

Murray State University



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Independent Accountants' Report on Financial Statements and Supplementary Information

President F. King Alexander and
Board of Regents
Murray State University
Murray, Kentucky

We have audited the accompanying basic financial statements of Murray State University (University), a component unit of the state of Kentucky, as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Murray State University as of June 30, 2003 and 2002, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19, in 2003 the University changed its method of accounting for donations received by Murray State University Foundation on behalf of the University by retroactively restating prior years' financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2003, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

President F. King Alexander and
Board of Regents
Page Two

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

Our audits were conducted for the purpose of forming an opinion on statements the University's basic financial statements. The accompanying schedule of expenditures of federal awards required by *U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part to the basic

Murray State University

Management's Discussion and Analysis

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Murray State University (University) for the year ended June 30, 2003. 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 within 40 miles of Illinois, Missouri, and Tennessee. Murray State has study centers in four other cities

Murray State University

Management's Discussion and Analysis

- Ø State appropriations from the Commonwealth of Kentucky fell by \$1.3 million or 2.6% from 2002 to 2003. Due to this appropriations reduction, permanent reductions in departmental operating budgets were required to balance the current year budget.
- Ø Construction continues on a \$13 million science complex, funded by the Commonwealth in the 2000-2002 biennium budget. This is the first phase of a two phase project.
- Ø The West Kentucky Post-Secondary Education Center in Hopkinsville, Kentucky, opened for classes in the fall 2002 semester. The University had a first semester enrollment of 311 students at this center.
- Ø The University entered into an agreement with the City of Murray, Kentucky to sell \$10 million in bonds for the funding of a new student recreation/wellness center to be located on the University's campus. A student fee was approved the Board of Regents and by the Student Government Association to be used for the funding of this project. The project is scheduled for completion in January 2005.
- Ø A major internal and external renovation of Winslow Cafeteria began in the summer of 2003. Internal renovations are scheduled for completion prior to the start of the fall 2003 semester and external renovations are planned to be finished before the semester is complete. This project will be funded from the sale of \$2.5 million of housing and dining system bonds in 2003-04. Winslow Cafeteria serves the north residential college complex.
- Ø Grant funding of \$3 million was secured from state and federal agencies to construct the Western Regional Center for Emerging Technologies on the University's campus. This facility is planned for completion in the 2003-04 fiscal year. This facility will act to promote economic and technological development within the region, through the combined efforts of the University and state economic development initiatives.

Murray State University

Management's Discussion and Analysis

Using the Financial Statements

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

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

Balance Sheets

The Balance Sheets present a financial picture of the University's financial condition at the end of the 2003 and 2002 fiscal years by reporting assets (current and noncurrent), liabilities (current and noncurrent), and net assets. Net assets, the difference between total assets and total liabilities, are an important indicator of the current financial condition, while the change in net assets is an indicator of whether the overall financial position has improved or worsened during the year.

Assets

Total assets at the end of the fiscal year 2003 were \$183.3 million, of which capital assets, net of depreciation, represented the largest portion. This group of assets totaled approximately \$107.1 million or 58% of total assets and was primarily comprised of university-owned land, buildings, equipment and library holdings. Cash and cash equivalents amounted to \$47.5 million or 26% of total assets. Approximately half of the cash and cash equivalents total was for capital construction commitments and debt services requirements. Total assets increased by \$7.8 million during the year, which is primarily due to funding secured for future capital assets.

Liabilities

Total liabilities at the end of the fiscal year 2003 were \$54.5 million. Debt obligations for educational buildings and the housing and dining system facilities amounted to \$30.2 million. During the year, total liabilities increased by \$6.2 million largely due to new debt to construct a student recreation/wellness center.

Murray State University

Management's Discussion and Analysis

Condensed Balance Sheets

	June 30, 2003	June 30, 2002
Assets:		
Current assets	\$ 29,216,953	\$ 26,040,231
Noncurrent assets	46,974,282	41,562,542
Capital assets, net	107,147,545	107,904,063
Total assets	183,338,780	175,506,836
Liabilities:		
Current liabilities	24,961,998	22,665,907
Noncurrent liabilities	29,542,035	25,601,693
Total liabilities	54,504,033	48,267,600
Net assets:		
Invested in capital assets, net of related debt	\$ 85,104,843	\$ 85,180,207
Restricted for:		
Nonexpendable	11,380,920	11,481,418
Expendable:		
Scholarships, research, and other	2,552,561	2,118,590
Loans	4,985,017	5,002,921
Capital	4,100,350	3,895,800
Debt service	3,587,330	3,646,230
Unrestricted	17,123,726	15,914,070
Total net assets	128,834,747	127,239,236
Total liabilities and net assets	\$ 183,338,780	\$ 175,506,836

Net Assets

Net assets, which represent total equity, of th

Murray State University

Management's Discussion and Analysis

- § Restricted expendable net assets - Restricted expendable net assets consist of those assets that may be expended by the University, but must be spent for purposes as defined by the donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- Unrestricted - This category represents the net assets held by the University that have no formal restrictions placed upon them. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the unrestricted net assets have been designated for various programs and initiatives, capital projects and working capital requirements.

