash used for general operations of the University, which decreased by \$211,000 during 2014. This decrease in cash used was primarily due to increases in net tuition and fees offset by increases in payments for wages and fringes.

The cash flows from noncapital financing activities, increased by \$1.8 million during 2014. This change was primarily due to the increases in endowment investments. The change in endowment proceeds invested with MSU Foundation was \$754,000. The increase in endowment income, which represents the increase of unrealized gains in the market value of endowments was \$458,000. Also, there was an increase in non-operating grants and contracts of \$627,000.

The net cash flows provided by/(used in) capital and related financing activities represent cash used for the acquisition, construction and renovation of capital assets, changed from \$4.7 million provided during 2013 to (\$18.1 million) used during 2014, a (\$22.8 million) change. Of this decrease (\$15.6 million) is due to the 2013 issuance of Series A general receipt bonds issued for Hester Hall renovations, Campus Courts Sprinklers, and several other projects costing less than \$600,000 each. Also contributing to the decrease were a \$3.3 million increase in purchases of capital assets, primarily consisting of increases in construction-in-process projects including Hester Hall, and a \$2.0 million capital appropriation for Breathitt Veterinary Center that was received in 2013 and not in 2014.

The cash flows provided by investing activities represent the cash activities of investments, which decreased by (\$571,000) for 2014. This decrease was primarily the result of decreases in investment receipts, which were down (\$978,000) and decreases in proceeds from sales of investments, which were down (\$583,000). These decreases were partially offset by an \$994,000 increase in interest receipts on investments which were a result of reported gains on interest from the Office of Financial Management based on cash balances held in Frankfort.

For the year ended June 30, 2013:

The net cash used in operating activities reflects the net cash used for general operations of the University, which decreased by (\$2.1 million) during 2013. This decrease was primarily due to increases in net tuition and fees.

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Management's Discussion And Analysis (*Continued*)

The cash flows from noncapital financing activities, decreased by (\$3.1 million) during 2013. This change was primarily due to a decrease in State appropriations of (\$2.3 million), and a decrease in Comprehensive University Endowment Trust Fund (CUETF) gifts transferred to the MSU Foundation of (\$1.0 million) not received from the state in 2013.

The net cash flows provided by/(used in) capital and related financing activities represent cash used for the acquisition, construction and renovation of capital assets, changed from (\$10.8 million) used in 2012 to \$4.7 million provided during 2013, a \$15.5 million change. This change is due to the overall changes in debt due to new 2013 Series A general receipt bonds issued for Hester Hall renovations, Campus Courts Sprinklers, and several other projects costing less than \$600,000 each.

The cash flows provided by investing activities represent the cash activities of investments, which decreased by \$6.3 million for 2013. This change was primarily due the refinancing of housing and dining bonds in 2012. 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. Also a factor of the decrease was a receivable of (\$1.0 million) received in 2012. This receivable was non-recurring because the Commonwealth's Office of Financial Management (OFM) ceased posting unrealized gains and losses in 2012 and began to only post realized earnings. In addition, (\$846,000) decreased from 2012 to 2013 in realized interest earnings from the OFM. These decreases, coupled with reduced cash balances for the Elizabeth Hall Renovation project resulted in reduced interest earnings for 2013. Losses were offset by a \$150,000 increase in interest receipts from local accounts and MSU Foundation.

Condensed Statements of Cash Flows

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash provided/(used by):			
Operating activities	\$ (55,799,306)	\$ (56,009,942)	\$ (58,149,455)
Noncapital financing activities	71,598,909	69,835,004	72,907,264
Capital and related financing activities	(18,094,311)	4,679,273	(10,772,703)
Investing activities	504,301	1,074,972	7,449,333
Net increase in cash	<u>(1,790,407)</u>	<u>19,579,307</u>	<u>11,434,439</u>
Cash and cash equivalents, beginning of year	<u>113,631,349</u>	<u>94,052,042</u>	<u>82,617,603</u>
Cash and cash equivalents, end of year	<u>\$ 111,840,942</u>	<u>\$ 113,631,349</u>	<u>\$ 94,052,042</u>

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Management's Discussion And Analysis (*Continued*)

Capital Assets and Debt Administration

The University had a \$12.1 million increase in capital assets, before accumulated depreciation, during the fiscal year ended June 30, 2014. This change is primarily due to \$6.5 million spent in 2014 for renovations to Hester Hall, \$1.3 million in planning and development for the new Breathitt Veterinary Center (BVC), and an additional \$1.1 million for Elizabeth Hall renovations.

Construction in progress increased \$5.4 million in 2014. This increase was the result of renovating Hester Hall with 2014 costs of \$7.3 million and new BVC costs of \$1.3 million, offset by placing the basketball practice facility in service with a cost of \$4.2 million, and Heritage Hall renovations in service at \$1.3 million.

Buildings increased \$6.8 million in 2014, primarily due to placing the basketball practice facility in service at \$4.2 million and the Heritage Hall 1st and 2nd floor renovations at \$1.3 million. Also contributing to this increase were the additional building costs for Elizabeth Hall at \$734,000.

Capital assets as of June 30, 2014, and changes during the year are as follows:

	Balance	Net Change
	June 30, 2014	2013-14
Land	\$ 9,966,615	\$ 52,908
Construction in progress	14,635,575	5,436,717
Museum and collectibles	657,485	—
Buildings	267,306,268	6,837,908
Non-building improvements	14,699,121	79,329
Equipment	27,756,140	497,481
Software	1,932,019	—
Library holdings	29,543,470	(834,573)
Livestock	165,750	—
Accumulated depreciation	(192,135,989)	(7,311,946)
Total	<u>\$ 174,526,454</u>	<u>\$ 4,757,824</u>

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Management's Discussion And Analysis (*Continued*)

Debt as of June 30, 2014, and changes during the year are as follows:

	Balance June 30, 2014	Net Change 2013-14
General Receipts Bonds	\$ 56,800,000	\$ (2,480,000)
Bond discount	(230,399)	17,012
Bond premium	280,163	(18,674)
City of Murray	8,789,999	(305,001)
Master lease payable	2,969,670	(812,851)
Capital leases	629,000	—
Total	<u>\$ 69,238,433</u>	<u>\$ (3,599,514)</u>

Infrastructure Assets

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

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

Economic Factors Affecting Future Periods

- In 2014, the Commonwealth's Annual General Fund receipts rose for the fourth consecutive fiscal year following two years of declining receipts during the latest recession. However, in spite of the revenue increase in 2014, the overall budget experienced a \$91 million, or 1.0 percent, shortfall. In order to cover this deficit, the Governor took \$50 million from various accounts across state government and withdrew \$21 million from the already deteriorating rainy day fund.

Because of the 2014 shortfall, more pressure is placed on higher than budgeted General Fund revenue growth for 2015. The interim forecast suggests hitting the 2015 budgeted revenue might be difficult.

