Contents

The accompanying management's discussion and analysis as listed in the table of contents is not a [illegible]

Murray State University
A Component Unit of the State of Kentucky
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, 2006. 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. Murray State has study
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Murray State University
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Management's Discussion and Analysis

Financial Highlights

- The University's financial position remained strong as of the end of the year, with assets of \$221.9 million and liabilities of \$63.8 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$158 million or 71% of total assets. Net assets increased by \$10.1 million from 2005 to 2006.

- Fiscal operations were in accordance with the annual operating budget of approximately \$119 million. The University continued to be a strong employer for the region and employed

- In Summer 2006, the University completed renovations to various facilities on the main campus to improve energy performance. Chevron/Texaco was contracted to study energy usage in the main campus buildings and recommended many changes to improve performance and produce cost savings. This campus wide project was funded from $6.7 million of debt service issued. Chevron/Texaco guarantees costs savings will be realized over a number of years to cover the repayment of this debt.

- For the second year in a row, the University experienced lower health claims than were expected. Plan design, wellness initiatives, and employee awareness were significant factors in the cost of claims.

- In Spring 2006, the University began construction of a new residential college facility to replace the existing Clark Residential College. The University issued $15.8 million in Series Q Housing and Dining debt to fund the construction of the facility. This residential college is expected to house approximately 304 students and is scheduled for completion in Summer 2007.

- The University began an upgrade to the telephone switching system to Voice over Internet Protocol (VOIP). This project began in Summer 2006 and is scheduled to take three years to fully complete. This upgrade is planned to produce significant savings in telephone costs and dramatically increases the number of telephone lines that will be available on campus.

Using the Financial Statements

The University's 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.

Financial statements have also been included for the University's component units, in accordance with the requirements of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. These component units are the Murray State University Foundation, Inc. and the Murray State University Athletic Foundation, Inc. Financial statements for these entities consist of Statements of Financial Position (Balance Sheets) and Statements of Activities (Income Statements). These statements are prepared in accordance with the appropriate Financial Accounting Standards Board (FASB) pronouncements.

Murray State University
A Component Unit of the State of Kentucky
Management's Discussion and Analysis

Balance Sheets

The Balance Sheets present a financial picture of the University's financial condition at the end of the 2006 and 2005 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 2006 were $221.9 million, of which capital assets, net of depreciation, represented the largest portion. This group of assets totaled approximately $121.6 million or 55% of total assets and was primarily comprised of university-owned land, buildings, equipment, and library holdings. Cash and cash equivalents amounted to $59.4 million or 27% of total assets. Total assets increased by $22.3 million during 2006, which was largely due to proceeds from the sale of Housing and Dining Series Q bonds. Total assets increased by $5.5 million during 2005, which was primarily due to capitalization of major construction projects.

Liabilities

Total liabilities at the end of the fiscal year 2006 were $63.8 million. Long term debt obligations increased by $11.7 million, due to the issuance of Series Q Housing and Dining bonds for the construction of a new residential college facility.

Total liabilities at the end of the fiscal year 2005 were $51.6 million. An increase in total long-term debt obligations, reduced further by a decrease in debt payments and accounts payables for phase I of the science complex and the student recreation/wellness center, were the primary reasons for an overall total liabilities increase during 2005 of $1.2 million. Total long-term debt obligations amounted to $36.8 million. These debt obligations increased by $3.9 million during 2005, due primarily to the $6.7 million Chevron Energy Performance masterlease, net of current year debt payments.