The allocation of net assets between these three

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Management's Discussion and Analysis

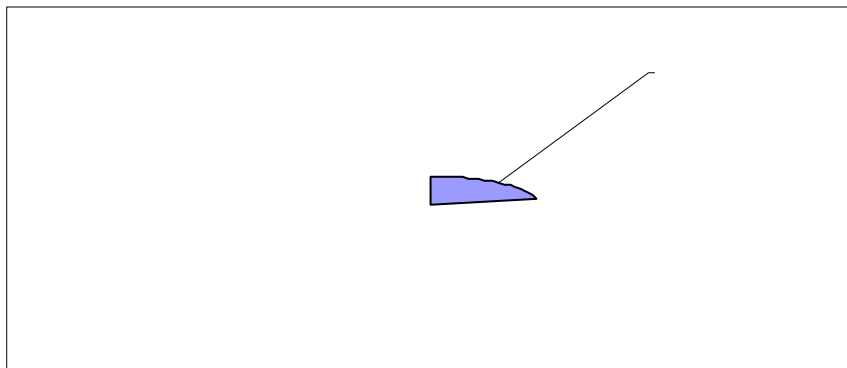
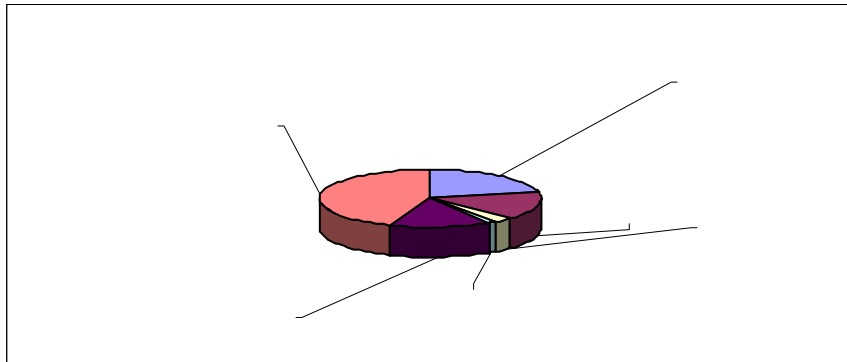
Revenues

Total operating revenues, which exclude state appropriations, for the 2003 fiscal year were \$63.4 million, including student tuition and fees, net of related discounts and allowances, of \$25 million, operating grants and contracts revenues of \$17.2 million, and auxiliary services net revenue of \$16.5 million.

Operating revenues increased during the year by \$6.4 million. This increase is comprised of \$3.6 million from net student tuition and fees, driven by increased student enrollment and on campus residency, and \$3.1 million from federal and state student aid.

The University received \$50.4 million of state appropriations, a decrease from 2002 of \$1.3 million or 2.6%, in state support. 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 charts:



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Management's Discussion and Analysis

Expenses

Total operating expenses for the 2003 fiscal year were \$121.1 million. Of this amount, \$99.9 million were for educational and general expenses, including instruction, academic support, and operation and maintenance. Instructional program expenses represent the most significant portion of the educational and general operating expenses, totaling \$45.8 million or 46% of the total educational and general portion. Remaining operating expenses were for depreciation and auxiliary services, which amounted to \$6.5 million and \$14.8 million respectively. Depreciation was not allocated to each program group, but presented as a single expense item representing depreciation for all areas of the University.

Operating expenses increased for the year ended June 30, 2003 by \$8.3 million. This change is largely due to increases in salaries, fringe benefits, including the self-insured health insurance fund, utilities, property insurance and other fixed costs.

