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Board of Regents, Murray State University

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**Minutes of the Quarterly Board of Regents Meeting
Murray State University
December 8, 2006**

The Board of Regents of Murray State University met on December 8, 2006, in quarterly session in the Jesse Stuart Room of Pogue Library on the main campus of Murray State University. The meeting was called to order at 1:30 p.m. by Chair Marilyn Buchanon. Mr. Scott Ellison gave the invocation.

The roll was called and the following members were present: William C. Adams, Olivia Burr, Scott Ellison, Beverly Ford, Peg Hays, Alan Stout, Terry Strieter, Jeff S. Taylor, Vickie Travis, Gina Winchester and Marilyn Buchanon. Absent: none.

Others present were Dr. Randy Dunn, President; Sandra M. Rogers, Assistant to the President and Secretary to the Board of Regents; Tom Denton, Vice President for Finance and Administrative Services and Treasurer of the Board of Regents; Gary Brockway, Provost and Vice President for Academic Affairs; Jim Carter, Vice President for Institutional Advancement; Don Robertson, Vice President for Student Affairs; Dewey Yeatts, Associate Vice President for Facilities Management and Chief Facilities Officer; Joyce Gordon, Associate Vice President for Human Resources; John Rall, University Counsel; members of the faculty, staff, students, news media and visitors.

The following agenda was presented for the meeting:

AGENDA

Meeting of the Board of Regents
Murray State University
Jesse Stuart Room, Pogue Library
December 8, 2006
1:30 p.m.

- | | | |
|----|---|---------------|
| 1. | <u>Roll Call</u> | |
| 2. | <u>Minutes of the Special meetings of the Board of Regents held on October 27, 2006, and November 19, 2006</u> | |
| 3. | <u>Report of the President</u> | Dr. Dunn |
| 4. | <u>Report of the Chair</u> | Mrs. Buchanon |
| 5. | <u>Report of the Treasurer</u>
(Finance and Investment Reports for the period of July 1, 2006, through September 30, 2006) | Mr. Denton |
| 6. | <u>Report of the Registrar</u>
(December 2006 Graduates) | Dr. Dunn |
| 7. | <u>Gift Acceptances</u>
A. 3-year-old Stallion
B. Audio Visual Equipment
C. Hewlett Packard Equipment | Dr. Dunn |
| 8. | <u>Personnel Changes</u>
A. Staff Leaves of Absence Without Pay
B. Recommendation on Appointment of Director of Housing | Dr. Dunn |
| 9. | <u>Appointments to the University Appeals Board</u> | Dr. Dunn |

- | | | |
|-----|--|---------------|
| 10. | <u>Presidential Evaluation Procedure</u> | Mrs. Buchanon |
| 11. | <u>Committee Reports/Recommendations</u> | |
| | A. Academic Affairs | Dr. Strieter |
| | B. Athletic | Mrs. Ford |
| | C. Audit | Mr. Adams |
| | D. Buildings and Grounds | Ms. Hays |
| | E. Development/Investments | Mrs. Ford |
| | F. Equal Opportunity/Affirmative Action | Ms. Burr |
| | G. Faculty/Staff Affairs | Mrs. Buchanon |
| | H. Finance | Mrs. Buchanon |
| | I. Governmental Relations | Mr. Stout |
| | J. International Relations | Mrs. Travis |
| | K. Student Life | Mr. Ellison |
| 12. | <u>Executive Session</u> | Mrs. Buchanon |

Minutes of the Special Meetings of the Board of Regents held on October 27, 2006, and November 19, 2006

Mrs. Ford moved, seconded by Mrs. Travis, that the Minutes of the Special Meetings of the Board of Regents held on October 27, 2006, and November 19, 2006, be approved as presented. Motion carried.

President's Report

Dr. Dunn stated that in his future reports there will be general discussion around a number of issues. It may be announcements and it might be a hint of a policy direction that the Board will be asked to review at some future point. Potentially this could come from action of the Council on Postsecondary Education (CPE) where we have an update. He expressed appreciation to everyone for the kind and heartfelt welcome over the past week. There have been some wonderful events and opportunities to meet many people on campus and it is clear why Murray State University has such a renowned reputation and it always comes down to the people that make an institution work and absolutely no less true in the case at MSU.

Governor Fletcher's Visit to Murray State University (MSU)

MSU will be hosting Governor Ernie Fletcher on Friday, December 15, 3:30 p.m., in Wrather Auditorium. He has been having some town hall meetings around the state. Governor Fletcher is seeking input on use of the excess fund monies and we are looking forward to hosting the Governor and his team on that day to continue his series of town hall meetings. As more information becomes available, it will be passed along to you.

President Dunn introduced Provost Gary Brockway who gave the following reports:

Regional Stewardship Report

Dr. Brockway stated that the Regional Stewardship Program is an initiative that was funded in the last Legislative Session through a CPE budget request. It allocates \$200,000 to be used incurring money the first year to set up an infrastructure at the University for regional stewardship. Then in the second year to address issues of regional interests with an additional \$300,000 that we will apply for after working closely with a Regional Advisory Board.

In the first year MSU was asked to submit a proposal due October 1, 2006, for the funds that would be used to set up the infrastructure, which includes hiring a Regional Stewardship Director, office staff, a data base and some operating expenses in the office. The proposal was completed and sent to CPE. The University received a response stating that overall MSU submitted a good proposal but a few changes had to be made and returned to CPE. Two CPE

representatives will be on campus next week to meet with President Dunn and others involved in the proposal. If we are successful in convincing them, the proposal will then be taken to the full CPE Board in January. Once the proposal is accepted and approved by the full CPE Board, the next steps will be putting the Regional Stewardship Office in place with a Regional Stewardship Director and a very broad-based Regional Advisory Board will be formed. That board will be made up of representatives throughout the region, geographically balanced as well as cross sections of educational leaders, governmental leaders, business leaders, healthcare leaders and a number of various individuals.

Impact of Nine Month contract

In 2002 the Board of Regents passed the change in faculty contracts from a ten month contract to a nine month contract. The change was made primarily to provide incentives for faculty research and writing of grants. As the auditor indicated on the condensed statement on revenues and expenses, there is a line under operating revenues that shows grants and contracts increased from \$17 million in 2003 to \$19 million in 2004, to \$20 million in 2005, and to \$21 million in 2006. Dr. Brockway stated that this is a gross oversimplification because we have institutionally-sponsored grants and contracts co-mingled with faculty-sponsored grants and contracts. It is very difficult to track and separate the faculty-sponsored and the institutionally-sponsored grants.

The research picture is more involved than just grants and contracts. MSU is not classified according to the Carnegie Classification system as a research institution, nor do we have a specific designated charge as a research institution by the Council on Postsecondary Education. We place a high value on research at MSU and we compare very favorably with our peer institutions regarding the output of our scholarly activity.

Dr. Brockway pointed out that it is in MSU's Mission Statement in terms of goals of research as well as in the goals stated in the back of the strategic plan with regard to academic pursuits that research is clearly built into merit, tenure and promotion decisions at the University. While we may emphasize outstanding teaching, we know effective teachers are also active scholars and faculty engage their students in their research efforts.

He introduced two members of the Research Policy Committee—Dr. Ricky Cox and Dr. John Mateja. The Research Policy Committee was behind the initiative for a nine month contract, which was primarily designed to help those with federally-funded research.

Dr. Cox is Associate Professor in the Department of Chemistry and currently chair of the Research Policy Committee. He won the 2005 Board of Regents Teaching Excellence Award in the College of Science and Engineering Technology. Dr. Cox is an active scholar with over eighteen publications in the area of protein biochemistry and a very successful grant writer.

Dr. John Mateja, a nuclear physicist, is currently the Director of the Office of Undergraduate Research in Scholarly Activity (URSA) and Director of the McNair Scholars Program. Both of these programs came to Murray State as a result of grants written by Dr. Mateja. The first was the Howard Hughes Grant for over \$1½ million to establish the Office of Undergraduate Research and Scholarly Activities. The other is the McNair Scholars program, which is to bring those under represented students through not only an undergraduate program, but preparing them for Ph.D. programs. Dr. Mateja presented a slide show on competitive grants submitted, funding submitted and received and 2005-2006 research activity.