Given these conditions, there is some concern that there may be a mid-year budget rescission.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Management's Discussion And Analysis (*Continued*)

- MSU is seeking to procure an Energy Savings Performance Contract (ESPC) in the near future. Upon authorization from the Legislature, the project would allow for the replacement of older inefficient equipment and building components such as HVAC equipment & controls, windows and steam piping. The project would be financed through a guaranteed energy savings contract and the debt would be serviced with annual utility cost savings.
- Through in-house research, MSU has determined that there is a deferred maintenance (DM) backlog of \$51,645,000 which is critical to address within the next 5 years. A funding plan to address these needs has been developed which consists of the following 3 sources; 1) Capital Renewal (funding from state) - \$25,060,000, 2) Energy Savings Performance Contract - \$15,000,000 and 3) MSU reserves/annual DM budget - \$11,645,000. Approximately \$3,000,000 from MSU reserves/budget have been expended or encumbered for this purpose in the current fiscal year.
- The campus library needs have significantly grown and evolved in the past two decades. MSU has evaluated numerous options to address the library needs including a detailed analysis of constructing a new library. Due to funding limitations, it has been determined that the most cost effective and practical solution is to renovate the existing Waterfield Library and expand the space by about 10,000 square feet to meet the current and future needs. The preliminary cost estimate for the Waterfield Renovation and Expansion Project was determined in 2013 to be \$19,000,000. Additional study and analysis will be done for this project in preparation of the 2016-22 Capital Plan.
- The University provides health insurance to employees through a self-funded program. As reflected in national trends, the costs of health claims continue to be a major expense for the University. To help manage these costs, the University anticipates a full health plan and wellness program redesign for 2016.
- The Commonwealth of Kentucky funded the construction of new Engineering and Physics Building at a total costs to not exceed \$36.9 million. The Commonwealth has budgeted to fund \$31.9 million of the total scope of the project with the University contributing up to \$5 million. The University's contribution towards the project will come from educational and general reserves and be reimbursed by donor funds in future years.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Management's Discussion And Analysis (*Continued*)

- The University anticipates the issuance of \$28.5 million of general receipts bonds in late winter 2015 for the construction of a new Franklin Hall. This facility will be used solely as a residence hall and will house approximately 330 students. Franklin Hall is expected to open for occupancy in August 2016.

- Although the University expects to reach a historical enrollment of 11,000 students for the 2015 fiscal year, enrollment management will continue to be a primary focus for the University. During the upcoming year the University will be reviewing tuition rate structures, discounting and scholarship models, and recruitment initiatives. This work will be done in tandem with the development of an overall strategic plan.

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

STATEMENTS OF NET POSITION

Page 1 of 2

	June 30,	
	2014	2013
		(Restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 73,091,123	\$ 72,096,758
Accounts receivable, net	6,927,627	7,127,771
Inventories	2,190,429	2,269,102
Loans to students, net	759,587	751,291
Prepaid expenses	2,035,713	2,203,562
Total Current Assets	85,004,479	84,448,484
Noncurrent Assets		
Restricted cash and cash equivalents	38,749,819	41,534,591
Restricted investments	26,063,588	24,081,978
Loans to students, net	3,544,438	3,484,330
Capital assets	366,662,443	354,592,673
Accumulated depreciation	(192,135,989)	(184,824,043)
Total Noncurrent Assets	242,884,299	238,869,529
Total Assets	327,888,778	323,318,013
Deferred Outflows of Resources		
Bond refunding loss	2,515,426	2,708,574
Total Deferred Outflows of Resources	2,515,426	2,708,574

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF NET POSITION

Page 2 of 2

	June 30,	
	2014	2013 (Restated)
Liabilities		
Current Liabilities		
Accounts payable	\$ 8,760,247	\$ 6,898,679
Accrued payroll	6,376,748	5,978,398
Self-insured health liability	660,000	590,137
Interest payable	698,240	603,369
Unearned revenue	3,371,383	2,646,052
Deposits - current portion	318,679	322,812
Long-term debt - current portion	4,319,505	3,744,512
Total Current Liabilities	24,504,802	20,783,959
Noncurrent Liabilities		
Deposits	368,275	380,711
Long-term debt	64,918,928	69,093,435
Total Noncurrent Liabilities	65,287,203	69,474,146
Total Liabilities	89,792,005	90,258,105
Net Position		
Net investment in capital assets	117,117,865	117,493,949
Restricted for:		
Nonexpendable:		
Endowment	21,452,081	19,793,944
Expendable:		
Scholarships, research, instruction and other	5,812,240	6,107,393
Loans	4,843,824	4,832,714
Capital projects	15,838,815	14,851,538
Debt service	1,553,637	1,671,296
Unrestricted	73,993,737	71,017,648
Total Net Position	\$ 240,612,199	\$ 235,768,482

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

Page 1 of 2

Assets

	June 30,	
	2014	2013
Cash and cash equivalents	\$ 4,845,590	\$ 3,830,567
Accounts receivable	422,068	349,048
Investments	95,136,425	84,300,085
Real estate held for investment	1,269,086	87,086
Prepaid and other current assets	55,598	51,554
Contributions receivable, net	1,684,176	2,056,968
Property and equipment	4,564,313	4,388,381
Total Assets	\$ 107,977,256	\$ 95,063,689

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

Page 2 of 2

Liabilities And Net Assets

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Liabilities		
Accounts payable	\$ 72,122	\$ 90,723
Amount due to related parties	324,380	379,545
Accrued expenses	56,482	47,877
Deferred revenue	51,178	54,395
Assets held for others	25,936,345	23,784,727
Capital lease obligation	260,089	100,671
Annuities payable	4,691,876	4,937,459
Refundable advances	370,560	419,657
Total Liabilities	31,763,032	29,815,054
Net Assets		
Unrestricted	13,607,485	11,150,712
Temporarily restricted	24,823,940	18,448,960
Permanently restricted	37,782,799	35,648,963
Total Net Assets	76,214,224	65,248,635
Total Liabilities and Net Assets	\$ 107,977,256	\$ 95,063,689

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**
Page 1 of 2

	For The Years Ended June 30,	
	2014	2013 (Restated)
Operating Revenues		
Tuition and fees	\$ 106,385,210	\$ 101,421,417
Less: Discounts and allowances	(40,397,199)	(37,195,308)
Net tuition and fees	65,988,011	64,226,109
Federal grants and contracts	4,377,944	4,847,457
State grants and contracts	1,422,318	1,283,670
Private grants and contracts	316,797	199,209
Total grants and contracts	6,117,059	6,330,336
Sales and services of educational activities	3,789,277	3,288,936
Other operating revenues	2,780,116	2,301,230
Total sales, services, and other revenues	6,569,393	5,590,166
Auxiliary enterprises revenue	32,299,250	31,394,405
Less: Discounts and allowances	(760,805)	(692,727)
Net auxiliary revenue	31,538,445	30,701,678
Total Operating Revenues	110,212,908	106,848,289
Operating Expenses		
Instruction	61,028,117	58,527,594
Research	1,769,162	1,649,914
Public service	8,297,342	8,342,617
Libraries	3,330,269	3,216,670
Academic support	7,218,512	7,249,726
Student services	15,345,898	14,623,199
Institutional support	19,798,424	18,888,657
Operation and maintenance of plant	18,880,515	16,151,452
Student financial aid	11,439,493	11,280,915
Depreciation	8,244,719	8,431,901
Auxiliary enterprises	21,947,340	21,477,661
Auxiliary depreciation	1,277,967	1,264,334
Total Operating Expenses	178,577,758	171,104,640
Operating Loss	(68,364,850)	(64,256,351)