Murray State University

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Management's Discussion and Analysis

Condensed Balance Sheets

	June 30, 2006	June 30, 2005	June 30, 2004
Assets			
Current assets	$48,479,918	$40,690,369	$33,665,438
Noncurrent assets	51,776,781	39,621,293	42,892,454
Capital assets	121,625,301	119,254,615	117,518,493
Total assets	$221,882,000	$199,566,277	$194,076,385
Liabilities			
Current liabilities	$18,886,714	$18,355,649	$20,571,802
Noncurrent liabilities	44,909,212	33,233,974	29,832,417
Total liabilities	$63,795,926	$51,589,623	$50,404,219
Net assets			
Invested in capital assets, net of related debt	$92,579,768	$89,933,928	$85,638,535
Restricted for			
Nonexpendable	14,854,340	14,781,227	14,684,636
Expendable			
Scholarships, research, instruction and other	5,448,627	4,578,913	3,729,092
Loans	4,904,484	4,919,668	4,977,530
Capital	2,383,819	3,174,364	9,135,468
Debt service	6,338,671	4,144,190	4,021,365
Unrestricted	31,576,365	26,444,364	21,485,540
Total net assets	158,086,074	147,976,654	143,672,166
Total liabilities and net assets	$221,882,000	$199,566,277	$194,076,385

Net Assets

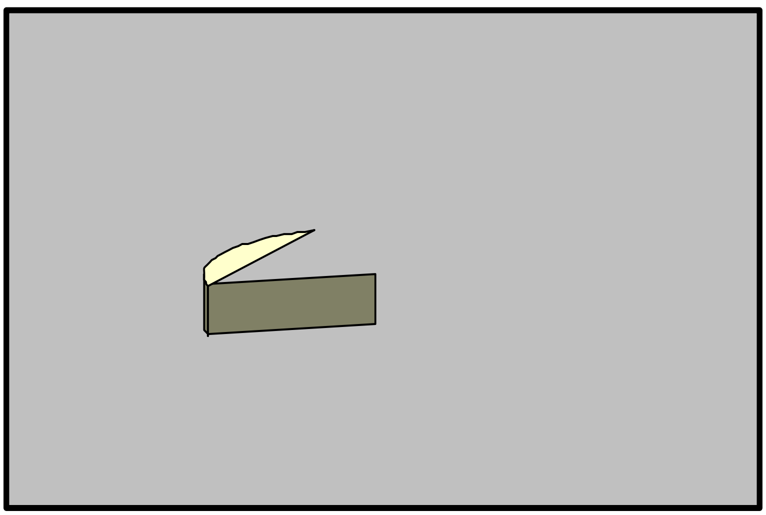
Net assets, which represent total equity, of the University were divided into three major categories, defined as follows:

- Invested in capital assets, net of related debt - This category represents the institution's equity in property, buildings, equipment, libra

Expenses

Total operating expenses for the 2006 fiscal year were $138 million. Academic affairs, which includes instruction, research, libraries, and academic support, represents a significant portion of the operating expenses, totaling $61.3 million or 44%. Student affairs, which includes student services, financial aid, and auxiliary services, were $36.6 million or 27% and other expenses which includes public service, institutional support, depreciation, and operation and maintenance amounted to $40 million or 29%. Depreciation for all areas of the University is reported as an operating expense and was not allocated to each program group, except for auxiliary enterprises.

Operating expenses increased for the year ended June 30, 2006, by $6.3 million. The primary reasons for increased operating expenses continue to be for salaries, utilities, and other fixed costs.



Murray State University

A Component Unit of the State of Kentucky

Management's Discussion and Analysis

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2006	2005	2004
Operating revenues			
Student tuition and fees, net	$ 35,595,332	$ 32,351,507	$ 27,896,362
Grants and contracts	21,253,304	20,130,510	19,593,986
Other	6,587,050	5,140,180	5,395,820
Auxiliary, net	19,338,130	17,993,122	17,109,547
Total operating revenues	82,773,816	75,615,319	69,995,715

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Capital Assets and Debt Administration

The University had a $2.4 million increase in capital assets during the fiscal year ended June 30, 2006. This change is primarily due an increase of $1.6 million in equipment and library holding acquisitions. The Western Regional Center for Emerging Technologies building which totaled $3.4 million was transferred from construction in progress to the buildings assets during the year. Capital assets as of the year ended June 30, 2006, and changes during the year are as follows:

	Balance June 30, 2006	Net Change 2005-06
Land	$ 7,641,580	$ 849,699
Construction in progress	4,100,601	1,045,012
Museum and collectibles	515,293	18,100
Buildings	187,588,251	5,047,573
Non-building improvements	9,623,707	-
Equipment	20,465,066	599,778
Library holdings	26,953,423	995,658
Livestock	177,750	55,000
Accumulated Depreciation	(135,440,370)	(6,240,135)
Total	$ 121,625,301	$ 2,370,685

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 Vice President for Finance and Administrative Services, 322 Sparks Hall, Murray, KY 42071.