Regarding competitive grants submitted, the University has control of how many grants submitted, but not over how many grants are funded. The nine month contracts started at the beginning of 2003-04 school year. Prior to that, the faculty submitted about 166 grants per year. When the University went to the nine month contract, the number of grants submitted increased to 226 or a 36 percent increase.

Dr. Mateja stated that a few large awards can skew all the numbers which is what happened in 2003. MSU had several large awards, the Howard Hughes Award and several others that were in place at that time that has actually increased the dollar amounts in those years. If \$4½ million of these awards were taken away, you would actually see prior to 2003 that those

numbers would be smaller and that the dollar figures have gone up.

With regard to research activity, a slide was shown comparing MSU to six other institutions, which included three schools that ranked higher than MSU in the US News and World Report (Appalachian State, James Madison, College of Charleston), then randomly picked three regional comprehensive colleges from Kentucky (Morehead, Eastern, Western) and looked at how many proposals were submitted by their faculty members in 2005-2006. MSU faculty members submitted more grants per faculty member than any of the schools compared.

It was pointed out that all the schools were on nine month contracts.

Dr. Ricky Cox was introduced, who is the current chair of the Research Policy Committee. This Committee was established in 1997. The major charges to the committee were needs of the faculty, barriers to research, focus on externally-funded research, and recognizing and rewarding research and scholarly activity.

In 1998 there was a Dean's survey that went out to identify some barriers associated with research and how we could improve/enhance the research activity of faculty on campus. Something that came out of this was a discussion of a nine month contract. Some of the current barriers the Committee is working on is a faculty research focus group and developing a faculty survey to determine how we could move to the next level. The nine month contract has been great for faculty to focus on externally-funded research. Early on, the Faculty Research Policy Committee established a Travel Grant Program which enabled faculty to travel to areas seeking advice on how to proceed with proposals.

The committee works very closely with the Office of Sponsored Programs in trying to enhance externally funded research.

Regarding current activity, the committee's goal is to increase external funding to bring more indirect costs money from federally funded grants into the University. Some of the things that are being suggested include some type of grant match account at redistribution of indirect cost dollars received from federal grants.

The MSU Distinguished Research Award, sponsored by the Alumni Association, has given five awards: Dr. Ramesh Gupta, School of Agriculture; Dr. Joe Fuhrmann, Department of History; Dr. Dan Wann, Department of Psychology; Dr. David White, Department of Biological Sciences; and Dr. Gary Jones, Department of Mathematics and Statistics. There is currently a call out for nominations for the 2007 Distinguished Researcher, which has been a very good program for this University. Other initiatives being worked on are: Junior Distinguished Researcher Award; Brown Bag Lunches for faculty to give presentations on their research to the other faculty, students, staff and the community; and developing a research Web Presence. A few of the things that have been developed through URSA include Scholar's Week and Posters at the Capitol where the University showcases faculty and student research.

Mrs. Buchanon expressed appreciation for the good report on the nine month contracts.

Report of the Chair

The only thing the Chair has to report is that it is a very momentous day in the history of Murray State as we are joined by our 11th President, Dr. Randy Dunn.

Report of the Treasurer

Treasurer Tom Denton presented and reviewed the Financial and Investment Reports for the period of July 1, 2006, through September 30, 2006. Following a brief discussion, Mr. Adams moved, seconded by Mr. Stout, that the Treasurer's Report be accepted. Motion carried.

(See Attachment #1)

Report of the Registrar

Ms. Burr moved, seconded by Mrs. Winchester, that the Board of Regents ratify the awarding of the degrees to individuals on December 16, 2006, as recommended by the Registrar. Motion carried.

(See Attachment #2)

Gifts, accepted

A. Stallion

Mrs. Travis moved, seconded by Ms. Hays, that the Board of Regents, upon the recommendation of the President of the University, accept the donation of a three year old Stallion, valued at \$12,500 which was donated by Susan Grove in Oxford, Ohio. Motion carried.

The gift of the stallion will be used in the School of Agriculture Equine Department of Murray State University.

B. Audio Visual Equipment

Mr. Adams moved, seconded by Mr. Taylor, that the Board of Regents, upon the recommendation of the President of the University, accept the donation of Audio Visual Equipment (Digital VCR's, Projectors, etc.) valued at \$10,165 which was donated by C. A. Jones, Inc., of Murray, Kentucky. Motion carried.

The gift of the Audio Visual Equipment will be used in the Football Office in the Athletic Department of Murray State University.

C. Hewlett Packard Equipment

Ms. Burr moved, seconded by Mrs. Ford, that the Board of Regents, upon the recommendation of the President of the University, accept the donation of Hewlett Packard Equipment (42 computers), valued at \$121,959.14 which was donated by Hewlett Packard of Palo Alto, California. Motion carried.

The gift of the office furniture will be used in the Biological Sciences Department of Murray State University.

Personnel Changes

A. Staff Leaves of Absence Without Pay, approved

Mr. Stout moved, seconded by Mrs. Winchester, that the Board of Regents, upon the recommendation of the President of the University, approve the Staff Leaves of Absence Without Pay as noted below:

<u>Name</u>	<u>Department</u>	<u>Effective Date</u>
Chiles, Jesse	Facilities Management	11/9/06-11/30/06
Dunlap, Randy	Facilities Management	8/19/06-12/31/06
Eaves, Tammy	Student Recreation & Wellness Center	7/1/06-12/31/06
Majors, Becki	McNair Grant	10/4/06-11/20/06
Morse, Kelly	Hopkinsville Campus Administration	10/12/06-10/12/06
Napier, Jim	Office of Development	10/1/06-10/31/06*
Rachoy, Cindy	Facilities Management	10/3/06-11/6/06
Seavers, Fred	Facilities Management	8/19/06-11/30/06
Snyder, Marlyn	Facilities Management	11/7/06-1/31/07

Sons, Gerald	Facilities Management	9/30/06–11/10/06
Thomas, Melanie	Information Systems/Telecommunications	10/31/06–12/31/06
Wilson, Anne	Food Service	8/23/06–10/2/06
Young, Anthony	Facilities Management	8/29/06–10/17/06

* Intermittent Leave

Motion carried.

B. Recommendation on Appointment of the Director of Housing, approved

Dr. Strieter moved that the Board of Regents, upon the recommendation of the President of the University, approve the appointment of Dr. J. David Wilson as Director of Residence Life/Housing effective November 14, 2006, at an annual salary of \$63, 642.

Mrs. Winchester seconded and the roll was called with the following voting: Mr. Adams, yes; Ms. Burr, yes; Mr. Ellison, yes; Mrs. Ford, yes; Ms. Hays, yes; Mr. Stout, yes; Dr. Strieter, yes; Mr. Taylor, yes; Mrs. Travis, yes; Mrs. Winchester, yes; and Mrs. Buchanon, yes. Motion carried.

Appointments to the University Student Appeals Board

Mr. Ellison moved, seconded by Mrs. Ford, that the Board of Regents, upon the recommendation of the President of the University, approve the following faculty and students to the University Student Appeals Board for the terms indicated.

Faculty: Three-year term (2006-2009)

Paul Lucko, Associate Professor, Department of Social Work, Criminal Justice and Gerontology, College of Health Sciences and Human Services
Dwayne Driskill, Professor, Agricultural Science, School of Agriculture

Students: One-year term (2006-2007)

Stephen Boh
Katie Kanowsky
Joshua Taylor

Motion carried.

Presidential Evaluation Procedure

Regarding the Presidential Evaluation Procedure, Mrs. Buchanon stated that there has been an evaluation process in existence that was enforced in 1994.

Following a lengthy discussion, Mrs. Travis moved that a committee be formed composed of the Chair, Vice Chair, Bill Adams, Faculty Regent, Alan Stout, and Adviser Joyce Gordon to work on a procedure for the evaluation process. Dr. Strieter seconded and the motion carried.

Dr. Dunn stated that the process can be organized by a committee, but the full Board has to ultimately do the evaluation and weigh in accordingly.

Mr. Stout pointed out that the Bylaws need to be revisited at some time.

Mr. Taylor asked that a copy of Dr. Dunn's contract be mailed to him.

Committee Reports

A. Academic Affairs - No Report.

- B. Athletic - No Report.
- C. Audit - Mr. Adams.

Audited Financial Reports

The Audits were presented by Mr. Keith M. Messmer, a member of MSU's audit firm, BKD, LLP. The Audit Committee was also presented the unaudited supplemental financial schedules as informational reporting to the Board of Regents.