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**
Page 2 of 2

	For The Years Ended June 30,	
	2014	2013 (Restated)
Nonoperating Revenues (Expenses)		
State appropriations	\$ 48,005,800	\$ 48,005,800
Restricted student fees (revenues are pledged as security for the City of Murray debt agreement)	687,292	685,186
Federal grants and contracts	13,493,170	13,926,020
State grants and contracts	7,382,767	6,284,166
Local and private grants and contracts	506,299	545,269
Gifts	1,295,049	2,012,853
Investment income	3,802,141	2,551,311
Interest on capital asset-related debt	(1,679,830)	(1,483,275)
Loss on deletion and disposal of capital assets	(179,436)	(294,432)
Bond amortization	(187,200)	(524,117)
Nonoperating Revenues (Expenses), Net	73,126,052	71,708,781
Income Before Other Revenues, Expenses Gains and Losses	4,761,202	7,452,430
State Capital Appropriations	—	2,000,000
Insurance Proceeds	40,451	40,503
Capital Gifts	36,483	977,141
Additions to Permanent Endowments	5,581	—
Change in Net Position	4,843,717	10,470,074
Net Position - Beginning of Year	235,768,482	225,298,408
Net Position - End of Year	\$ 240,612,199	\$ 235,768,482

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES For The Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains And Other Support				
Contributions	\$ 121,098	\$ 2,356,651	\$ 2,011,885	\$ 4,489,634
Revenues from operations of the				
Frances E. Miller Memorial Golf Course	394,189	—	—	394,189
Fees	424,624	66,007	—	490,631
Investment return, net	3,515,104	6,399,006	16,713	9,930,823
Other	—	257,083	233,894	490,977
Change in value of annuities payable	—	—	(181,196)	(181,196)
Net assets released from restrictions	2,651,227	(2,651,227)	—	—
Total Revenues, Gains And Other Support	7,106,242	6,427,520	2,081,296	15,615,058
Expenses And Losses				
Payments made on behalf of Murray State University	2,651,227	—	—	2,651,227
Frances E. Miller Memorial Golf Course	456,688	—	—	456,688
General and administrative	1,541,554	—	—	1,541,554
Total Expenses And Losses	4,649,469	—	—	4,649,469
Change in Net Assets	2,456,773	6,427,520	2,081,296	10,965,589
Change in Donor Restrictions	—	(52,540)	52,540	—
Net Assets - Beginning of Year	11,150,712	18,448,960	35,648,963	65,248,635
Net Assets - End of Year	\$ 13,607,485	\$ 24,823,940	\$ 37,782,799	\$ 76,214,224

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES For The Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains And Other Support				
Contributions	\$ 19,647	\$ 2,793,223	\$ 1,036,570	\$ 3,849,440
Revenues from operations of the Frances E. Miller Memorial Golf Course	454,778	30,601	—	485,379
Fees	385,422	—	—	385,422
Investment return, net	2,710,091	5,222,179	30,133	7,962,403
Other	5,869	267,991	30,158	304,018
Change in value of annuities payable	—	—	(238,074)	(238,074)
Net assets released from restrictions	2,560,397	(2,560,397)	—	—
Total Revenues, Gains And Other Support	6,136,204	5,753,597	858,787	12,748,588
Expenses And Losses				
Payments made on behalf of Murray State University	2,560,397	—	—	2,560,397
Frances E. Miller Memorial Golf Course	454,653	—	—	454,653
General and administrative	1,414,247	—	—	1,414,247
Total Expenses And Losses	4,429,297	—	—	4,429,297
Change In Net Assets	1,706,907	5,753,597	858,787	8,319,291
Change in Donor Restrictions	—	(920,369)	920,369	—
Net Assets - Beginning Of Year	9,443,805	13,615,732	33,869,807	56,929,344
Net Assets - End Of Year	\$ 11,150,712	\$ 18,448,960	\$ 35,648,963	\$ 65,248,635

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF CASH FLOWS

Page 1 of 2

	For The Years Ended June 30,	
	2014	2013
Cash Flows From Operating Activities		
Tuition and fees	\$ 65,587,942	\$ 63,391,901
Grants and contracts	7,272,345	6,302,635
Payments for salaries, wages and fringes	(100,756,268)	(98,528,860)
Payments to suppliers	(32,158,891)	(30,517,247)
Payments for student financial aid	(11,439,493)	(11,280,915)
Loans issued to employees	(25,170)	(27,336)
Collections of loans to employees	21,130	30,090
Loans issued to students	(737,345)	(708,318)
Collections of loans to students	668,940	660,960
Sales and services of educational activities	3,923,136	3,478,832
Other operating revenues	2,681,705	2,232,390
Auxiliary revenues:		
Food Service	12,312,692	11,647,889
Housing	13,112,346	12,703,627
Bookstore	5,938,537	5,901,694
Other	189,179	180,377
Auxiliary payments:		
Payments for salaries, wages and fringes	(7,459,358)	(7,222,447)
Payments to suppliers	(14,667,153)	(13,993,949)
Payments for student financial aid	(263,580)	(261,265)
Net Cash Used in Operating Activities	(55,799,306)	(56,009,942)
Cash Flows From Noncapital Financing Activities		
State appropriations	48,005,800	48,005,800
Endowment proceeds forwarded to		
MSU Foundation for investment	(325,416)	(1,079,375)
Grants and contracts	21,382,235	20,755,455
Endowment income	1,647,227	1,189,219
Gifts for other than capital purposes	887,116	946,888
Agency transactions	1,947	17,017
Net Cash Provided by Noncapital Financing Activities	71,598,909	69,835,004
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt, net of discount	—	15,492,366
Restricted student fees pledged for debt service	687,292	685,186
Insurance proceeds	40,451	40,503
State capital appropriations	4,844	1,994,644
Purchases of capital assets	(12,978,876)	(8,594,995)
Capital gifts	—	630,993
Principal paid on capital debt and leases	(3,597,850)	(3,636,943)
Interest paid on capital debt and leases	(2,250,172)	(1,932,481)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(18,094,311)	4,679,273