Murray State University
A Component Unit of the State of Kentucky
Balance Sheets
June 30, 2006 and 2005

ASSETS

	2006	2005
Current Assets		
Cash and cash equivalents	$ 37,978,869	$ 31,733,726
Accounts receivable, net	6,849,515	5,212,078
Inventories	2,013,668	1,982,920
Prepaid expenses	706,956	876,607
Loans receivable, net	903,681	869,983
Interest receivable	27,229	15,055
Total current assets	48,479,918	40,690,369
Noncurrent Assets		
Restricted cash and cash equivalents	21,437,767	10,403,968
Restricted investments	26,146,638	25,051,377
Accounts receivable, net	—	91,700
Loans receivable, net	3,588,002	3,641,037
Capital assets	257,065,671	248,454,850
Accumulated depreciation	(135,440,370)	(129,200,235)
Debt issuance costs, net	604,374	433,211
Total noncurrent assets	173,402,082	158,875,908
Total assets	$ 221,882,000	$ 199,566,277

Murray State University
A Component Unit of the State of Kentucky
Balance Sheets
June 30, 2006 and 2005

LIABILITIES AND NET ASSETS

	2006	2005
Current Liabilities		
Accounts payable	$ 6,201,515	$ 6,048,999
Self-insured health liability	1,160,513	1,079,117
Accrued payroll	3,849,365	3,437,563
Interest payable	368,270	237,831
Deposits	246,111	167,798
Deferred revenue	3,099,017	3,622,937
Current maturities of long-term liabilities	3,961,923	3,761,404
Total current liabilities	18,886,714	18,355,649
Noncurrent Liabilities		
Deposits	149,762	205,805
Revenue bonds, notes payable, and capital leases	44,759,450	33,028,169
Total noncurrent liabilities	44,909,212	33,233,974
Total liabilities	63,795,926	51,589,623
Net Assets		
Invested in capital assets, net of related debt	92,579,74i9e3352 1 Tf29.46192 -1.1492	

Murray State University Foundation, Inc.
Statements of Financial Position
June 30, 2006 and 2005

ASSETS

	2006	2005
Cash	$ 9,748,194	$ 115,694
Accounts receivable, net of allowance; 2006 – $17,224, 2005 – $16,740	58,001	70,327
Accounts receivable, L.D. Miller Trust	342,563	—
Investments	48,988,286	54,447,299
Prepaid and other current assets	45,074	33,832
Contributions receivable, net of allowance; 2006 – $7,507, 2005 – $33,148	140,141	625,594
Notes receivable, net of allowance; 2006 – $0, 2005 – $22,000	84,857	185,809
Property and equipment, net of accumulated depreciation; 2006 – $1,336,597, 2005 – $1,585,764	3,654,445	3,284,482
Total assets	$ 63,061,561	$ 58,763,037

LIABILITIES AND NET ASSETS

	2006	2005
Liabilities		
Accounts payable	$ 637,110	$ 159,133
Accrued expenses	36,012	32,939
Deferred revenue	37,679	38,613
Assets held for others	18,592,559	17,534,480
Annuities payable	538,354	221,762
Capital lease obligations	132,034	

Murray State University Athletic Foundation, Inc.
Statements of Financial Position
June 30, 2006 and 2005

ASSETS

		2006		2005
Cash	$	89,237	$	180,285
Investments		122,877		108,968
Contributions receivable, net of allowance; 2006 – $0, 2005 – $1,800		—		34,302
Other receivables		2,600		34,297
Real estate held for sale		603,595		603,595
Equipment, net of accumulated depreciation; 2006 – $9,578, 2005 – $6,623		2,794		5,750
Total assets	$	821,103	$	967,197