On behalf of the Audit Committee, Mr. Adams moved, seconded by Mrs. Ford, that the Board of Regents, upon the recommendation of the President of the University, accept the following audited financial reports for 2005-2006:

- Audit Committee Letter
- Independence Letter
- House Bill 622 Report for the year ended 6/30/06
- Kentucky Lease Law Compliance Report for the year ended 6/30/06
- General Financial Statement and Management Letter for the year ended 6/30/06
- U.S. Office of Management and Budget Circular A-133 for the year ended 6/30/06
(federal funds)
- WKMS Radio Station audit for the year ended 6/30/06
- WKMS Radio Station Corporation for Public Broadcasting Annual Report for the year ended 6/30/06

Motion carried.

(See Attachments #3 – #10)

Mr. Adams stated that the Audit Committee will be meeting after the first of the year for a work session to be lead by Vice President Tom Denton. All of the Board members are invited.

- D. Buildings and Grounds - Ms. Hays.

Ms. Hays reported that the committee had a report by Dr. Dewey Yeatts, Associate Vice President for Facilities Management and Chief Facilities Office, regarding ongoing campus projects.

The following recommendations were approved by the Building and Grounds Committee.

College of Science–Phase IV Project Approval

On behalf of the Buildings and Grounds Committee, Ms. Hays moved that the Board of Regents, upon the recommendation of the President of the University, approve a capital construction project for the construction of Phase IV of the College of Science Complex with a project scope of \$15 million. Dr. Strieter seconded and the motion carried.

Capital Outlay Requests (For Information Only)

Discussion of selected (ranked in priority order) capital project priority requests:

- 2007-2008

College of Science–Phase IV	\$15,000,000
Breathitt Veterinary Center Feasibility Study	\$ 500,000
Library Feasibility Study	500,000
Purchase of Farm Land	2,000,000
- 2008-2010 Biennium

Research and Economic Development–Breathitt	\$40,000,000
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Murray

MURRAY STATE UNIVERSITY

Board Presentation

Murray State University

December 8, 2006

Presented by:

Keith M. Messmer, CPA

Mary McKinley, CPA

BKD, LLP



Murray State University
Condensed Financial Information



Balance Sheets (in millions)

	June 30			
	2006	2005	2004	2003
Assets				
Cash and restricted cash	\$ 59.5	\$ 42.1	\$ 43.3	\$ 47.5
Investments	26.1	25.1	20.8	16.3
Capital assets, net of accumulated depreciation	121.6	119.3	117.5	107.1
Other assets	<u>14.7</u>	<u>13.1</u>	<u>12.5</u>	<u>12.4</u>
Total assets	<u>\$ 221.9</u>	<u>\$ 199.6</u>	<u>\$ 194.1</u>	<u>\$ 183.3</u>
Liabilities and Net Assets				
Deferred revenue	\$ 3.1	\$ 3.6	\$ 4.7	\$ 11.7
Revenue bonds, notes, capital leases	48.7	36.8	32.9	32.3
Other liabilities	12.0	11.2	12.8	10.5
Net assets	<u>158.1</u>	<u>148.0</u>	<u>143.7</u>	<u>128.8</u>
Total liabilities and net assets	<u>\$ 221.9</u>	<u>\$ 199.6</u>	<u>\$ 194.1</u>	<u>\$ 183.3</u>
Net Assets				
Unrestricted	\$ 31.6	\$ 26.4	\$ 21.5	\$ 17.1
Invested in capital assets, net of debt	92.6	90.0	85.6	85.1
Restricted	<u>33.9</u>	<u>31.6</u>	<u>36.6</u>	<u>26.6</u>
Total net assets	<u>\$ 158.1</u>	<u>\$ 148.0</u>	<u>\$ 143.7</u>	<u>\$ 128.8</u>



Murray State University
Condensed Financial Information



Statements of Revenues, Expenses and Changes in Net Assets (in millions)

	Years Ended June 30			
	2006	2005	2004	2003
Operating Revenues				
Tuition and fees, net	\$ 35.6	\$ 32.4	\$ 27.9	\$ 25.0
Grants and contracts	21.3	20.1	19.6	17.2
Sales, service and other revenues	6.6	5.1	5.4	4.7
Net auxiliary revenues	<u>19.3</u>	<u>18.0</u>	<u>17.1</u>	<u>16.5</u>
	<u>82.8</u>	<u>75.6</u>	<u>70.0</u>	<u>63.4</u>
Expenses				
Instruction	50.6	47.0	46.6	45.8
Other education and general	63.8	62.1	56.7	54.1
Depreciation	6.6	6.5	5.8	5.8
Auxiliary	<u>17.0</u>	<u>16.1</u>	<u>15.4</u>	<u>15.4</u>
	<u>138.0</u>	<u>131.7</u>	<u>124.5</u>	<u>121.1</u>
Operating Loss	<u>(55.2)</u>	<u>(56.1)</u>	<u>(54.5)</u>	<u>(57.7)</u>
Nonoperating Revenues				
State appropriations	55.0	49.4	50.1	50.4
Other	<u>6.6</u>	<u>7.7</u>	<u>10.2</u>	<u>5.0</u>
	<u>61.6</u>	<u>57.1</u>	<u>60.3</u>	<u>55.4</u>
Other Revenues				
State capital appropriations	2.4	1.3	8.1	3.2
Other	<u>1.4</u>	<u>2.0</u>	<u>.9</u>	<u>.7</u>
	<u>3.8</u>	<u>3.3</u>	<u>9.0</u>	<u>3.9</u>
Increase in Net Assets	\$ <u>10.2</u>	\$ <u>4.3</u>	\$ <u>14.8</u>	\$ <u>1.6</u>



Murray State University
Other Reports



- A-133
- House Bill 622
- Independence letter
- Audit committee letter
- WKMS audited financial statements
- Report to Corporation for Public Broadcasting
- Kentucky Lease Law
- Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*



Veterinary Center New Facility
Library

40,000,000

Disposition of Structure

On behalf of the Buildings and Grounds Committee, Ms. Hays moved, seconded by Mrs. Winchester, that the Board of Regents, upon the recommendation of the President of the University, approve the attached resolution authorizing the disposition of the structure known as Building #143 located at 907 Waldrop, in Murray, Kentucky. Motion carried.

(See Attachment #11)

- E. Development/Investments - No Report.
- F. Equal Opportunity/Affirmative Action - Mrs. Burr.

The Committee had a presentation by Dr. Robertson and his staff. Also, there was a tour of the Multi-cultural Center, and the Board attended the Kwanza lunch with several of the students.

- G. Faculty/Staff Affairs - No Report.
- H. Finance - Mrs. Buchanon.

The following recommendations were approved by the Finance Committee.

Budget Preparation Guidelines and Priorities

On behalf of the Finance Committee, Mrs. Buchanon moved, seconded by Ms. Hays, that the Board of Regents, upon the recommendation of the President of the University, approve the Budget Preparation Guidelines and Priorities as presented in the attached document. Motion carried.

(See Attachment #12)

Course Fees - for information only

Murray State University course fees will be increased (rounded to the nearest fifty cents) based upon the Consumer Price Index (CPI) for the twelve months ending June 30, 2006, of 4.3 percent.

National Student Exchange Application Fee

On behalf of the Finance Committee, Mrs. Buchanon moved that the Board of Regents, upon the recommendation of the President of the University, approve an increase in the National Student Exchange application fee from \$100 to \$150, effective January 1, 2007, for students applying for the fall 2007 semester.

Mr. Stout seconded and the roll was called with the following voting: Mr. Adams, yes; Ms. Burr, yes; Mr. Ellison, yes; Mrs. Ford, yes; Ms. Hays, yes; Mr. Stout, yes; Dr. Strieter, yes; Mr. Taylor, yes; Mrs. Travis, yes; Mrs. Winchester, yes; and Mrs. Buchanon, yes. Motion carried.

Tuition Increase Discussion - for information only

- Tuition increase maximum parameters will be approved by the Council on Postsecondary Education on November 27, 2006.
- Tuition comparisons
- Tuition meeting with students (possibly before calendar year end)
- Board of Regents special called meeting for tuition increase (possibly in January 2007)

- Housing and Dining rates on or before February 23, 2007
- Regional tuition—proposed change in methodology rate calculation

College of Science—Phase IV Project and Disposition of Structure

Mrs. Buchanon asked that the record indicate that the Finance Committee joined the Building and Grounds Committee on the approval of the College of Science—Phase IV Project Approval and the Disposition of a Structure.