The net loss from operations for the year ended June 30, 2003, was \$57.7 million. Nonoperating revenues, net of expenses, amounted to \$55.4 million and non-debt related capital funding amounted to \$3.9 million, resulting in an increase in net assets of \$1.6 million for the year ended June 30, 2003.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2003	2002
Operating revenues:		
Student tuition and fees, net	\$ 25,049,932	\$ 23,265,495
Grants and contracts	17,208,964	14,114,922
Other	4,673,883	4,892,261
Auxiliary, net	16,500,239	14,729,270
Total operating revenues	63,433,018	57,001,948
Operating expenses:		
Instruction	45,804,242	42,995,278
Other educational and general	54,072,308	49,867,105
Depreciation	6,459,422	6,144,645
Auxiliary	14,769,901	13,772,777
Total operating expenses	121,105,873	112,779,805
Operating loss	(57,672,855)	(55,777,857)

Nonoperating revenues (expenses): 834.8(u)pe(4es):8 Tw[an)y3g:8 Tw[an)y3g:8 Tw[an)y3g:8 Tw[an)y964tn5(an)y3g:8 Tw[

Murray State University

Management's Discussion and Analysis

Statements of Cash Flows

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

The net cash used in operating activities reflect the ne

Murray State University

Management's Discussion and Analysis

Capital Assets and Debt Administration

The University had no significant capital additions to facilities during the fiscal year ended June 30, 2003. Several maintenance projects to educational and housing facilities were completed and capitalized. During the year ended June 30, 2003, the University had construction in progress of \$13.2 million, which included the science complex construction and the Winslow Cafeteria renovation.

Capital assets as of the year ended June 30, 2003 and changes during the year are as follows:

	Balance June 30, 2003	Net Change 2002-03
Land	\$ 6,350,424	\$ 804,442
Construction in progress	13,227,507	(6,465,090)
Museum and collectibles	427,769	334,905
Buildings	153,969,531	7,788,576
Non-building improvements	8,313,401	1,099,171
Equipment	17,390,672	753,294
Library holdings	23,920,009	1,022,699
Livestock	44,250	-
Accumulated depreciation	(116,496,018)	(6,094,515)
Total	\$ 107,147,545	\$ (756,518)

The University's most significant change in debt was related to bonds in the amount of \$10 million sold by the City of Murray, Kentucky (City),..5(0Mthe C)-40004r055-1.153 1ecSya1e o(dererecia/welMthe Teep24803 ae-2.r

Murray State University
Balance Sheets
June 30, 2003 and 2002

Assets

As Restated

Murray State University
Balance Sheets
June 30, 2003 and 2002

Liabilities and Net Assets

	2003	As Restated (See Note 19) 2002
Current Liabilities		
Accounts payable	\$ 5,437,344	\$ 5,887,132
Self-insured health liability	1,140,643	1,135,878
Accrued payroll	3,289,924	3,094,089
Interest payable	251,684	229,551
Deposits	208,365	398,205
Deferred revenue	11,688,150	8,985,195
Current maturities of long-term liabilities	<u>2,945,888</u>	<u>2,935,857</u>
Total current liabilities	<u>24,961,998</u>	<u>22,665,907</u>
Noncurrent Liabilities		
Deposits	191,556	159,212
Deferred revenue	—	4,997,748
Revenue bonds, notes payable, and capital leases	<u>29,350,479</u>	<u>20,444,733</u>
Total noncurrent liabilities	<u>29,542,035</u>	<u>25,601,693</u>
Total liabilities	<u>54,504,033</u>	<u>48,267,600</u>
Net Assets		
Invested in capital assets, net of related debt	85,104,843	85,180,207
Restricted for		
Nonexpendable – permanent endowments	11,380,920	11,481,418
Expendable		
Scholarships, research, instruction and other	2,552,561	2,118,590
Loans	4,985,017	5,002,921
Capital assets	4,100,350	3,895,800
Debt service	3,587,330	3,646,230
Unrestricted	<u>17,123,726</u>	<u>15,914,070</u>
Total net assets	<u>128,834,747</u>	<u>127,239,236</u>
Total liabilities and net assets	<u>\$ 183,338,780</u>	<u>\$ 175,506,836</u>

Murray State University
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2003 and 2002

	2003	As Restated (See Note 19) 2002
Revenues		
Operating revenues		
Student tuition and fees	\$ 37,609,354	\$ 33,937,341
Less discounts and allowances	<u>12,559,422</u>	<u>10,671,846</u>
Net tuition and fees	<u>25,049,932</u>	<u>23,265,495</u>
Federal grants and contracts	11,379,257	10,470,997
State grants and contracts	5,693,083	3,553,022
Local and private grants and contracts	<u>136,624</u>	<u>90,903</u>
Total grants and contracts	<u>17,208,964</u>	<u>14,114,922</u>
Sales and services of educational departments	3,240,732	2,874,654
Other operating revenues	<u>1,433,151</u>	<u>2,017,607</u>
Total sales, services, and other revenues	<u>4,673,883</u>	<u>4,892,261</u>
Auxiliary enterprises revenues (Revenues are pledged as security for the Housing and Dining Revenue System Bond Series A – O)	17,381,284	15,652,036
Less discounts and allowances	<u>881,045</u>	<u>922,766</u>
Net auxiliary revenue	<u>16,500,239</u>	<u>14,729,270</u>
Total operating revenues	<u>63,433,018</u>	<u>57,001,948</u>
Expenses		
Operating expenses		
Instruction	45,804,242	42,995,278
Research	2,196,693	1,785,985
Public service	5,104,918	5,017,333
Libraries	1,350,674	1,434,689
Academic support	5,065,370	5,636,194
Student services	10,004,465	9,535,959
Institutional support	9,979,144	9,500,157
Operational and maintenance of plant	14,117,697	11,320,036
Student financial aid	6,253,347	5,636,752
Depreciation	6,459,422	6,144,645
Auxiliary enterprises	<u>14,769,901</u>	