LIABILITIES AND NET ASSETS (DEFICIT)

		2006		2005
Liabilities				
Accounts payable to Murray State University	$	422,163	$	435,897
Accounts payable and accrued expenses		34,829		32,927
Note payable		607,672		607,672
Total liabilities		1,064,664		1,076,496

Murray State University

A Component Unit of the State of Kentucky

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2006 and 2005

	2006	2005
Revenues		
Operating revenues		
Student tuition and fees	$ 59,539,363	$ 52,096,603

Murray State University

A Component Unit of the State of Kentucky

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2006 and 2005

	2006	2005
Nonoperating Revenues (Expenses)		
State appropriations	$ 54,954,200	$ 50,999,000
Less: State appropriation reduction	—	(1,632,900)
Restricted student fees (Revenues are pledged as security for the City of Murray debt agreement)	660,629	646,417
Federal grants and contracts	1,056,839	1,747,094
State grants and contracts	1,718,265	2,805,482
Local and private grants and contracts	603,304	1,220,515
Gifts	991,666	578,337
Investment income	3,580,765	2,464,474
Interest on capital asset-related debt	(1,739,697)	(1,503,252)
Loss on deletion and disposal of capital assets	(170,435)	(156,020)
Bond amortization	(73,680)	(51,311)
Net nonoperating revenues (expenses)	61,581,856	57,117,836
Income before Other Revenues, Expenses, Gains or Losses	6,374,525	1,041,956
State capital appropriations	2,350,797	1,274,783
Capital grants	388,288	1,468,179
Capital gifts	995,810	397,807
Insurance proceeds on capital asset loss	—	121,763
Increase in Net Assets	10,109,420	4,304,488

Murray State University Foundation, Inc.
Statements of Activities
Years Ended June 30, 2006 and 2005

2006			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total

Murray State University Foundation, Inc.
Statements of Activities
Years Ended June 30, 2006 and 2005

	2005			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenues, Gains and Other Support				
Contributions	$ 131,648	$ 3,643,647	$ 868,513	$ 4,643,808
Revenues from operations of golf course	506,478	—	—	506,478
Fees	128,945	—	—	128,945
Investment return	1,111,340	1,410,345	340,475	2,862,160
Other	240,468	13,428	171,455	425,351
Net assets released from restrictions	1,832,135	(1,832,135)	—	—
Total revenues, gains and other support	3,951,014	3,235,285	1,380,443	8,566,742

Murray State University

A Component Unit of the State of Kentucky

Statements of Cash Flows

Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities		

Murray State University

A Component Unit of the State of Kentucky

Statements of Cash Flows

Years Ended June 30, 2006 and 2005

		2006		2005
Cash Flows from Investing Activities				
Proceeds from sales and maturities of investments	$	5,452,087	$	6,747,641
Purchase of investments		(5,523,051)		(9,928,475)
Interest receipts on investments		3,213,230		1,812,771
Net cash provided by (used in) investing activities		3,142,266		(1,368,063)
Net Increase (Decrease) in Cash and Cash Equivalents		17,278,942		(1,203,692)
Cash and Cash Equivalents, Beginning of Year		42,137,694		43,341,386
Cash and Cash Equivalents, End of Year	$	59,416,636	$	42,137,6ht8,45;26 0s99 fBT10.

Murray State University
A Component Unit of the State of Kentucky
Notes to Financial Statements
June 30, 2006 and 2005

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 10,275. 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

Murray State University
A Component Unit of the State of Kentucky
Notes to Financial Statements
June 30, 2006 and 2005

Note 1: Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Restricted Cash, Cash Equivalents, and Investments

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

Investments

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

Assets held by the Murray State University Foundation, Inc. (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 Murray State University Foundation, Inc. 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.*

Accounts Receivable

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Note 1: Summary of Significant Accounting Policies (Continued)

Inventories

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

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
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 acquired with the proceeds of borrowing. Total interest capitalized was $3,241 and $0 for the years ended June 30, 2006 and June 30, 2005, respectively.