I. Governmental Relations - Mr. Stout.

Mr. Stout stated that he was looking forward to observing how Dr. Dunn navigates the waters in Frankfort, Ky. as opposed to Springfield, IL.

J. International Relations - Mrs. Travis.

Mrs. Travis stated that the Board approved a Resolution from the International Committee at the last Board meeting basically saying that we wanted to move forward with international studies and Dr. Basile was charged with providing direction. She passed out a Draft of a Proposal for the Establishment of Murray State University International Affairs Executive Council (IAEC) prepared by Dr. Jim McCoy and Dr. Dunn. We are excited that the international programs are receiving some attention and pointed out that even though the Council will move as quickly as possible, it will take some time. She expressed appreciation to Dr. Dunn for assuring her that financial support would be available for such matters as enrollment management types of things.

Dr. Dunn pointed out that the New Council being formed is not to replace the work that Drs. Mike Basile and Fred Miller have been doing, but rather to hook international education to this larger set of defining values that come into play for the University and look at how we use those programs to do outreach, to build community and help economic development, educational outreach, and all of those types of things.

Dr. McCoy met with the International Studies Advisory Council and the Institute for International Studies. He briefed them on the proposal and they unanimously endorsed it.

K. Student Life - No Report.

Resolution, adopted

Mrs. Buchanon indicated that Dr. Terry Strieter informed the Regents two months ago that he would be resigning as Faculty Regent to become the new Interim Chair of the History Department. She presented the following Resolution for approval.

Murray State University
Board of Regents
Resolution of Appreciation
Dr. Terry Strieter

WHEREAS, Dr. Terry Strieter was elected by faculty colleagues to the Board of Regents of Murray State University, serving a term beginning July, 2001, and ending January 15, 2007; and

WHEREAS, he has most effectively and thoughtfully represented and advanced the interests of the faculty of Murray State University in furtherance of the purposes and objectives of the institution; and

WHEREAS, his wide experience in the academic community enabled him to be a highly effective member of the Board; and

WHEREAS, his dedicated service to the Board contributed greatly to the advancement of the University in its efforts to serve the educational needs of the citizens of West Kentucky and the Commonwealth; and

WHEREAS, his conscientious and devoted service reflected an unselfish willingness to expend both time and energy in working toward the well-being of the University; and

WHEREAS, he was active in the work of all aspects of the Board of Regents' endeavors including Academic Affairs, Equal Opportunity/Affirmative Action, Faculty/Staff Affairs, International Relations and Student Life Committees of the Board, and was an effective advocate of the needs and the programs of the University and its faculty; and

WHEREAS, he has advanced the importance of university growth, student access, and student welfare through tireless endeavors as Professor of History at Murray State University;

NOW, THEREFORE, ON THIS December 8, 2006, BE IT HEREBY RESOLVED by the Murray State University Board of Regents, that this recognition of the outstanding service of Dr. Terry Strieter be preserved in the minutes as a token of our admiration and affection.

Mrs. Buchanan moved, seconded by Mrs. Ford, that the Resolution be adopted. Motion carried.

Mrs. Buchanan welcomed Dr. Jay Morgan who was in attendance and will be the new Faculty Regent replacing Dr. Strieter.

Mrs. Buchanan moved that the Board convene into Executive Session according to KRS 61.810.(1) (c) to discuss land acquisitions and pending litigation. Mrs. Ford seconded and motion carried.

Executive Session

Executive Session began at 3:45 p.m. and ended at 6:20 p.m.

Public Session

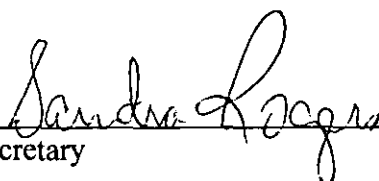
Mr. Adams moved, seconded by Mr. Stout, that the Board reconvene into open session at 6:20 p.m. Motion carried.


Mrs. Travis moved that in the case of Galloway et al. v. Fletcher et al. that the Murray State Board of Regents and its General Council stay involved in the case but inform the Court of Appeals that the issues are adequately addressed by the other parties and that we take no sides.

Mr. Stout seconded and all Regents voted yes, with the exception of Mrs. Buchanan who voted no, and Mr. Taylor who abstained. Motion carried.

Adjournment

Dr. Strieter moved to adjourn at 6:25 p.m.

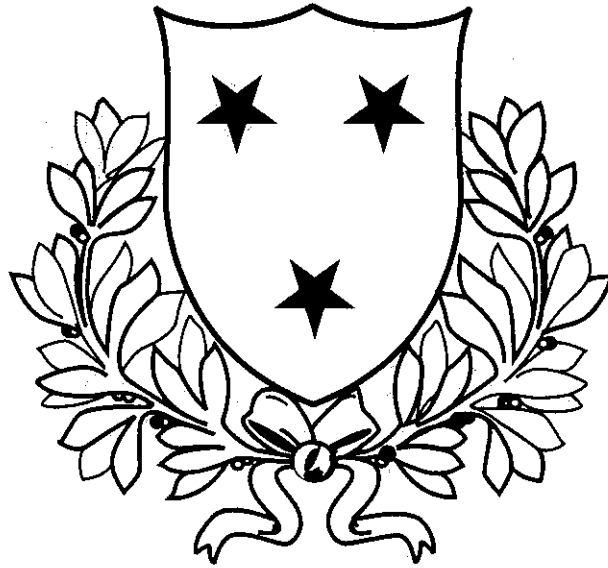

Secretary


Marilyn Buchanan, Chair

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Secretary

Murray State University



F O R T H E P E R I O D

July 1, 2006 - September 30, 2006

S u b m i t t e d t o :

The President
and
Board of Regents

FINANCIAL and INVESTMENT REPORTS



Murray

MURRAY STATE UNIVERSITY™

Accounting and Financial Services
200 Sparks Hall, Murray, KY 42071-3312
Phone (270) 809-4126 Fax (270) 809-3014

November 8, 2006

Interim President Thomas I. Miller
Members of the Board of Regents
Murray State University
Murray, KY 42071

Enclosed are the Financial and Investment Reports of Murray State University for the period
July 1, 2006 through September 30, 2006.

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Summary of Investment Earnings	7
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Thomas W. Denton
Vice President for Finance and
Administrative Services

ahs



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Equal education and employment opportunity M/F/D, AA employer

MURRAY STATE UNIVERSITY
BALANCE SHEET BY FUND (UNAUDITED)

September 30, 2006

With Comparative Unaudited Figures as of September 30, 2005

	Current Funds			Plant	Loan	Endowment	Agency	Totals	
	E&G	Auxiliary	Restricted	Funds	Funds	Funds	Funds	2007	2006
ASSETS									
Cash and cash equivalents	\$ 50,102,500	\$ 3,783,082	\$ (177,358)	\$ 16,809,281	\$ 277,869	\$ 839,890	\$ 52,564	\$ 71,687,828	\$ 56,062,263
Accounts and loans receivable, net	4,091,309	1,875,963	1,236,597	2,625,747	4,669,490	-	-	14,499,106	10,752,610
Investments	-	-	4,055,245	7,373,461	-	14,014,450	-	25,443,156	23,268,836
Capital assets, net of accumulated depreciation	-	-	-	122,899,965	-	-	-	122,899,965	118,878,661
Other assets	579,071	1,194,337	202	681,689	-	-	-	2,455,299	1,952,840
Total assets	\$ 54,772,880	\$ 6,853,382	\$ 5,114,686	\$ 150,390,143	\$ 4,947,359	\$ 14,854,340	\$ 52,564	\$ 236,985,354	\$ 210,915,210
LIABILITIES AND NET ASSETS									
LIABILITIES									
Accounts payable and accruals	\$ 5,038,828	\$ 150,152	\$ 53,459	\$ 1,472,974	\$ 8,428	\$ -	\$ -	\$ 6,723,841	\$ 4,963,356
Bonds, notes, and capital leases	124,224	-	-	47,612,213	-	-	-	47,736,437	36,400,476
Other liabilities	486,920	447,817	-	-	-	-	52,564	987,301	886,247
Total liabilities	5,649,972	597,969	53,459	49,085,187	8,428	-	52,564	55,447,579	42,250,079
NET ASSETS									
Invested in capital assets, net of related debt	-	-	-	92,868,702	-	-	-	92,868,702	90,098,869
Restricted nonexpendable net assets	-	-	-	-	-	14,854,340	-	14,854,340	14,781,227
Restricted expendable net assets	-	-	5,030,227	8,436,254	4,938,931	-	-	18,405,412	16,044,964
Unrestricted:									
Allocated for:									
Prior year carryovers	13,302,471	862,591	-	-	-	-	-	14,165,062	11,571,836
Working capital	2,166,969	793,021	-	-	-	-	-	2,959,990	2,673,297
Reserve for revenue contingency	2,690,984	-	-	-	-	-	-	2,690,984	3,398,013
Reserve for general contingency	30,093,484	4,599,801	-	-	-	-	-	34,693,285	29,196,925
Reserve for self insurance	900,000	-	-	-	-	-	-	900,000	900,000
Total unrestricted net assets	49,153,908	6,255,413	5,030,227	101,304,956	4,938,931	14,854,340	-	181,537,775	168,665,131
Interaccount eliminations	(31,000)	-	31,000	-	-	-	-	-	-
Total net assets	49,122,908	6,255,413	5,061,227	101,304,956	4,938,931	14,854,340	-	181,537,775	168,665,131
Total liabilities and net assets	\$ 54,772,880	\$ 6,853,382	\$ 5,114,686	\$ 150,390,143	\$ 4,947,359	\$ 14,854,340	\$ 52,564	\$ 236,985,354	\$ 210,915,210