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF CASH FLOWS

Page 2 of 2

	For The Years Ended June 30,	
	2014	2013
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	\$ 1,003	\$ 583,657
Purchases of investments	(4,389)	(139)
Investment receipts	(732,398)	245,803
Interest receipts on investments	1,240,085	245,651
Net Cash Provided by Investing Activities	504,301	1,074,972
Net Increase (Decrease) in Cash and Cash Equivalents	(1,790,407)	19,579,307
Cash and Cash Equivalents - Beginning of Year	113,631,349	94,052,042
Cash and Cash Equivalents - End of Year	\$ 111,840,942	\$ 113,631,349
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	\$ 73,091,123	\$ 72,096,758
Restricted cash and cash equivalents	38,749,819	41,534,591
Total Cash and Cash Equivalents	\$ 111,840,942	\$ 113,631,349
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (68,364,850)	\$ (64,256,351)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	9,522,686	9,696,235
Bad debt	1,033,461	318,264
Changes in assets and liabilities:		
Accounts and loans receivable, net	126,922	(832,864)
Inventories	78,673	(223,585)
Prepaid expenses	111,153	(866,621)
Accounts payable	517,648	352,575
Self-insured health liability	69,862	1,661
Accrued payroll	398,351	(53,413)
Deposits	(18,516)	(5,928)
Unearned revenue	725,304	(139,915)
Net Cash Used in Operating Activities	\$ (55,799,306)	\$ (56,009,942)
Supplemental Disclosure of Cash Flow Information		
Gifts of capital assets	\$ 36,483	\$ 346,148
Accounts payable incurred for capital asset purchases	879,296	680,306
Changes in fair value of investments	1,647,227	870,638

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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 10,900. 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), 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.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

Cash and Cash Equivalents

The University considers all highly liquid investments that are immediately available to the University to be cash equivalents. Funds held by the Commonwealth of Kentucky are considered cash equivalents.

Restricted Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments that are externally restricted are classified as restricted assets. These assets are used to make debt service payments, maintain sinking or reserve funds, purchase or construct capital or other noncurrent assets or for other restricted purposes.

Investments

The University accounts for its investments at fair value. Fair value is determined using quoted market prices. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net position.

Assets held by the Foundation represent those gifts and donations made directly to the University, which are held by the Foundation for investment purposes. The net appreciation and income of donor restricted endowments are available to the University for expenditure to the extent permitted by Kentucky law and the spending policy of the Foundation. The recognition of gifts, donations and endowment pledges are accounted for by the University in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* and are recognized when all applicable eligibility requirements are met.

Accounts Receivable

Accounts receivable consists of tuition and fee charges, other operational activities and auxiliary enterprise services and amounts due from component units. Accounts receivable also include amounts due from the federal government, state and local governments or private sources, for nonexchange type agreements defined in accordance with GASB No. 33 or in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

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

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

Capital Assets

All capital assets, as defined by University policy, are recorded at cost at the date of acquisition or, if donated, at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to functional expense categories. Assets under capital leases are amortized over the estimated useful life of the asset or the lease term, whichever is shorter. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

The following estimated useful lives are being used by the University:

Asset	Estimated Life
Buildings	40 years
Nonbuilding improvements	8-20 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 \$662,551 and \$531,788 for the years ended June 30, 2014 and 2013, 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.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

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.

Unearned Revenue

Unearned 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. Unearned 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.

Deferred Outflow of Resources and Deferred Inflow of Resources

In addition to assets, financial statements may report a separate section for deferred outflows of resources. Deferred outflows of resources consist of the consumption of net position that is applicable to a future reporting period and so will not be recognized as an outflow of resources until then. Deferred outflow of resources related to refunded long-term debt are reported in the statement of net position. A deferred bond refunding amount results from the difference in the carrying value of refunded debt and its reacquisition price, and is amortized over the shorter of the life of the old or new debt.

In addition to liabilities, financial statements may report a separate section for deferred inflows of resources. Deferred inflows of resources consist of the acquisition of net position that is applicable to a future reporting period and so will not be recognized as inflow of resources until then.

Net Position

The University's net position is classified as follows:

Net investment in capital assets: 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 net investment in capital assets.

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (*Continued*)

Restricted net position - nonexpendable: Nonexpendable restricted net position 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 position - expendable: Restricted expendable net position 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.

Unrestricted net position: Unrestricted net position 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. Unrestricted net position has been restated for 2013 to include balances for maintenance and renovation projects funded from unrestricted funds.

New Accounting Standard Implemented

During the year, the University implemented GASB Statement 65, *Items Previously Recognized as Assets and Liabilities* (GASB No. 65). The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead classify them as deferred outflows of resources (previously assets), deferred inflows of resources (previously liabilities), or as outflows of resources (expenses). As a result of implementing this statement, the following assets have been reclassified as of June 30, 2013 and 2012:

<u>Item</u>	<u>New Classification</u>	<u>2013</u>	<u>2012</u>
Deferred loss on refunding (previously included in bonds payable, net)	Deferred outflows of resources	\$ 2,708,574	\$ 2,901,721
Bond issuance costs, net of accumulated amortization (previously reported as an asset)	Outflow of resources	\$ 280,456	\$ 720,982

The University's implementation of GASB No. 65 resulted in certain presentation changes to the statement of net position. The effect of these changes has been applied retroactively; as a result, the net position as of July 1, 2013 and 2012 has been restated to reflect the expensing of bond issuance costs.

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Notes To Financial Statements (*Continued*)

The impact of this change on the University's financial statements is as follows:

	July 1,	
	2013	2012
Net position, as previously reported	\$ 236,769,920	\$ 226,019,390
Effect of change in accounting related		
to bond issuance costs	(1,047,813)	(720,982)
Amortization	46,375	—
Net position, as restated	\$ 235,768,482	\$ 225,298,408

Release of Restricted Net Position

When an expense is incurred for which both restricted and unrestricted net position 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>2014</u>	<u>2013</u>
Current accounts receivable:		
Student tuition and fees	\$ 6,796,938	\$ 6,641,697
Grants and contracts	1,140,582	1,360,401
Auxiliary fees	1,969,833	1,982,340
MSU and Racer Foundations	324,381	793,295
Employee computer and bicycle loans	14,464	10,424
Outside sales	573,902	481,699
Capital construction receivable - vendors	118,011	4,817
Allowance for doubtful accounts	(4,010,484)	(4,146,902)
	<u> </u>	<u> </u>
Total current accounts receivable	<u>\$ 6,927,627</u>	<u>\$ 7,127,771</u>

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

3. Inventories

Inventories as of June 30 consisted of:

	<u>2014</u>	<u>2013</u>
University bookstore - resale	\$ 1,567,270	\$ 1,644,137
Physical plant - supplies	351,489	353,138
Food services - resale and supplies	181,342	215,061
Art	43,085	41,172
CFSB concessions	14,267	13,499
Central stores - supplies	32,976	2,095
	<u> </u>	<u> </u>
Total inventories	<u>\$ 2,190,429</u>	<u>\$ 2,269,102</u>

4. Loans Receivable

Student loans made through the Federal Perkins Loan Program (Program) comprise substantially all of the loans receivable at June 30, 2014 and 2013. 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, 2014 and 2013 was \$234,016 and \$230,911, respectively.