Murray State University
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2003 and 2002

	2003	As Restated (See Note 19) 2002
Nonoperating Revenues (Expenses)		
State appropriations	\$ 50,388,100	\$ 51,673,740
State endowment match	—	1,521,786
Restricted student fees (Revenues are pledged as security for the City of Murray debt agreement)	562,684	—
Federal grants and contracts	1,361,508	1,403,332
State grants and contracts	1,462,278	1,845,650
Local and private grants and contracts	1,336,810	1,238,341
Endowment income	310,315	293,671
Gifts	219,173	560,891
Investment income	2,091,962	1,016,312
Interest on capital asset-related debt	(1,370,662)	(1,066,839)
Loss on deletion and disposal of capital assets	(930,664)	(851,904)
Bond amortization	(39,442)	

Murray State University
Statements of Cash Flows
Years Ended June 30, 2003 and 2002

	2003	Restated (See Note 19) 2002
Cash Flows from Operating Activities		
Tuition and fees	\$ 26,153,761	\$ 23,710,913
Grants and contracts	18,323,465	14,499,830
Payment to employees	(69,483,846)	(66,378,954)
Payments to suppliers	(23,698,468)	(22,247,033)
Payments to students for financial aid	(6,253,347)	(5,636,752)
Loans issued to employees	(62,116)	(55,084)
Collection of loans to employees	63,188	103,224
Loans issued to students	(958,109)	(1,035,421)
Collection of loans to students	923,488	777,981
Sales and services	3,026,389	2,892,727
Other operating revenues	1,435,690	2,018,033
Auxiliary enterprises revenues		
Food service	5,301,220	4,891,118

Murray State University
Statements of Cash Flows
Years Ended June 30, 2003 and 2002

	2003	Restated (See Note 19) 2002
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	\$ 3,257,144	\$ 3,258,774
Purchase of investments	(3,203,808)	(3,385,611)
Interest receipts on investments	<u>1,430,135</u>	<u>1,599,127</u>
Net cash provided by investing activities	<u>1,483,471</u>	<u>1,472,290</u>
Net Increase in Cash and Cash Equivalents	7,306,878	7,422,976
Cash and Cash Equivalents, Beginning of Year	<u>40,221,421</u>	<u>32,798,445</u>
Cash and Cash Equivalents, End of Year	<u>\$ 47,528,299</u>	<u>\$ 40,221,421</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$ (57,672,855)	\$ (55,777,857)
Depreciation	6,459,422	6,144,645
Bad debt	113,914	140,825
Changes in assets and liabilities		
Receivables, net	(135,955)	(1,524,296)
Inventories	(266,437)	12,814
Prepaid expenses	(104,927)	(124,288)
Accounts payable	449,788	(200,185)
Health insurance liability	4,765	(64,102)
Payroll withholding liability	195,835	293,136
Deposits	(157,496)	9,819
Deferred revenues	<u>2,294,793</u>	<u>797,744</u>
Net cash used in operating activities	<u>\$ (48,819,153)</u>	<u>\$ (50,291,745)</u>
Supplemental Cash Flows Information		
Gift of capital assets	\$ 444,905	\$ 679,378
Accounts payable incurred for capital assets	\$ 0	\$ 562,507

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Murray State University (University) is a state-supported institution of higher education located in Murray, Kentucky, and is accredited by the Southern Association of Colleges and Schools. The University awards graduate and undergraduate degrees from five colleges and one school and serves a student population of approximately 9,900. The University is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statements of the Commonwealth.

Basis of Accounting and Financial Statement Presentation

The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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.

The University currently uses commercial banks and the Commonwealth of Kentucky as depositories. Deposits with commercial banks are covered by Federal depository insurance or collateral held by the banks in the University's name. At the Commonwealth level, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth pooled deposits are substantially covered by Federal depository insurance or by collateral held by the bank in the Commonwealth's name.