MURRAY STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS BY FUND (UNAUDITED)
For the year ended September 30, 2006
With Comparative Unaudited Figures for the year ended September 30, 2005

	Current Funds			Plant	Loan	Endowment	Totals	
	E&G	Auxiliary	Restricted	Funds	Funds	Funds	2007	2006
REVENUES								
Operating revenues:								
Net tuition and fees	\$ 23,463,564	\$ -	\$ (2,902,891)	\$ -	\$ -	\$ -	\$ 20,560,673	\$ 18,234,888
Grants and contracts	88,615	-	7,866,837	-	-	-	7,955,452	7,603,863
Sales, services, and other revenues	2,496,128	-	(1,470,251)	-	1,837	-	1,027,714	743,535
Auxiliary revenues, net	-	9,551,267	-	-	-	-	9,551,267	9,040,484
Total operating revenues	26,048,307	9,551,267	3,493,695	-	1,837	-	39,095,106	35,622,770
EXPENSES								
Operating expenses	23,416,062	4,363,893	4,593,994	501,242	(4,586)	-	32,870,605	30,913,953
Depreciation	-	-	-	1,699,018	-	-	1,699,018	1,677,307
Total operating expenses	23,416,062	4,363,893	4,593,994	2,200,260	(4,586)	-	34,569,623	32,591,260
Operating income (loss)	2,632,245	5,187,374	(1,100,299)	(2,200,260)	6,423	-	4,525,483	3,031,510
NONOPERATING REVENUES (EXPENSES)								
State appropriations	16,582,600	-	-	-	-	-	16,582,600	16,484,900
Grants and contracts	-	-	387,653	-	-	-	387,653	(4,800)
Investment income	711,338	29,129	14,419	315,568	28,024	-	1,098,478	197,190
Other nonoperating revenues (expenses)	-	-	367,851	333,232	-	-	701,083	636,033
Net nonoperating revenues (expenses)	17,293,938	29,129	769,923	648,800	28,024	-	18,769,814	17,313,323
Income before other revenues, expenses, gains, or losses	19,926,183	5,216,503	(330,376)	(1,551,460)	34,447	-	23,295,297	20,344,833
Nonoperating capital revenues	8,404	-	-	148,000	-	-	156,404	343,644
Increase (decrease) in assets	19,934,587	5,216,503	(330,376)	(1,403,460)	34,447	-	23,451,701	20,688,477
TRANSFERS IN (OUT):								
Mandatory	-	(493,882)	-	493,882	-	-	-	-
Nonmandatory	(305,451)	(122,820)	(88,023)	516,294	-	-	-	-
Subtotal - transfers	(305,451)	(616,702)	(88,023)	1,010,176	-	-	-	-
Increase (decrease) in assets after transfers	19,629,136	4,599,801	(418,399)	(393,284)	34,447	-	23,451,701	20,688,477
Net Assets - beginning of year	29,493,772	1,655,612	5,479,626	101,698,240	4,904,484	14,854,340	158,086,074	147,976,654
Net Assets - end of year	\$ 49,122,908	\$ 6,255,413	\$ 5,061,227	\$ 101,304,956	\$ 4,938,931	\$ 14,854,340	\$ 181,537,775	\$ 168,665,131

MURRAY STATE UNIVERSITY
SCHEDULE OF REVENUES, EXPENSES, AND TRANSFERS BY FUND (UNAUDITED)

For the year ended September 30, 2006

With Comparative Unaudited Figures for the year ended September 30, 2005

	Current Funds			Plant	Loan	Endowment	Totals	
	E&G	Auxiliary	Restricted	Funds	Funds	Funds	2007	2006
REVENUES								
State appropriations	\$ 16,582,600	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,582,600	\$ 16,484,900
Student tuition and fees, net	23,463,564	-	(2,902,891)	-	-	-	20,560,673	18,234,888
Grants and contracts	88,615	-	8,254,490	-	-	-	8,343,105	7,599,063
Auxiliary revenues	-	9,551,267	-	-	-	-	9,551,267	9,040,484
Investment income	711,338	29,129	14,419	315,568	28,024	-	1,098,478	197,190
Sales, services, other discounts and income	2,496,128	-	(1,102,400)	832,951	1,837	-	2,228,516	1,737,117
Total revenues	43,342,245	9,580,396	4,263,618	1,148,519	29,861	-	58,364,639	53,293,642
EXPENSES								
Instruction	9,890,960	-	800,102	-	-	-	10,691,062	9,964,922
Research	217,038	-	352,774	-	-	-	569,812	587,389
Public service	1,558,213	-	402,482	-	-	-	1,960,695	1,529,477
Libraries	439,497	-	4,557	-	-	-	444,054	360,318
Academic support	1,752,079	-	116,279	-	-	-	1,868,358	1,696,328
Student services	2,833,215	-	79,589	-	(4,586)	-	2,908,218	2,661,350
Institutional support	2,605,068	-	3,108	-	-	-	2,608,176	2,961,245
Operation and maintenance of plant	3,686,115	-	63	501,242	-	-	4,187,420	3,766,419
Student aid	433,877	-	2,833,935	-	-	-	3,267,812	3,127,614
Depreciation	-	-	-	1,699,018	-	-	1,699,018	1,677,307
Auxiliary expenses	-	4,363,893	1,105	-	-	-	4,364,998	4,258,891
Other expenses	(8,404)	-	-	351,719	-	-	343,315	13,905
Total expenses	23,407,658	4,363,893	4,593,994	2,551,979	(4,586)	-	34,912,938	32,605,165
TRANSFERS								
Mandatory transfers	-	(493,882)	-	493,882	-	-	-	-
Nonmandatory transfers	(305,451)	(122,820)	(88,023)	516,294	-	-	-	-
Subtotal - transfers	(305,451)	(616,702)	(88,023)	1,010,176	-	-	-	-
Increase (decrease) in net assets	19,629,136	4,599,801	(418,399)	(393,284)	34,447	-	23,451,701	20,688,477
Net Assets - beginning of year	29,493,772	1,655,612	5,479,626	101,698,240	4,904,484	14,854,340	158,086,074	147,976,654
Net Assets - end of year	\$ 49,122,908	\$ 6,255,413	\$ 5,061,227	\$ 101,304,956	\$ 4,938,931	\$ 14,854,340	\$ 181,537,775	\$ 168,665,131

MURRAY STATE UNIVERSITY
CURRENT UNRESTRICTED FUNDS - EDUCATIONAL AND GENERAL
SCHEDULE OF REVENUES, EXPENSES, AND TRANSFERS (UNAUDITED)

For the Period July 1, 2006 through September 30, 2006
With Comparative Figures for the Period July 1, 2005 through September 30, 2005