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Notes To Financial Statements (*Continued*)

Loans receivable as of June 30 consisted of:

	<u>2014</u>	<u>2013</u>
Current loans receivable:		
University loan programs	\$ 66,682	\$ 50,303
Federal nursing program	85,761	80,657
Federal Perkins program	607,144	620,331
Total current loans receivable, net	<u>759,587</u>	<u>751,291</u>
Noncurrent loans receivable:		
Federal nursing program	369,864	333,254
Federal Perkins program	3,174,574	3,151,076
Total noncurrent loans receivable, net	<u>3,544,438</u>	<u>3,484,330</u>
Total loans receivable, net	<u>\$ 4,304,025</u>	<u>\$ 4,235,621</u>

5. Deposits, Investments and Investment Income

Deposits

At June 30, 2014 and 2013, the carrying amounts of the University's bank balances and deposits were \$111,840,942 and \$113,631,349, respectively.

Currently the University maintains its deposits, outside of those held by the Commonwealth of Kentucky, in noninterest-bearing accounts at FDIC-insured institutions. All accounts are insured up to \$250,000.

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.

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

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

Cash and cash equivalents as of June 30 consisted of:

	<u>2014</u>	<u>2013</u>
Depository accounts:		
Local bank deposits, collateral held as a pledge in the University's name	\$ 5,533,185	\$ 5,068,874
Cash on hand	62,942	61,361
Foreign currency deposits	143,985	30,826
State Investment Pool - collateral required by KRS 41.240	<u>106,100,830</u>	<u>108,470,288</u>
Total deposits	<u>\$ 111,840,942</u>	<u>\$ 113,631,349</u>

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

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents, current	\$ 73,091,123	\$ 72,096,758
Restricted cash and cash equivalents	<u>38,749,819</u>	<u>41,534,591</u>
Total deposits	<u>\$ 111,840,942</u>	<u>\$ 113,631,349</u>

Investments

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

	<u>2014</u>	<u>2013</u>
Money market funds restricted for debt service purposes	\$ 1,462,696	\$ 1,459,310
Restricted assets held by the Foundation	<u>24,600,892</u>	<u>22,622,668</u>
Total investments	<u>\$ 26,063,588</u>	<u>\$ 24,081,978</u>

Restricted investments for debt service 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>2014</u>	<u>2013</u>
Percentage of pool invested in:		
Certificates of deposit and money market mutual funds	9%	5%
Mutual funds	21%	31%
Equity securities	51%	49%
Fixed income securities	18%	14%
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.

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>2014</u>	<u>2013</u>
Assets held by the University:		
Interest income	\$ 1,240,085	\$ 257,112
Assets held by MSU Foundation:		
Investment income restricted reserve funds	—	2,032
Investment income endowment funds	914,829	1,421,529
Net increase in fair value of endowment investments	<u>1,647,227</u>	<u>870,638</u>
Total investment income	<u>\$ 3,802,141</u>	<u>\$ 2,551,311</u>

6. Endowments

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

	<u>2014</u>	<u>2013</u>
Endowment assets, beginning of year	<u>\$ 19,793,944</u>	<u>\$ 18,873,003</u>
Investment return		
Investment income	—	2,032
Net appreciation	<u>1,651,842</u>	<u>870,638</u>
Total investment return	<u>1,651,842</u>	<u>872,670</u>
Contributions	<u>6,295</u>	<u>48,271</u>
Endowment assets, end of year	<u>\$ 21,452,081</u>	<u>\$ 19,793,944</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, 2014 was as follows:

	Balance June 30, 2013	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2014
Land	\$ 9,913,707	\$ 21,465	\$ 35,000	\$ (3,557)	\$ 9,966,615
Construction in progress	9,198,858	13,971,977	(7,288,753)	(1,246,507)	14,635,575
Museum and collectibles	657,485	—	—	—	657,485
Total capital assets not being depreciated	19,770,050	13,993,442	(7,253,753)	(1,250,064)	25,259,675
Buildings	260,468,360	223,815	7,006,115	(392,022)	267,306,268
Nonbuilding improvements	14,619,792	—	79,329	—	14,699,121
Equipment	27,258,659	1,278,475	168,309	(949,303)	27,756,140
Library holdings	30,378,043	202,476	—	(1,037,049)	29,543,470
Livestock	165,750	—	—	—	165,750
Software	1,932,019	—	—	—	1,932,019
Total other capital assets	334,822,623	1,704,766	7,253,753	(2,378,374)	341,402,768
Total capital assets before depreciation	354,592,673	15,698,208	—	(3,628,438)	366,662,443
Less accumulated depreciation:					
Buildings	128,631,472	6,318,377	—	(352,753)	134,597,096
Improvements other than buildings	8,578,121	666,752	—	—	9,244,873
Equipment	20,339,880	1,588,355	—	(872,801)	21,055,434
Library holdings	26,029,379	696,550	—	(985,186)	25,740,743
Livestock	53,766	11,150	—	—	64,916
Software	1,191,425	241,502	—	—	1,432,927
Total accumulated depreciation	184,824,043	9,522,686	—	(2,210,740)	192,135,989
Capital assets, net	\$ 169,768,630				\$ 174,526,454

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

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2013
Land	\$ 9,898,280	\$ 510	\$ 14,917	\$ —	\$ 9,913,707
Construction in progress	14,525,948	6,799,148	(12,126,238)	—	9,198,858
Museum and collectibles	572,135	85,350	—	—	657,485
Total capital assets not being depreciated	<u>24,996,363</u>	<u>6,885,008</u>	<u>(12,111,321)</u>	<u>—</u>	<u>19,770,050</u>
Buildings	248,807,393	—	11,660,967	—	260,468,360
Nonbuilding improvements	14,157,308	—	462,484	—	14,619,792
Equipment	27,344,320	2,597,417	—	(2,683,078)	27,258,659
Library holdings	30,206,536	493,898	—	(322,391)	30,378,043
Livestock	396,750	105,490	—	(336,490)	165,750
Software	1,932,019	—	—	—	1,932,019
Total other capital assets	<u>322,844,326</u>	<u>3,196,805</u>	<u>12,123,451</u>	<u>(3,341,959)</u>	<u>334,822,623</u>
Total capital assets before depreciation	<u>347,840,689</u>	<u>10,081,813</u>	<u>12,130</u>	<u>(3,341,959)</u>	<u>354,592,673</u>
Less accumulated depreciation:					
Buildings	122,304,740	6,326,732	—	—	128,631,472
Improvements other than buildings	7,870,762	707,359	—	—	8,578,121
Equipment	20,669,962	1,616,173	—	(1,946,255)	20,339,880
Library holdings	25,544,162	791,489	—	(306,272)	26,029,379
Livestock	174,954	12,979	—	(134,167)	53,766
Software	949,922	241,503	—	—	1,191,425
Total accumulated depreciation	<u>177,514,502</u>	<u>9,696,235</u>	<u>—</u>	<u>(2,386,694)</u>	<u>184,824,043</u>
Capital assets, net	<u>\$ 170,326,187</u>				<u>\$ 169,768,630</u>