Murray State University

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 1: Summary of Significant Accounting Policies (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. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

<u>Asset</u>	<u>Estimated Life</u>
Buildings	40 years
Non-building improvements	10-20 years
Equipment	5-15 years
Library holdings	10 years
Livestock	12 years

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

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Revenue

Deferred revenue includes amounts for tuition and fees, international program fees, and certain auxiliary activities received prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from state capital appropriations and grant and contract sponsors for which eligibility requirements have not been fully satisfied or that have not yet been earned.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend in accordance with time or purpose restrictions imposed by external third parties.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, sales and services of educational departments, auxiliary enterprises, and other sources. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses or for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

Release of Restricted Net Assets

When an expense is incurred for which both restricted and unrestricted net assets are available, the University's policy is to allow each departmental unit the flexibility to determine whether to first apply restricted or unrestricted resources based on the most advantageous application of resources in the particular circumstances.

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 3: Inventories

Inventories consisted of:

	2003	2002
Inventories		
University bookstore – resale	\$ 1,398,288	\$ 1,146,430
Physical plant – supplies	334,238	317,774
Food services – resale and supplies	118,478	127,521
Central stores – supplies	<u>22,965</u>	<u>15,807</u>
Total inventories	<u>\$ 1,873,969</u>	<u>\$ 1,607,532</u>

Note 4: Loans Receivable, Net

Student loans made through the Federal Perkins Loan Program (the Program) comprise substantially all of the loans receivable at June 30, 2003 and 2002. The Program provides for cancellation of a loan at rates of 10% 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 losses that will ultimately be borne by the Federal Government.

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Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

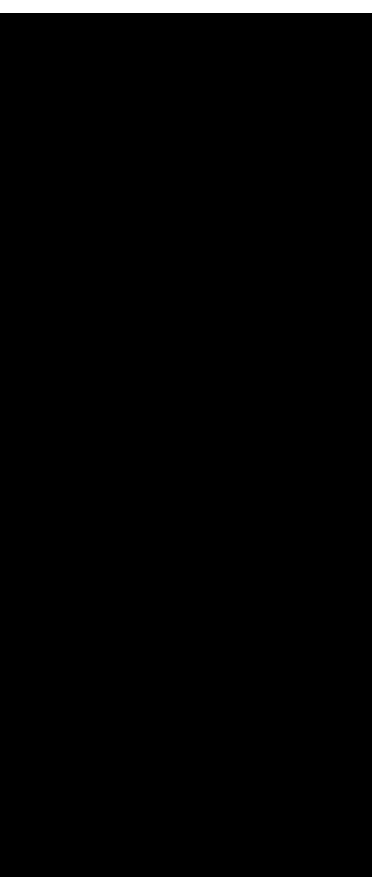
Note 6: Regional University Excellence Trust Fund

The Kentucky General Assembly appropriated funds to the Regional University Excellence Trust Fund (RUETF) with the passage of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The purpose of this fund is to encourage private investment in public higher educational activities within the Commonwealth of Kentucky. These funds were made available to the comprehensive institutions within the Commonwealth with a provision that they would be matched dollar-for-dollar from external sources. The Commonwealth's Council on Postsecondary Education (CPE) was designated to oversee the distribution and use of these funds.

The following is a summary of the funding for the RUETF as of June 30, 2003:

Funding Period	CPE Funding Available	CPE Funding Received	External Match Receipts			University External Match Pledge
			Held By University	Held By Foundation	Total	
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 882,009	\$ 810,491	\$ 1,692,500	\$ 17,500
2000-2002	<u>3,521,787</u>	<u>3,521,787</u>	<u>—</u>	<u>1,909,642</u>	<u>1,909,642</u>	<u>1,612,145</u>
Total	\$ <u>5,231,787</u>	\$ <u>5,231,787</u>	\$ <u>882,009</u>	\$ <u>2,720,133</u>	\$ <u>3,602,142</u>	\$ <u>1,629,645</u>

The following is a summary of the funding for the RUETF as of June 30, 2002:



Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2003, was:

	Balance June 30, 2002	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2003
Land	\$ 5,545,982	\$ —	\$ 804,442	\$ —	\$ 6,350,424
Construction in progress	19,692,597	4,003,171	(9,678,414)	(789,847)	13,227,507
Museum and collectibles	<u>92,864</u>	<u>334,905</u>	<u>—</u>	<u>—</u>	<u>427,769</u>
Total capital assets not being depreciated	<u>25,331,443</u>	<u>4,338,076</u>	<u>(8,873,972)</u>	<u>(789,847)</u>	<u>20,005,700</u>
Buildings	146,180,955	35,376	7,753,200	—	153,969,531
Non-building improvements	7,214,230	—	1,099,171	—	8,313,401
Equipment	16,637,378	1,038,988	21,601	(307,295)	17,390,672
Library holdings	22,897,310	1,127,187	—	(104,488)	23,920,009
Livestock	<u>44,250</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>44,250</u>
Total other capital assets	<u>192,974,123</u>	<u>2,201,551</u>	<u>8,873,972</u>	<u>(411,783)</u>	<u>203,637,863</u>