	2006-07			2005-06	
	Current Budget	Fiscal Year Actual	Actual % Budget	Fiscal Year Actual	Actual % Budget
REVENUES					
State appropriations	\$ 55,278,600	\$ 16,582,600	30%	\$ 15,350,375	29%
Student tuition and fees, net	43,818,070	23,463,564	54%	20,922,154	52%
Grants and contracts	88,615	88,615	100%	69,689	102%
Auxiliary revenues	-	-	0%	-	0%
Investment income	700,000	711,338	102%	155,644	22%
Sales, services, and other income	6,795,050	2,496,128	37%	2,109,624	39%
Prior year carryovers and encumbrances	15,600,723	-	N/A	-	N/A
Total revenues	<u>122,281,058</u>	<u>43,342,245</u>	<u>35%</u>	<u>38,607,486</u>	<u>37%</u>
EXPENSES					
Instruction	51,032,316	9,890,960	19%	8,900,744	20%
Research	1,035,820	217,038	21%	233,695	24%
Public service	6,157,104	1,558,213	25%	1,126,751	23%
Library	3,487,502	439,497	13%	355,911	11%
Academic support	5,912,875	1,752,079	30%	1,624,738	32%
Student services	12,332,743	2,833,215	23%	2,554,504	22%
Institutional support	19,541,932	2,605,068	13%	2,957,028	20%
Operation and maintenance of plant	17,560,958	3,677,711	21%	2,651,013	22%
Student aid	896,517	433,877	48%	360,182	68%
Total expenses	<u>117,957,767</u>	<u>23,407,658</u>	<u>20%</u>	<u>20,764,566</u>	<u>21%</u>
TRANSFERS IN (OUT)					
Mandatory transfers:					
Consolidated educational bond sinking fund	\$ (1,968,193)	-	N/A	-	N/A
Loan fund match	-	-	N/A	-	N/A
Non-mandatory transfers	<u>(2,177,868)</u>	<u>(305,451)</u>	<u>N/A</u>	<u>(373,977)</u>	<u>N/A</u>
Total transfers	<u>(4,146,061)</u>	<u>(305,451)</u>	<u>N/A</u>	<u>(373,977)</u>	<u>N/A</u>
INCREASE IN NET ASSETS		<u>\$ 19,629,136</u>		<u>\$ 17,468,943</u>	

MURRAY STATE UNIVERSITY
CURRENT UNRESTRICTED FUNDS - AUXILIARIES
SCHEDULE OF REVENUES, EXPENSES, AND TRANSFERS BY UNIT (UNAUDITED)
For the Period July 1, 2006 through September 30, 2006
With Comparative Figures for the Period July 1, 2005 through September 30, 2005

	<u>Food Services</u>	<u>Housing Services</u>	<u>Bookstore</u>	<u>Racer Card Administration</u>	<u>Vending and Manual Commissions</u>	<u>Prior Year Carryovers & Encumbrances</u>	<u>Total</u>
2006-07							
REVENUES							
Current Budget	\$ 6,828,269	\$ 7,700,448	\$ 5,574,752	\$ 77,920	\$ 103,000	\$ 860,066	\$ 21,144,455
Fiscal Year Actual	3,355,203	3,968,517	2,209,859	33,528	13,289	-	9,580,396
Actual % Budget	49%	52%	40%	43%	13%	N/A	45%
EXPENSES							
Current Budget	\$ 6,332,164	\$ 8,887,531	\$ 5,274,371	\$ 104,962	\$ 545,427	\$ -	\$ 21,144,455
Fiscal Year Actual	1,001,561	1,417,579	1,874,692	37,590	32,471	-	4,363,893
Actual % Budget	16%	16%	36%	36%	6%	N/A	21%
TRANSFERS IN (OUT)	<u>\$ (113,893)</u>	<u>\$ (432,989)</u>	<u>\$ (69,820)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (616,702)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 2,239,749</u>	<u>\$ 2,117,949</u>	<u>\$ 265,347</u>	<u>\$ (4,062)</u>	<u>\$ (19,182)</u>	<u>\$ -</u>	<u>\$ 4,599,801</u>
2005-06							
REVENUES							
Current Budget	\$ 6,131,251	\$ 6,650,223	\$ 5,412,381	\$ 77,920	\$ 103,000	\$ 967,527	\$ 19,342,302
Fiscal Year Actual	3,107,245	3,622,333	2,271,442	35,845	9,205	-	9,046,070
Actual % Budget	51%	54%	42%	46%	9%	N/A	47%
EXPENSES							
Current Budget	\$ 6,134,637	\$ 7,608,320	\$ 5,104,649	\$ 98,329	\$ 396,367	\$ -	\$ 19,342,302
Fiscal Year Actual	956,810	1,321,212	1,919,462	31,972	26,562	-	4,256,018
Actual % Budget	16%	17%	38%	33%	7%	N/A	22%
TRANSFERS IN (OUT)	<u>\$ (115,897)</u>	<u>\$ (401,432)</u>	<u>\$ (77,320)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (594,649)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 2,034,538</u>	<u>\$ 1,899,689</u>	<u>\$ 274,660</u>	<u>\$ 3,873</u>	<u>\$ (17,357)</u>	<u>\$ -</u>	<u>\$ 4,195,403</u>
2006-07 INCREASE (DECREASE) IN FUND BALANCE CHANGE	<u>\$ 205,211</u>	<u>\$ 218,260</u>	<u>\$ (9,313)</u>	<u>\$ (7,935)</u>	<u>\$ (1,825)</u>	<u>\$ -</u>	<u>\$ 404,398</u>

MURRAY STATE UNIVERSITY
CURRENT RESTRICTED FUNDS
SCHEDULE OF REVENUES, EXPENSES, AND TRANSFERS (UNAUDITED)
For the Period July 1, 2006 through September 30, 2006
With Comparative Figures for the Period July 1, 2005 through September 30, 2005

	<u>2006-07</u> Fiscal Year Actual	<u>2005-06</u> Fiscal Year Actual
REVENUES		
State appropriations	\$ -	\$ 1,134,525
Grants and Contracts:		
Federal grants and contracts:		
Pell	3,050,992	2,985,441
SEOG	160,607	156,870
Workstudy	39,916	44,787
Other federal grants and contracts	1,111,934	432,601
Subtotal federal grants and contracts	4,363,449	3,619,699
Less: Federal fund discounts	(2,333,954)	(2,231,938)
Total federal grants and contracts	2,029,495	1,387,761
State grants and contracts:		
KEES	2,250,877	2,214,749
KHEAA	718,293	764,334
Other state grants and contracts	481,344	656,007
Total state grants and contracts	3,450,514	3,635,090
Other grants and contracts	440,527	274,585
Less: State and other discounts	(2,039,188)	(1,821,417)
Total all grants and contracts	3,881,348	3,476,019
Investment income	14,419	-
Sales, services, and other income	367,851	313,783
Total revenues	4,263,618	4,924,327
EXPENSES BY FUNCTION		
Instruction	800,102	1,064,178
Research	352,774	353,694
Public service	402,482	402,726
Library	4,557	4,407
Academic support	116,279	71,590
Student services	79,589	86,298
Institutional support	3,108	4,217
Operation and maintenance of plant	63	-
Student aid	2,833,935	2,767,432
Total expenses	4,592,889	4,754,542
Auxiliary enterprises	1,105	2,873
Total expenses by function	4,593,994	4,757,415
TRANSFERS IN (OUT)		
Non-mandatory transfers	(88,023)	283,115
INCREASE IN NET ASSETS	\$ (418,399)	\$ 450,027

MURRAY STATE UNIVERSITY
SUMMARY OF INVESTMENT EARNINGS
For the Period of July 1, 2006 through September 30, 2006
With Comparative Unaudited Figures for the period July 1, 2005 through September 30, 2005