8. Accounts Payable

Accounts payable at June 30 consisted of:

	<u>2014</u>	<u>2013</u>
Current accounts payable:		
Vendors	\$ 6,634,869	\$ 4,976,279
Payroll benefits and withholdings	2,027,901	1,836,540
MSU Foundation	59,802	83,119
Loans	<u>37,675</u>	<u>2,741</u>
Total accounts payable	<u>\$ 8,760,247</u>	<u>\$ 6,898,679</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:

	Employees joined:	
	Before	After
	July 1, 2008	July 1, 2008
Employee Contributions	7.16%	7.16%
Employer Contributions	14.84%	14.84%
Optional Retirement Plan Participants	5.10%	5.10%

The University's overall contributions to KTRS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$6,176,040, \$5,966,577, and \$5,850,913, respectively.

Kentucky Employee Retirement System

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

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Notes To Financial Statements (*Continued*)

For all employees participating in the plan effective January 1, 2014, KERS provides a cash balance (hybrid plan) which determines retirement benefits for each participant based on individual accounts. The assets of the plan remain in a single investment pool like a traditional defined benefit plan. A cash balance plan is a defined plan since it uses a specific formula to determine benefits.

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

	Employees joined:	
	Before	After
	September 1, 2008	September 1, 2008
Employee:		
Non-Hazardous	5%	6%
Hazardous	8%	9%
Employer:		
Non-Hazardous	26.79%	26.79%
Hazardous	32.21%	32.21%

The University's contributions to KERS for the years ended June 30, 2014, 2013 and 2012, were \$4,250,881, \$3,693,561, and \$3,108,668, respectively, and were equal to the required contributions.

University Health Self-Insurance Program

The University maintains a self-insurance program for employees' health insurance. For the fiscal year ended June 30, 2014, the University paid approximately 84% 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, 2014 and 2013, totaled \$9,473,960 and \$8,596,210, respectively. Stop loss and administrative fees are disclosed in the chart below. The University's stop-loss insurance limits its exposure for claims to \$125,000 per individual.

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Notes To Financial Statements (*Continued*)

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

	<u>2014</u>	<u>2013</u>
Liability, beginning of year	\$ 590,137	\$ 588,477
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	11,313,184	10,668,147
Administrative and stop-loss fees	(1,333,416)	(1,197,541)
Claims paid	<u>(9,909,905)</u>	<u>(9,468,946)</u>
Liability, end of year	<u>\$ 660,000</u>	<u>\$ 590,137</u>

10. Unearned Revenue

Unearned revenue as of June 30 consisted of:

	<u>2014</u>	<u>2013</u>
Current unearned revenue:		
Prepaid tuition and fees	\$ 2,288,148	\$ 2,125,698
Grants and contracts	1,030,397	477,726
Auxiliary enterprises	<u>52,838</u>	<u>42,628</u>
Total current unearned revenue	<u>\$ 3,371,383</u>	<u>\$ 2,646,052</u>

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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, 2014:

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year	Long-Term Portion
Bonds payable	\$ 59,280,000	\$ —	\$ (2,480,000)	\$ 56,800,000	\$ 3,150,000	\$ 53,650,000
Less bond discounts	(247,411)	—	17,012	(230,399)	(17,012)	(213,387)
Plus bond premiums	298,837	—	(18,674)	280,163	18,674	261,489
Bonds payable, net of discounts premiums	57,004,549	—	(2,481,662)	56,849,764	3,151,662	53,698,102
City of Murray payable	9,095,000	—	(305,001)	8,789,999	325,000	8,464,999
Bonds payable, net of discounts	8,713,303	—	(305,001)	8,789,999	325,000	8,464,999
Master lease notes payable	3,782,521	—	(812,851)	2,969,670	842,843	2,126,827
Capital leases	629,000	—	—	629,000	—	629,000
Total bonds, notes and capital leases	<u>\$ 70,129,373</u>	<u>\$ —</u>	<u>\$ (3,599,514)</u>	<u>\$ 69,238,433</u>	<u>\$ 4,319,505</u>	<u>\$ 64,918,928</u>

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2013 (Restated):

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year	Long-Term Portion
Bonds payable	\$ 46,075,000	\$ 15,635,000	\$ (2,430,000)	\$ 59,280,000	\$ 2,480,000	\$ 56,800,000
Less bond discounts	(264,423)	—	17,012	(247,411)	(17,012)	(230,399)
Plus bond premiums	189,880	121,830	(12,873)	298,837	18,674	280,163
Bonds payable, net of discounts	46,000,457	15,756,830	(2,425,861)	59,331,426	2,481,662	56,849,764
City of Murray payable	9,380,000	—	(285,000)	9,095,000	305,000	8,790,000
Bonds payable, net of discounts	9,380,000	—	(285,000)	9,095,000	305,000	8,790,000
Master lease notes payable	4,566,463	—	(783,942)	3,782,521	812,850	2,969,671
Capital leases	767,000	—	(138,000)	629,000	145,000	484,000
Total bonds, notes and capital leases	<u>\$ 60,713,920</u>	<u>\$ 15,756,830</u>	<u>\$ (3,632,803)</u>	<u>\$ 72,837,947</u>	<u>\$ 3,744,512</u>	<u>\$ 69,093,435</u>

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (Continued)

Maturity Information

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

Years Ending June 30	Bonds	Notes	Total Principal	Interest	Total Payments
2015	\$ 3,150,000	\$ 1,167,842	\$ 4,317,842	\$ 2,244,860	\$ 6,562,702
2016	3,230,000	1,213,960	4,443,960	2,126,592	6,570,552
2017	3,330,000	1,266,247	4,596,247	2,002,920	6,599,167
2018	3,380,000	721,620	4,101,620	1,875,606	5,977,226
2019	3,460,000	395,000	3,855,000	1,761,972	5,616,972
2020-2024	17,185,000	2,205,000	19,390,000	6,931,519	26,321,519
2025-2029	16,720,000	2,510,000	19,230,000	3,306,120	22,536,120
2030-2034	6,345,000	2,280,000	8,625,000	747,964	9,372,964
Total	<u>\$ 56,800,000</u>	<u>\$ 11,759,669</u>	<u>\$ 68,559,669</u>	<u>\$ 20,997,553</u>	<u>\$ 89,557,222</u>

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (Continued)

Long-term liability activity for the year ended June 30, 2014 was as follows:

	Original Issue	Balance Due June 30, 2014	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2014-2015
General Receipts Bonds Payable				
Series A 2007 bonds dated July 31, 2007, with an interest rate of 4.00% to 4.50%; final principal payment date September 1, 2027; Richmond Hall	\$ 14,550,000	\$ 11,390,000	\$ 498,108	\$ 605,000
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 various projects under \$600,000	7,665,000	6,435,000	242,266	330,000
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 Hall	7,645,000	7,070,000	280,255	295,000
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	3,195,000	84,481	495,000
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	13,075,000	439,656	810,000
Series A 2013 bonds dated May 29, 2013, with an interest rate of 2.00% to 4.00%; final principal payment date September 1, 2033; renovation of Hester Hall, College Courts sprinklers, and various projects under \$600,000	15,635,000	15,635,000	438,776	615,000
Total general receipts bonds payable	<u>\$ 65,785,000</u>	<u>\$ 56,800,000</u>	<u>\$ 1,983,542</u>	<u>\$ 3,150,000</u>
Bonds payable before discount	\$ 65,785,000	\$ 56,800,000	\$ 1,983,542	\$ 3,150,000
Less bond discount	—	(230,399)	—	(17,012)
Plus bond premium	—	280,163	—	18,674
Total bonds payable	<u>\$ 65,785,000</u>	<u>\$ 56,849,764</u>	<u>\$ 1,983,542</u>	<u>\$ 3,151,662</u>

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

	Original Issue	Balance Due June 30, 2014	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2014-2015
City of Murray Payable				
Agreement dated April 17, 2012, with interest of 1.00% to 3.50%; final principal payment due June 1, 2033; Wellness Center refunding of the December 30, 2002 issue.	\$ 9,250,000	\$ 8,789,999	\$ 236,804	\$ 325,000
City of Murray payable before discount deferred refunding loss	\$ 9,250,000	\$ 8,789,999	\$ 236,804	\$ 325,000
Total City of Murray payable	<u>\$ 9,250,000</u>	<u>\$ 8,789,999</u>	<u>\$ 236,804</u>	<u>\$ 325,000</u>
Master Lease Payable				
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	\$ 2,290,157	\$ 98,862	\$ 622,739
Energy savings projects - Master lease dated June 29, 2010, with interest of 2.85%; final principal payment due June 29, 2017	1,500,000	679,513	23,174	220,103
Total master lease payable	<u>\$ 8,207,876</u>	<u>\$ 2,969,670</u>	<u>\$ 122,036</u>	<u>\$ 842,842</u>
Capital Leases				
University of Kentucky dated June 25, 1998, with interest rate at 5.14%; final principal payment due January 1, 2017; Crisp Center	\$ 2,200,000	\$ 629,000	\$ —	\$ —
Less: Capitalized Interest	\$ —	\$ —	\$ (662,551)	\$ —
Total All Bond Issues, Notes Payable and Capital Leases	<u>\$ 85,442,876</u>	<u>\$ 69,238,433</u>	<u>\$ 1,679,831</u>	<u>\$ 4,319,504</u>

The revenue bond indentures require the University to make deposits to sinking and reserve funds in annual amounts to meet the principal and interest payments due within the next 12 months, as well as maintain a reserve balance as a percentage of outstanding balances. As of June 30, 2014 and 2013, the sinking fund and reserve fund requirements have been funded as required.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

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>2014</u>	<u>2013</u>
Capital lease assets, at cost	\$ 2,200,000	\$ 2,200,000
Less accumulated depreciation	<u>(1,870,000)</u>	<u>(1,815,000)</u>
Net book value	<u>\$ 330,000</u>	<u>\$ 385,000</u>

The above represents a single capital lease for Murray State University. The lessor was notified in April 2014 that the University wished to no longer lease this property. Per the lease agreement the leased assets remained in possession of Murray State University through June 30, 2014 with the lessor taking possession on July 1, 2014. No future payments will be made on this lease by Murray State University.

12. Deposits

The deposits held as of June 30 consisted of:

	<u>2014</u>	<u>2013</u>
Current:		
Horse stall rentals	\$ 16,850	\$ 14,080
Racer card declining balances	38,166	55,299
Housing deposits	149,273	139,026
Agency account balances	114,390	114,407
Total current deposits	<u>318,679</u>	<u>322,812</u>
Noncurrent:		
Housing deposits	<u>368,275</u>	<u>380,711</u>
Total deposits	<u>\$ 686,954</u>	<u>\$ 703,523</u>

Noncurrent housing deposit additions were \$154,950 and \$336,970 for the years ended June 30, 2014 and 2013, respectively. Noncurrent housing deposit deductions were \$169,350 and \$329,025 for the years ended June 30, 2014 and 2013, respectively.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

13. Unrestricted Net Position

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

	2014	2013 (Restated)
Unrestricted net position		
Allocated for:		
Prior year carryovers for:		
Renovation and maintenance	\$ 5,487,999	\$ 2,704,449
Departmental operations	24,484,337	19,761,305
Encumbrances	1,451,867	920,565
Working capital	7,535,083	7,268,344
Revenue contingency	2,400,290	2,400,290
General contingency	31,974,161	37,372,557
Self insurance	660,000	590,138
	<hr/>	<hr/>
Total unrestricted net position	<u>\$ 73,993,737</u>	<u>\$ 71,017,648</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, 2014 and 2013, the Foundation made payments of \$2,651,227 and \$2,560,397, respectively, on behalf of the University from restricted sources. Accounts receivable at June 30, 2014 and 2013, from the Foundation were \$324,381 and \$379,545, respectively. Accounts payable to the Foundation as of June 30, 2014 and 2013 were not significant. Complete financial statements for the Foundation can be obtained from the MSU Foundation Office, 100 Nash House, Murray, Kentucky 42071.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

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

a) Investments and Investment Return

Investments at June 30 consisted of:

	<u>2014</u>	<u>2013</u>
Money market mutual funds	\$ 4,597,389	\$ 4,107,658
Certificates of deposit	4,028,672	33,200
Equity securities	48,238,839	41,471,580
Cash value of life insurance policies	207,071	194,758
Mutual funds	20,047,816	25,912,095
Asset-backed bonds	200,250	—
Mortgage-backed bonds	1,371,708	3,179,363
Government bonds	10,021,623	5,126,702
Municipal bonds	434,790	596,246
Corporate bonds	5,470,351	3,071,315
Annuities	517,916	607,168
	<u>\$ 95,136,425</u>	<u>\$ 84,300,085</u>

Total investment return is comprised of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 1,386,047	\$ 1,669,120
Realized gains on investments reported at fair value	2,605,991	3,180,839
Unrealized gains on investments reported at fair value	5,938,785	3,112,444
	<u>\$ 9,930,823</u>	<u>\$ 7,962,403</u>

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

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

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>2014</u>	<u>2013</u>
Murray State University	\$ 24,592,501	\$ 22,622,668
Murray State University Alumni Association	1,297,960	1,151,280
Others	45,884	10,779
	<u>\$ 25,936,345</u>	<u>\$ 23,784,727</u>

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, 2014 and 2013 of \$1,040,876 and \$1,079,638, respectively, which represents the present value of the future gift annuity obligations. The liability has been determined using discount rates ranging from 1.2% to 7.0%.