The University owns historical collections housed throughout the campus that it does not capitalize, including artifacts in Wrather Museum. These collections adhere to the University's policy to (a) maintain them for public exhibition, education, or research; (b) protect, keep unencumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at time of purchase rather than capitalized.

Debt Issuance Costs

Debt issuance costs incurred have been deferred and are being amortized over the life of the debt using the straight line method. Total amortization for years ended June 30, 2006 and 2005, was $32,616 and $23,757, respectively.

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are included at year-end with accrued payroll, and as a component of compensation and benefit expense. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized.

Deferred Revenue

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

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.

Note 1: Summary of Significant Accounting Policies (Continued)

Release of Restricted Net Assets

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

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of discounts and allowances, (2) sales and services of auxiliary enterprises, net of discounts and allowances, (3) Federal, state and local grants and contracts, and (4) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of non-exchange 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 appro0.9

Note 1: Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in

Note 3: Inventories

Inventories consisted of:

		2006		2005
Inventories				
University bookstore – resale	$	1,454,279	$	1,449,850
Physical plant – supplies		405,565		402,074
Food services – resale and supplies		148,798		117,677
Central stores – supplies		5,026		

Note 5: Deposits, Investments, and Investment Income

Deposits

At June 30, 2006 and June 30, 2005, the carrying amounts of the University's bank balances and deposits were $59,416,636 and $42,137,694, respectively.

The Federal Deposit Insurance Corporation (FDIC) insures each local bank balance deposit for $100,000. Deposits in excess of $100,000 are secured by pledging Treasury or U.S. Government Agency securities having a quoted value equal to the total deposits less the FDIC insured amount as per Kentucky state statute KRS 41.240.

The University also maintains cash deposits with the Commonwealth of Kentucky, as overseen by the State Investment Commission (the Commission). The Commission is

Note 5: Deposits, Investments, and Investment Income (Continued)

Deposits as presented in the balance sheet captions include:

	2006	2005
Cash and cash equivalents, current	$ 37,978,869	$ 31,733,726
Restricted cash and cash equivalents	21,437,767	10,403,968
Total deposits	$ 59,416,636	$ 42,137,694

Investments

Investments consisted of:

	June 30, 2006 Fair Value	June 30, 2005 Fair Value
Money market funds restricted for capital purposes	$ 8,073,943	$ 8,002,979
Restricted assets held by Murray State University Foundation	18,072,695	17,048,398
Total investments	$ 26,146,638	$ 25,051,377

Restricted investments for capital purposes are co

Note 5: Deposits, Investments, and Investment Income (Continued)

The assets in the Murray State University Foundation, Inc. investment pool are invested as follows:

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 presented as an investment with 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 statue. The University has no further policy that would limit its investment choices.

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 issu

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

Note 7: Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2005, was:

	Balance June 30, 2004	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2005
Land	$ 6,481,565	$ —	$ 310,316	$ —	$ 6,791,881
Construction in progress	22,565,174	8,738,011	(26,118,440)	(2,129,156)	3,055,589
Museum and collectibles	497,193	—	—	—	497,193
Total capital assets not being depreciated	29,543,932	8,738,011	(25,808,124)	(2,129,156)	10,344,663
Buildings	158,215,922	—	24,424,756	(100,000)	182,540,678
Non-building improvements	8,813,301	—	930,107	(119,701)	9,623,707

Note 8: Accounts Payable

Accounts payable consisted of:

	2006	2005
Current accounts payable:		
Vendors	$ 4,569,770	$ 4,043,690
Payroll benefits and withholdings	1,623,349	1,992,549
Loans	8,396	12,760
Total accounts payable	$ 6,201,515	$ 6,048,999

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) 848-8500.

Funding for the plan is provided from eligible employees who contribute 6.16% of their salary through payroll deductions and the University, which also contributes 13.84% of current eligible employees' salaries to the KTRS. 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, 2006, 2005, and 2004 were $3,783,348, $3,687,406, and $3,681,254, 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

Note 9: Employee Benefits (Continued)

employee retires before reaching age 65 or has less than 27 years of service. The plan also provides for disability, death and survivor benefits and medical insurance.