Type of Investment	Yield	Amount Invested	REALIZED EARNINGS				
			Local Accounts	State Bond Pool	MSU Foundation Investment Pool	Other	Total
<hr/>							
2006-07							
<hr/>							
CURRENT FUNDS							
Local bank account - US Bank	4.44%	\$ 23,694,836	\$ 110,626	\$ -	\$ -	\$ -	\$ 110,626
Consolidated educational revenue fund	4.20%	26,282,870	-	603,575	-	-	603,575
Housing and dining revenue fund	4.32%	3,783,082	-	29,129	-	-	29,129
Student loan funds	4.20%	277,869	-	4,706	-	23,318	28,024
University restricted funds held by MSU Foundation	N/A	4,055,245	-	-	-	-	-
Total current fund	4.20%	<u>58,093,902</u>	<u>110,626</u>	<u>637,410</u>	<u>-</u>	<u>23,318</u>	<u>771,354</u>
 ENDOWMENT FUNDS							
Consolidated educational revenue fund	4.20%	839,890	-	11,600	-	-	11,600
University endowments held by MSU Foundation	3.65%	14,014,450	-	-	146,046	(44)	146,002
Total endowment fund	3.68%	<u>14,854,340</u>	<u>-</u>	<u>11,600</u>	<u>146,046</u>	<u>(44)</u>	<u>157,602</u>
 PLANT FUNDS							
	4.06%	<u>24,182,742</u>	<u>-</u>	<u>224,221</u>	<u>-</u>	<u>91,347</u>	<u>315,568</u>
 TOTAL DEPOSITS AND INVESTMENTS							
		<u>\$ 97,130,984</u>	<u>\$ 110,626</u>	<u>\$ 873,231</u>	<u>\$ 146,046</u>	<u>\$ 114,621</u>	<u>\$ 1,244,524</u>
<hr/>							
2005-06							
<hr/>							
CURRENT FUNDS							
	4.54%	\$ 51,584,885	\$ 54,955	\$ 106,275	\$ -	\$ 15,140	\$ 176,370
ENDOWMENT FUNDS							
	6.02%	14,781,227	-	-	242,894	-	242,894
PLANT FUNDS							
	3.15%	12,964,987	-	2,131	-	18,689	20,820
 TOTAL DEPOSITS AND INVESTMENTS							
		<u>\$ 79,331,099</u>	<u>\$ 54,955</u>	<u>\$ 108,406</u>	<u>\$ 242,894</u>	<u>\$ 33,829</u>	<u>\$ 440,084</u>

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL AND INVESTMENT REPORTS
SEPTEMBER 30, 2006

Note 1. Financial Report Presentation

The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board. Quarterly interim financial reports reflect unaudited summarized financial data for the year to date.

Note 2. Basis of Revenue Recognition

Accrual basis accounting is used to recognize interest earnings on the Investment Report.

Note 3. Investment Policies and Procedures

POLICIES

Scope: This investment policy applies to activities of the University with regard to investing the financial assets of all funds, including those maintained by:

- I. the Commonwealth of Kentucky's treasury,
- II. local depositories, and
- III. external trustees and investment managers.

Written procedures will indicate which funds are covered under each of the previously mentioned investment structures.

Goals: Consistent with state statutes and administrative regulations, the goals of the University's investment program are:

- preservation and maintenance of the real purchasing power of the principal in the portfolios,
- maintenance of sufficient liquidity to meet normal and foreseeable expenditures, and
- attainment of the greatest possible dollar return to the University while observing statutory and policy constraints.

Investment Objective: The investment objective is to produce a yield that when compared to the current marketplace, would be described as competitive by investment managers.

Strategy: The University's investment strategy is designed to match the life of the assets with the date liability occurs.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL AND INVESTMENT REPORTS
SEPTEMBER 30, 2006

Note 3. Investment Policies and Procedures (Continued)

Delegation of Authority:

General: The Treasurer is responsible for investment decisions and activities, under the direction of the Board of Regents. The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with these policies. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person shall engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate investment personnel.

Bond Funds: With regard to bond funds, the investment/reinvestment (on instruments authorized by the bond indenture and resolutions) by the trustee(s) shall be directed from time to time by the Treasurer.

Minimal Non-Cash Investment Transactions: In order to correct stock transfer errors or dispose of small non-cash investments, the Treasurer is authorized to sell or otherwise dispose of items less than \$25,000.

Reporting: The Treasurer and the Vice President for Finance and Administrative Services shall submit quarterly investment reports to the President and Board of Regents. These reports will include investment data for investment securities held at the end of the reporting period.

PROCEDURES

Specific investment procedures are contained within the full "Investment Policies and Procedures" as approved by the Board of Regents on May 14, 1994, and last revised on June 18, 2004.

Note 4. Deposits and Investments

The University currently uses commercial banks and the Commonwealth of Kentucky for its depositories. Deposits with commercial banks are covered by Federal depository insurance or collateral held by the bank in the University's name. University funds deposited with the State Treasurer are pooled with funds from other state agencies. These state pooled deposits are substantially covered by federal depository insurance or by the collateral held by the bank in the state's name. The investments of the University not held by the state investment pool are insured, registered, or held by the University or by an agent of the University.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL AND INVESTMENT REPORTS
SEPTEMBER 30, 2006

Note 4. Deposits and Investments (Continued)

Below is a summary of the deposits and investments held by the University:

	September 30, 2006 Balance Invested	September 30, 2005 Balance Invested
Deposits:		
Deposits in State Investment Pool	\$ 47,992,992	\$ 47,340,595
Deposits in local banks and cash on hand	23,694,836	8,721,668
Total deposits	<u>71,687,828</u>	<u>56,062,263</u>
Investments:		
U. S. Government Securities	7,373,461	6,202,238
Investments held by MSU Foundation:		
Restricted fund	4,055,245	3,119,332
Endowment	14,014,450	13,947,266
Total investments held by MSU Foundation	<u>25,443,156</u>	<u>23,268,836</u>
Total deposits and investments	<u>\$ 97,130,984</u>	<u>\$ 79,331,099</u>

Investment earnings are as follows:

	2007	2006
Assets held by the University:		
Investment income:		
Local bank accounts	\$ 110,626	\$ 54,955
State bond pool	873,231	108,406
Student loans	23,318	15,140
Debt reserve funds	91,303	18,689
	<u>1,098,478</u>	<u>197,190</u>
Assets held by the Foundation:		
Endowment investment income	<u>146,046</u>	<u>242,894</u>
Total investment income	<u>\$ 1,244,524</u>	<u>\$ 440,084</u>

**MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL AND INVESTMENT REPORTS
SEPTEMBER 30, 2006**

Note 4. Deposits and Investments (Continued)

Beginning July 1, 2002, the University determined that the private donations received by Murray State University Foundation on behalf of the University were not to be recorded as assets of the University. The University will continue to report as assets those private donations received directly by the University and held by the Foundation for investment purposes. The University posts its investment earnings net of investment fees from the Foundation pool on an annual basis, at June 30 each year.

Note 5. Current Funds – Local Bank Account

Effective June 1, 2001, the University entered into a banking contract with Firststar Bank, NA of Bowling Green, Kentucky, currently US Bank. This contract stipulates that interest earnings will be based on the Federal Funds target rate less .25%.

Interest earnings may be expended in the Current Fund.

Note 6. Endowment Funds Investments

Endowment fund investments include the following:

	Amount Invested September 30, 2006
Invested by the University in the state bond pool:	
Endowed Chair for Ecosystems Studies	\$ 839,890
Invested with the MSU Foundation:	
RUETF state portion	8,490,787
RUETF Private endowment match owned by the University	2,346,291
Other endowment funds owned by the University	2,853,289
Quasi endowment funds	324,083
	<hr/>
Total endowment funds owned by the University	\$ 14,854,340

Regional University Endowment Trust (RUETF)

As of June 30, 2004, the University has been awarded a total of \$8,490,787 by the Commonwealth of Kentucky for endowed faculty positions and scholarships. These funds were awarded based on the University meeting the matching requirement with private funds. The proceeds were deposited with the Murray State University Foundation for investment purposes. Earnings are transferred to the University's Restricted Fund for program expenditures.