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Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 7: Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2002, was:

	Balance					Balance
	June 30, 2001	Additions	Transfers	Deletions/ Retirements		June 30, 2002
Land	\$ 4,997,755	\$ —	\$ 548,227	\$ —		\$ 5,545,982
Construction in progress	28,118,854	9,539,133	(17,965,390)	—		19,692,597

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 8: Accounts Payable

Accounts payable consisted of:

	2003	2002
Current accounts payable		
Vendors	\$ 3,811,442	\$ 4,311,057
Employee payroll, benefits and withholdings	1,625,435	1,574,927
Loans	467	1,148
Total accounts payable	\$ 5,437,344	\$ 5,887,132

Note 9: Employee Benefits

Kentucky Teachers Retirement System

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

The Kentucky Teachers Retirement System 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) 573-3266.

Funding for the plan is provided from eligible employees who contribute 6.16% of their salary through payroll deductions and the University, which also contributes 13.84% of current eligible employees' salaries to the KTRS. Kentucky Revised Statutes and the KTRS Board of Trustees establish contribution requirements of the plan members and the University. The University's contributions to KTRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$3,630,784, \$3,514,432, and \$3,476,325, respectively, and were equal to the required contributions.

Kentucky Employee Retirement System

Substantially all other full-time University employees are required by law to participate in the Kentucky Employee Retirement System (KERS), a cost sharing multiple-employer, public employee retirement system. KERS provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 10: Deferred Revenue

Deferred revenue consisted of:

	<u>2003</u>	<u>2002</u>
Current deferred revenue		
Prepaid tuition and fees	\$ 1,222,029	\$ 1,180,427
International studies programs	393,954	523,374
Grants and contracts	1,403,025	365,896
Auxiliary enterprises	11,937	13,847
Capital state appropriation – science complex	<u>8,657,205</u>	<u>6,901,651</u>

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 11: Revenue Bonds, Notes Pa

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

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

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Original Issue	Balance Due June 30, 2003	Interest Expense, Current Year	Bonds/Notes Maturing 2003-2004
Housing and Dining System Revenue Bonds Payable				

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

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

	Original Issue	Balance Due June 30, 2003	Interest Expense, Current Year	Bonds/Notes Maturing 2003-2004
Consolidated Educational Buildings				
Revenue Bonds Payable				
Series G (second series) dated March 1, 1993, with interest from 3.10% to 5.60%; final principal payment date May 1, 2007; I&T building	\$ 11,660,000	\$ 5,560,000	359,018	\$ 1,275,000
Series H bonds dated March 1, 1992, with interest from 3.50% to 6.20%; final principal payment date May 1, 2012; Underground condensate lines for Old Fine Arts building	<u>4,625,000</u>	<u>2,765,000</u>	<u>179,356</u>	<u>235,000</u>
Total consolidated educational buildings revenue bonds payable	<u>16,285,000</u>	<u>8,325,000</u>	<u>538,374</u>	<u>1,510,000</u>
Bonds payable before discount	34,975,000	17,647,000	953,216	2,110,000
Less bonds discount	<u>—</u>	<u>(232,547)</u>	<u>—</u>	<u>(27,216)</u>
Total bonds payable	<u>\$ 34,975,000</u>	<u>\$ 17,414,453</u>	<u>\$ 953,216</u>	<u>\$ 2,082,784</u>
City of Murray Payable				
Agreement dated 12/30/02 with interest of 2.50% to 4.85%. Final principal payment due 6/01/33.	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>	<u>\$ 228,237</u>	<u>\$ —</u>
Master Lease Payable				
Residential networking – Master lease dated August 18, 2000, with interest from 5.20% to 5.59%; final principal payment due August 18, 2007	\$ 800,000	\$ 527,862	\$ 31,894	\$ 116,050
Deferred Maintenance – Master lease dated May 10, 2002, with interest at 4.79%; final principal payment due May 10, 2007	1,987,186	1,874,001	26,843	286,299
Campus Backbone Networking – Master lease dated January 25, 1998, with interest from 4.23% to 4.35%; final principal payment due February 25, 2004	<u>1,500,000</u>	<u>203,196</u>	<u>15,580</u>	<u>203,196</u>

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 13: Nonaffiliated Organizations

Murray State University Foundation, Inc.