The Kentucky Employee Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report is obtainable by writing to Kentucky Employees Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601 or by calling (502) 564-4646.

Murray State University

Murray State University

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

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Original Issue	Balance Due June 30, 2006	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2006-2007
Housing and Dining System Revenue Bonds Payable				
Series L bonds dated September 1, 1968, with interest at 3.00%; final principal payment due September 1, 2008; Regents Hall	2,000,000	550,000	17,320	175,000
Series M bonds dated June 26, 1997, with interest from 4.00% to 5.40%; final principal payment due September 1, 2017; Winslow Cafeteria	825,000	585,000	30,339	35,000
Series N bonds dated May 12, 1999, with interest from 4.35% to 4.90%; final principal payment due September 1, 2018; fire safety for residence halls	6,370,000	4,990,000	221,493	265,000
Series O bonds dated June 1, 2001, with interest from 4.00% to 5.00%; final principal payment due September 1, 2021; Hart Hall	1,610,000	1,475,000	70,142	65,000
Series P bonds dated June 18, 2004, with interest from 1.10% to 4.25%; final principal payment due September 1, 2024; Winslober i S-5.Tw[42Cs3p[42Cs3p[42Cs3p[42Cs3p[42Cs3o;3L.00% to 4d8982 -1.o%;;98nnDec.1(4(ptT[* d Ju)-5.1(n)-5.1(e)4.6				

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

	Original Issue	Balance Due June 30, 2006	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2006-2007
Consolidated Educational Buildings Revenue Bonds Payable				

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

	Original Issue	Balance Due June 30, 2006	Interest Expense, Current Year

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

	2006	2005

Murray State University

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Note 14: Component Units (Continued)

During the year ended June 30, 2006 and June 30, 2005, the Foundation made payments of $2,582,222 and $2,242,375, respectively, on behalf of the University from restricted sources. Accounts receivable at June 30, 2006 and 2005 from the Foundation were $519,752 and $139,575, respectively. Accounts payable to the Foundation as of June 30, 2006 and June 30, 2005, respectively, were not significant. Complete financial statements for the Foundation can be obtained from the MSU Foundation Office, 100 Nash House, Murray, Kentucky, 42071.

The Murray State Campus Improvement Corporation, a nonprofit nonstock 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. There was no financial activity of the Murray State Campus Improvement Corporation for the years ended June 30, 2006 and 2005.

Murray State University Athletic Foundation, Inc.

Murray State University Athletic Foundation, Inc. (Racer Foundation) is a Kentucky nonprofit corporation formed to enhance the academic and athletic experience of the Murray State University student-athlete. The Racer Foundation has a Board of Directors separate from that of the University. The University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Racer Foundation holds and invests. The resources held by the Racer Foundation can only be used by, or for the benefit of, the University, the Racer Foundation is considered a component unit of the University and is discretely presented in the University’s financial statements.

During the year ended June 30, 2006, the Racer Foundation distributed $64,648 of restricted assets to the University. During the year ended June 30, 2005, the Racer Foundation distributed $589,986 to the University, made payments of $78,235 on behalf of the University, and transferred assets to the University of $70,226. The total benefits for University athletics for the years ended June 30, 2006 and 2005,

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

Note 16: 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 $12,600,000 and $2,900,000 as of June 30, 2006 and 2005, 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 17: Natural Expense Classifications with Functional Classifications

The University's operating expenses by functional classification for the year ended June 30, 2006 and 2005 were as follows:

	Year Ended June 30, 2006						
	Natural Classification						
Fund Classification	Compensation and Benefits	Operations	Utilities	Non-capitalized Equipment	Scholarships	Depreciation	Total
Instruction	$ 43,254,033	$ 6,155,671	$ 210,988	$ 934,249	$ 9,208	$ —	$ 50,564,149
Research	1,493,428	1,385,322	581	89,623	—	—	2,968,954
Public service	4,469,602	1,128,732	260,850	89,418	—	—	5,948,602
Libraries	1,285,688	229,264	42	81,104	—	—	1,596,098
Academic support	3,687,870	2,013,359	11,261	502,785	1,255	—	6,216,530
Student services	8,268,754	4,338,618	62,887	183,347	24,728	—	12,878,334
Institutional support	11,037,282	862,661	198,160	351,248	—	—	12,449,351
Operations and maintenance	5,303,643	3,111,032	5,502,201	622,528	—	—	14,539,404
Financial aid	44,572	12,879	—	—	7,114,663	—	7,172,114
Depreciation	—	—	—	—	—	6,621,914	6,621,914
Auxiliary	5,090,979	11,087,105	—	289,810	102,761	—	16,570,655
Auxiliary depreciation	—	—	—	—	—	455,042	455,042
Total expenses	$ 83,935,851	$ 30,324,643	$ 6,246,970	$ 3,144,112	$ 7,252,615	$ 7,076,956	$ 137,981,147

	Year Ended June 30, 2005						
	Natural Classification						
Fund Classification	Compensation and Benefits	Operations	Utilities	Non-capitalized Equipment	Scholarships	Depreciation	Total
Instruction	$ 40,105,179	$ 5,949,573	$ 233,544	$ 728,708	$ 23,212	$ —	$ 47,040,216
Research	1,586,163	967,212	—	94,450	—	—	2,647,825
Public service	4,418,411	1,046,376	227,172	111,518	—	—	5,803,477
Libraries	1,343,648	237,880	27	39,555	—	—	1,621,110
Academic support	3,344,021	1,665,630	11,799	396,715	826	—	5,418,991
Student services	6,983,599	3,921,671	73,036	203,114	20,165	—	11,201,585
Institutional support	9,573,747	885,482	216,796	242,620	—	—	10,918,645
Operations and maintenance	4,849,358	7,680,518	4,726,757	182,440	—	—	17,439,073
Financial aid	1,764	42,439	—	—	6,928,869	—	6,973,072
Depreciation	—	—	—	—	—	6,527,977	6,527,977
Auxiliary	4,658,079	10,405,751	—	112,117	91,294	—	15,267,241
Auxiliary depreciation	—	—	—	—	—	831,987	831,987
Total expenses	$ 76,863,969	$ 32,802,532	$ 5,489,131	$ 2,111,237	$ 7,064,366	$ 7,359,964	$ 131,691,199

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Notes to Financial Statements
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Note 18: Segment Information

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

Housing and Dining System

The University's Housing and Dining System was established by the 1965 Trust Indenture. The Housing and Dining System, as defined by this trust indenture, includes all student housing, dining and student center facilities, and related enterprises facilities that now exist at the main campus in Murray, Kentucky. The University issues revenue bonds for this system to finance certain 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.

Condensed financial information as and for the years ended June 30, 2006 and 2005 of the University's Housing and Dining segment is as follows:

Housing and Dining System - Condensed Balance Sheets

	2006	**2005**
Assets		

Note 18: Segment Information (Continued)

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.

Condensed financial information as of and for the years ended June 30, 2006 and June 30, 2005, of the University's Wellness Center segment are as follows:

Wellness Center - Condensed Balance Sheet

	2006	**2005**
Assets		

Note 18: Segment Information (Continued)

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

	2006	2005
Operating revenues	$ 56,259	$ 48,067
Operating expenses	(574,515)	(268,235)
Depreciation	(274,721)	(274,721)
Operating income (loss)	(792,977)	(494,889)
Nonoperating revenues		
University budget support	367,865	190,826
Restricted student fees	660,629	646,417
Investment income	7,875	52,492
Transfer of reserve payment - current fund	71,868	71,868
Transfer of lease payment – current fund	9,454	27,122
Cost of issuance amortization	(12,003)	(12,003)
Interest on capital asset-related debt	(454,860)	(455,045)
Nonoperating revenues	650,828	521,677
Change in net assets	(142,149)	26,788