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 \$3,651,000 and \$3,857,821 at June 30, 2014 and 2013, respectively, which was calculated using discount rates ranging from 1.8% to 8%, and applicable mortality tables.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

d) Net Position

Temporarily Restricted Net Position

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

	<u>2014</u>	<u>2013</u>
Scholarships	\$ 14,560,634	\$ 9,748,381
Instruction and institutional support	9,732,155	8,239,678
Chairs and professorships	531,151	460,901
	<u>\$ 24,823,940</u>	<u>\$ 18,448,960</u>

Permanently restricted net position at June 30 are restricted to:

	<u>2014</u>	<u>2013</u>
Investment in perpetuity, the income of which is expendable to support:		
Scholarships	\$ 27,694,545	\$ 26,505,911
Instruction and institutional support	7,372,831	6,532,695
Chairs and professorships	2,137,703	2,048,139
Operations of the Golf Course	191,733	191,603
Operating activities of the Foundation	385,987	370,615
	<u>\$ 37,782,799</u>	<u>\$ 35,648,963</u>

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

	<u>2014</u>	<u>2013</u>
Scholarships	\$ 1,446,813	\$ 1,194,933
Instruction and institutional support	1,204,414	1,365,464
	<u>\$ 2,651,227</u>	<u>\$ 2,560,397</u>

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

Murray State University Athletic Foundation, Inc.

Murray State University Athletic Foundation, Inc. (Racer Foundation) was a Kentucky nonprofit corporation formed to enhance the academic and athletic experience of the University student-athlete. The Racer Foundation had a Board of Directors separate from that of the University. The University did not control the timing or amount of receipts from the Racer Foundation, the majority of resources or income thereon that the Racer Foundation held and invested. The resources held by the Racer Foundation can only be used by, or for the benefit of, the University. The Racer Foundation was 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.

In June 2014, the Murray State University Athletic Foundation, Inc. was dissolved. Assets, consisting of cash and real estate held for sale, were gifted to the Murray State University Foundation. Liabilities, consisting of payables to Murray State University, were written off as bad debt expense.

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 \$3,007,797 and \$2,386,499 as of June 30, 2014 and 2013, respectively.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

Government Grants

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single Audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

16. Natural Expense Classifications with Functional Classifications

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

Fund Classification	Year Ended June 30, 2014					
	Natural Classification					
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	\$ 53,722,084	\$ 5,891,460	\$ 201,995	\$ 1,212,578	\$ —	\$ 61,028,117
Research	1,295,451	404,893	—	68,818	—	1,769,162
Public service	5,673,020	2,298,314	226,173	99,835	—	8,297,342
Libraries	1,916,065	1,339,653	96	74,455	—	3,330,269
Academic support	4,434,612	2,464,007	50,735	269,158	—	7,218,512
Student services	9,501,562	5,502,578	73,754	252,004	16,000	15,345,898
Institutional support	17,795,980	1,809,969	84,195	108,280	—	19,798,424
Operations and maintenance	7,158,150	6,024,036	5,682,214	16,115	—	18,880,515
Financial aid	—	—	—	—	11,439,493	11,439,493
Depreciation	—	8,244,719	—	—	—	8,244,719
Auxiliary	7,459,358	11,362,496	2,732,754	129,152	263,580	21,947,340
Auxiliary depreciation	—	1,277,967	—	—	—	1,277,967
Total expenses	<u>\$ 108,956,282</u>	<u>\$ 46,620,092</u>	<u>\$ 9,051,916</u>	<u>\$ 2,230,395</u>	<u>\$ 11,719,073</u>	<u>\$ 178,577,758</u>

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

Fund Classification	Year Ended June 30, 2013					
	Natural Classification					
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	\$ 51,990,426	\$ 5,646,398	\$ 149,556	\$ 741,214	\$ —	\$ 58,527,594
Research	1,316,923	309,536	—	23,455	—	1,649,914
Public service	5,945,310	2,039,033	220,548	137,726	—	8,342,617
Libraries	1,704,200	1,353,307	87	159,076	—	3,216,670
Academic support	4,414,547	2,503,479	158,162	173,038	500	7,249,726
Student services	9,257,896	5,059,022	77,789	208,147	20,345	14,623,199
Institutional support	17,435,632	1,172,420	98,639	181,966	—	18,888,657
Operations and maintenance	6,697,346	4,062,565	5,342,716	48,825	—	16,151,452
Financial aid	—	—	—	—	11,280,915	11,280,915
Depreciation	—	8,431,901	—	—	—	8,431,901
Auxiliary	7,222,447	11,171,067	2,711,203	111,679	261,265	21,477,661
Auxiliary depreciation	—	1,264,334	—	—	—	1,264,334
Total expenses	<u>\$ 105,984,727</u>	<u>\$ 43,013,062</u>	<u>\$ 8,758,700</u>	<u>\$ 1,785,126</u>	<u>\$ 11,563,025</u>	<u>\$ 171,104,640</u>

17. Segment Information

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

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 refinanced 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.

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

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

Wellness Center - Condensed Statements of Net Position

	2014	2013 (Restated)
Assets		
Current assets	\$ 534,758	\$ 327,545
Noncurrent assets	1,753,477	1,617,112
Capital assets, net of accumulated depreciation	8,050,083	8,318,799
Total assets	10,338,318	10,263,456
Deferred outflows of resources		
Bond refunding loss	362,411	381,697
Total deferred outflows of resources	362,411	381,697
Liabilities		
Current liabilities	35,161	35,617
Noncurrent liabilities	8,789,999	9,095,001
Total liabilities	8,825,160	9,130,618
Net position		
Net invested in capital assets	(377,506)	(394,505)
Restricted		
Expendable capital	982,318	852,072
Expendable debt service	735,967	729,429
Unrestricted	534,790	327,539
Total net position	\$ 1,875,569	\$ 1,514,535

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

	2014	2013
Operating revenues	\$ 88,541	\$ 78,821
Operating expenses	(549,526)	(482,219)
Depreciation expense	(268,715)	(268,715)
Operating loss	(729,700)	(672,113)
Nonoperating revenues	1,090,734	918,513
Change in net position	361,034	246,400
Net position, beginning of year	1,514,535	1,268,135
Net position, end of year	\$ 1,875,569	\$ 1,514,535

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

Wellness Center - Condensed Statements of Cash Flows

	<u>2014</u>	<u>2013</u>
Cash flows from		
Operating activities	\$ (460,688)	\$ (386,658)
Noncapital financing activities	573,638	539,441
Capital and related financing activities	224,611	93,604
Investing activities	6,055	614
Net increase in cash	<u>343,616</u>	<u>247,001</u>
Cash, beginning of year	<u>1,944,651</u>	<u>1,697,650</u>
Cash, end of year	<u><u>\$ 2,288,267</u></u>	<u><u>\$ 1,944,651</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.