Murray State University Foundation, Inc. (Foundation) is a Kentucky not-for-profit corporation formed to receive and invest funds for the enhancement and improvement of the University. The Foundation also owns and operates the Francis E. Miller Golf Course, and 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.

The University provides office space and pays certain operating expenses of the Foundation in exchange for investment management services provided by the Foundation. The Foundation prepares and issues its own financial statements.

The Murray State Campus Improvement Corporation, a non-profit non-stock corporation, was created in May 2003 for the exclusive benefit and support of the Murray State University Foundation, Inc., to perform functions of or carry out the purposes of the Foundation, and to handle real and personal property activity for Murray State University.

Murray State University Athletic Foundation, Inc.

Murray State University Athletic Foundation, Inc. (Racer Foundation) is a Kentucky non-for-profit corporation formed to enhance the academic and athletic experience of the Murray State University student-athlete. The Racer Foundation has a Board of Directors separate from that of the University and prepares and issues its own financial statements.

Note 14: Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omission; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, natural disasters, and employee health benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The state of Kentucky self-insures workers' compensation benefits for all state employees, including University employees. Claims are administered by the Risk Management Services Corporation.

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 15: Contingencies and Commitments

Claims and Litigation

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

Commitments

The University has outstanding commitments under construction contracts of approximately \$10,013,000 and \$4,600,000 as of June 30, 2003 and 2002, respectively.

Government Grants

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

Note 16: Natural Expense Classifications with Functional Classifications

The University's operating expenses by functional classification for the year ended June 30, 2003 were as follows:

Fund Classification	Year Ended June 30, 2003							Total
	Natural Classification			Non-capitalized				
	Compensation and Benefits	Operations	Utilities	Equipment	Scholarships	Depreciation		
Instruction	\$ 39,249,185	\$ 5,678,761	\$ —	\$ 854,932	\$ 21,364	\$ —	\$45,804,242	
Research	1,261,431	791,454	—	143,808	—	—	2,196,693	
Public service	3,932,924	1,025,848	—	146,146	—	—	5,104,918	
Libraries	1,262,305	69,865	—	18,504	—	—	1,350,674	
Academic support	3,404,387	1,463,777	—	195,612	1,594	—	5,065,370	
Student services	6,446,145	3,482,316	—	58,068	17,936	—	10,004,465	
Institutional support	9,168,245	509,199	—	301,700	—	—	9,979,144	
Operations and maintenance	5,055,247	3,780,070	5,184,606	97,774	—	—	14,117,697	
Financial aid	29,786	5,551	—	799	6,217,211	—	6,253,347	
Depreciation	—	—	—	—	—	6,459,422	6,459,422	
Auxiliary	4,773,111	9,730,334	—	164,635	101,821	—	14,769,901	
Total expenses	<u>\$ 74,582,766</u>	<u>\$ 26,537,175</u>	<u>\$ 5,184,606</u>	<u>\$ 1,981,978</u>	<u>\$ 6,359,926</u>	<u>\$ 6,459,422</u>	<u>\$121,105,873</u>	

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 16: Natural Expense Classifications with Functional Classifications (Continued)

The University's operating expenses by functional classification for the year ended June 30, 2002 were as follows:

Fund Classification	Year Ended June 30, 2002						
	Natural Classification						
	Compensation and Benefits	Operations	Utilities	Non-capitalized Equipment	Scholarships	Depreciation	Total
Instruction	\$ 37,071,237	\$ 5,217,324	\$ —	\$ 664,659	\$ 42,058	\$ —	\$ 42,995,278
Research	1,131,339	573,571	—	80,775	300	—	1,785,985
Public service	3,844,178	982,712	—	190,443	—	—	5,017,333
Libraries	1,410,791	2,751	—	21,147	—	—	1,434,689
Academic support	3,342,451	1,652,426	—	640,767	550	—	5,636,194
Student services	6,136,446	3,349,259	—	47,313	2,941	—	9,535,959
Institutional support	8,767,086	470,103	—	262,968	—	—	9,500,157
Operations and maintenance	4,877,175	1,959,436	4,396,413	87,012	—	—	11,320,036
Financial aid	35,205	48,945	—	855	5,551,747	—	5,636,752
Depreciation	—	—	—	—	—	6,144,645	6,144,645
Auxiliary	4,693,852	8,954,210	—	62,813	61,902	—	13,772,777
Total expenses	<u>\$ 71,309,760</u>	<u>\$ 23,210,737</u>	<u>\$ 4,396,413</u>	<u>\$ 2,058,752</u>	<u>\$ 5,659,498</u>	<u>\$ 6,144,645</u>	<u>\$ 112,779,805</u>

Note 17: Segment Information

Housing and Dining System

The University's Housing and Dining System was established by the 1965 Trust Indenture. The Housing and Dining System, as defined by this trust indenture, includes all student housing, dining and student center facilities, and related enterprises facilities that now exist at the main campus in Murray, Kentucky. The University issues revenue bonds for this system to finance certain of its housing and dining auxiliary enterprise activities. These bonds will be payable from and will constitute a charge upon the gross revenue to be derived by the University from the operation of its Housing and Dining System. The revenues of the system consist of the gross amount of rentals received by the University for the use and occupancy of the facilities of the housing system and the net income from dining operations. These revenues do not include those generated by the University bookstore.

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 17: Segment Information (Continued)

Condensed financial information of the University's Housing and Dining segment is as follows:

Condensed Balance Sheets

	2003	2002
Assets		
Current assets	\$ 3,014,364	\$ 2,878,314
Noncurrent assets	2,730,503	2,859,330
Capital assets, net of accumulated depreciation	8,572,547	4,839,634
Total assets	14,317,414	10,577,278
Liabilities		
Current liabilities	6,131,577	5,975,382
Noncurrent liabilities	9,456,050	10,313,400
Total liabilities	15,587,627	16,288,782
Net assets		
Invested in capital assets, net of related debt	(561,251)	(5,137,199)
Restricted		
Expendable capital	938,967	931,634
Expendable debt service	1,469,283	1,591,128
Unrestricted	(3,117,212)	(3,097,067)
Total net assets	(1,270,213)	(5,711,504)
Total liabilities and net assets	\$ 14,317,414	\$ 10,577,278

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 17: Segment Information (Continued)

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

	2003	2002
Operating revenues	\$ 11,505,847	\$ 10,230,555
Operating expenses	(10,326,969)	(9,722,930)
Depreciation expense	(843,488)	(575,828)
Operating loss	335,390	(68,203)
Nonoperating revenues (expenses)	4,105,901	(1,592,081)
Change in net assets	4,441,291	(1,660,284)
Net assets, beginning of year	(5,711,504)	(4,051,220)
Net assets, end of year	\$ (1,270,213)	\$ (5,711,504)

Condensed Statements of Cash Flows

	2003	2002
Cash flows from		
Operating activities	\$ 1,340,857	\$ 1,479,981
Noncapital financing activities	(120,125)	79,298
Capital and related financing activities	(1,272,192)	(1,300,676)
Investing activities	194,230	3,278
Net increase in cash	142,770	261,881
Cash, beginning of year	2,589,915	2,328,034
Cash, end of year	\$ 2,732,685	\$ 2,589,915

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 17: Segment Information (Continued)

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.

There was no financial activity of the University's Wellness Center in 2002. Condensed financial information as of and for the year ended June 30, 2003 of the University's Wellness Center segment is as follows:

Condensed Balance Sheet

	2003
Assets	
Current assets	\$ 276,524
Noncurrent assets	9,608,372
Capital assets, net of accumulated depreciation	836,949
Total assets	<u>10,721,845</u>
Liabilities	
Current liabilities	163,280
Noncurrent liabilities	10,037,401
Total liabilities	<u>10,200,681</u>
Net assets	
Restricted	
Expendable capital	558,565
Expendable debt service	(37,401)
Total net assets	<u>521,164</u>
Total liabilities and net assets	<u>\$ 10,721,845</u>

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 17: Segment Information (Continued)

***Condensed Statement of Revenues, Expenses
and Changes in Net Assets***

	2003
Nonoperating revenues	
Restricted student fees	\$ 562,684
Investment income	186,716
Interest on capital asset-related debt	228,236
Nonoperating revenues	521,164
Change in net assets	521,164
Net assets, beginning of year	—
Net assets, end of year	\$ 521,164

Condensed Statement of Cash Flows

	2003
Cash flows from	
Capital and related financing activities	\$ 9,338,481
Investing activities	70,071
Net increase in cash	9,408,552
Cash, beginning of year	—

Murray State University
Notes to Financial Statements
June 30, 2003 and 2002

Note 18: Subsequent Events

Housing and Dining Series P Bond Issuance

The University received proceeds from the issuance of Series P of the Housing and Dining Bond Series on July 2, 2003. The face amount of the debt was \$2,500,000, at 3.71% interest, with the maturity date of September 1, 2023.

Consolidated Educational Buildings Refunding Revenue Series H (2nd) Bond Issuance

The University issued Series H (second series) of the Consolidated Educational Building Refunding Revenue 1 T f ng