MURRAY STATE UNIVERSITY
NOTES TO FINANCIAL AND INVESTMENT REPORTS
SEPTEMBER 30, 2006

Note 6. Endowment Funds Investments (Continued)

The required matching investments for the Regional University Endowment Trust consists of the following:

<u>CPE Funding Received</u>	<u>External Match Receipts</u>			<u>External Match Pledge</u>
	<u>Held By University</u>	<u>Held By Foundation</u>	<u>Total</u>	
Private Match for RUETF	<u>\$2,346,291</u>	<u>\$ 6,034,391</u>	<u>\$ 8,380,682</u>	<u>\$ 110,105</u>

Note 7. Plant Funds

Plant fund investments include the following:

<u>Type of Investment</u>	<u>Debt Purpose</u>	<u>Amount of Original Debt</u>	<u>Date of Original Debt</u>	<u>Amount Invested</u>
PLANT FUND DEBT PROCEEDS				
Series N Bonds - Housing and Dining	Fire Safety Improvements	6,370,000	April 1, 1999	151,833
Series Q Bonds - Housing and Dining	Clark Residential College	15,800,000	December 1, 2005	11,517,977
Wellness Center - City of Murray	Construct Wellness Center	10,000,000	December 1, 2002	11,707
Chevron Energy Performance project	Energy efficiency projects	6,707,876	February 11, 2005	767,846
Total debt proceeds				12,449,363
CONSOLIDATED EDUCATIONAL RENEWAL AND REPLACEMENT FUND (CERR)				
	N/A	N/A	N/A	732,744
HOUSING AND DINING REPAIR AND MAINTENANCE RESERVE FUND				
	N/A	N/A	N/A	1,164,933
DEBT SERVICE RESERVE FUNDS				
	N/A	N/A	N/A	5,440,681
CAPITAL PROJECT BALANCES				
				4,395,021
Total plant investments				<u>\$ 24,182,742</u>

Murray State University Board Report
Undergraduate Degree Applicants
December 16, 2006

Associate of Arts

Total: 6

La-Recia Aldridge
 Corey Clement
 Melissa Cooper
 Romania Molina
 Cassandra Newcom
 Tasha Stewart

Amanda Vaughn
 Anthony Wargel
 Yuliya West
 Andrew Wiggins
 Ruby Wing
 Launa Wood
 Timothy Wright
 Dawn York

Associate of Science

Total: 1

Phillip Rogers

Bachelor of Arts

Total: 39

Jennifer Block
 Alisha Bobo
 Jenny Canaday
 Amber Cash
 Jessica Cooper
 Emily Cozart
 Jessica Cummins
 Jennifer Davenport
 Jacob Dunman
 Kelly Dunnagan
 Joseph Garcia
 Joshua Garcia
 Jeana Harlin
 Elizabeth Harrison
 Yukiko Hibino
 Samantha Hobbs
 Elizabeth Hodge
 Eun Jeong Kim
 Stacey Lee
 Jennifer Millay
 MacKenzie Miller
 Megumi Nakahara
 Benjamin Northcutt
 Misty Paul
 Jill Pierce
 Natalie Ray
 Lacy Riddle
 Kara Riker
 Christian Runyon
 Chelsee Thompson
 Crystal Thurber

Bachelor of Fine Arts

Total: 4

Bruce Carlisle
 Shanee Holden
 Erin Jones
 Kathryn Krill

Bachelor of Music

Total: 4

James Burkeen
 Chadwick McLaren
 Georgia-maria Pitsillides
 David Waters

Bachelor of Music Education

Total: 1

Jordan Kinsey

Bachelor of Science

Total: 285

Jordan Adsit
 Timothy Alonzo
 Julie Anderson
 Luke Anderson
 William Anderson
 Patrick Armstrong
 Daniel Arnett
 Brent Arnold
 Matthew Arnold
 Christopher Bailey
 James Bailey
 Zachary Baldwin
 April Barkley
 Brad Barrett
 Dawn Barwig
 Jack Becker
 John Bensing
 Megan Bivens

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From: Registrar's Office

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Murray State University Board Report
Undergraduate Degree Applicants
December 16, 2006

Tracy Bivens
Fuller Black
Shane Black
Jonathon Blackman
Perri Bohrman
Timothy Bollenbecker
Clinton Borm
Diyee Boulangger Del PO
Frances Bowling
Angelica Bradley
Brandon Brady
Lori Bransford
Jonathan Breed
Anna Brewer
Dustin Brooks
Michael Brown
R. Chase Browning
Stacy Browning
Brian Brush
Kelly Buffington
Christopher Burnette
Tina Caldwell
Stacey Campbell
John Cannon
Emily Canup
Lisa Carney
Lauren Caswell
Megan Chaney
Eric Chavis
Carrie Childress
William Christman
Kristen Chumbler
Sean Clemson
Keely Cochran
Brent Cole
Nickolas Coleman
Ryan Coleman
Vicky Collins
Jacob Connaway
James Cooley
Carolyn Cooper
Gregory Coulson
Gary Crass
Jennie Crawford
Kullen Crider
Melissa Cronch

Stacy Cronch
Deena Crouch
James Crouch
Julie Dabney
Robert Davis
Ashley Day
Harry Day
Nicole DeFreeze
Jennifer Dickey
Destry Diefenbach
Emily Digioia
Erin Doll
James Dooms
Jaime Dorsey
Joshua Dowdy
Jennifer Dozier
Lauren Drake
Zouheir Drira
David Durham
Ashley Eastwood
Brian Edwards
Ryan Emery
Zachary English
Emily Farmer
Kevin Farrell
Ramsey Ferguson
Sarah Fizer
Brandi Flanagan
Catherine Ford
Dakota Foster
Charles Foust
Christina Frierdich
David Fries
Jillian Fulkerson
Ashley Futrell
Susan Garnett
Lindsey Garrett
James Garrison
Destiny Gearin
Jennifer Gilbert
Sara Glenn
Graham Gobin
Emily Goehman
James Gore
Mary Gossum
Brent Gottshall

Murray State University Board Report
Undergraduate Degree Applicants
December 16, 2006

Jackie Grace
Aaron Grant
Ashley Gray
Troy Greene
Phillip Hall
Robert Hankins
Charlotte Hardin
Dustin Hastings
Todd Hatchell
Angela Hatfield
Echo Hatfield
Megan Haverstock
Whitney Hayden
Tyler Henke
Jennifer Hilgeman
Kimberly Hill
William Hodges
Tara Holaday
Jarryd Holshouser
John Holt
Iain Howard
Patrick Howell
James Hudson
Ashley Hulse
James Hust
Lindsey Hutchison
Ashley Iglesias
Jon Iglesias
Rachel Ivitts
Charles Johnson
Ashley Jones
Benjamin Jones
Jenny Jones
Jodie Jones
Malinda Jones
Emily Just
Elizabeth Kaelin
Brittany Keene
Rebecca Kesterson
Britney Killough
Warren King
Charles Knapp
Max Konstanty
Karim Lalani
Cody Langenstein
Ashley Lanham

Christina Lavallee
Ryan Lewis
Valerie Lewis
Jason Lilly
Ryan Lindsey
Sarah Loecken
Jaime Loftus
Shannon Logan
Wayne Lomax
Michael Lukens
John Lyles
Ryan Mabry
Sara Mann
Jill McCall
Jeremiah McCarty
Debra McCully
Michael McGrievy
Rachel Mercer
Jessica Meriwether
Joseph Mertz
Dara Metzger
Rachel Mobley
Nathan Moore
Timothy Morningstar
Barry Morris
Janessa Morton
Christopher Moss
Alicia Murphy
Daniel Murphy
Katherine Murphy
Samantha Nance
Derrick Newton
Brent Norsworthy
Laura Obin
Catherine Oettel
Caitlin O'Holleran
Kevin Opp
Susan Overby
James Owens
Rebecca Owler
Ashley Pace
Christopher Pafford
Jee Park
Jeremy Parker
Ryan Parker
Sherri Parker

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From: Registrar's Office

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Murray State University Board Report
Undergraduate Degree Applicants
December 16, 2006

Adam Partin
Rebecca Patterson
Michael Patton
Michael Perguson
Georgia-maria Pitsillides
Lindy Pollock
Kayla Purdy
Andrew Ragsdale
Anicia Ramos
Megan Raspberry
Krystal Reddick
Ashley Reid
Jessica Reynolds
Brian Richardson
Phillip Richmond
Brian Rickard
Catherine Rieheman
Stacey Riggi
Tyler Riordan
Ella Roberts
Stephen Roberts
Anna-jill Robertson
Brandon Roddy
Jonella Ross
Elizabeth Rosser
Christopher Rozier
Chad Rudolph
Carrie Russell
Courtney Rutledge
Ioannis Sarris
Steven Saunders
Cynthia Schneider
Erin Schroth
Adam Scott
Kevin Scott
Richard Scott
Brian Shelton
Kristen Shepard
Kenneth Shields
Tracy Shreve
Ronald Shultz
Iesha Shumpert
Josh Siljander
Veronica Sirls
Jennifer Smith
Kayla Staley

Mark Starks
Patrick Stewart
Crystal Stinson
Rebecca Stockhaus
Audiene Stoneham
Cyrus Story
Krista Stratton
Micah Sugg
Valerie Thomasson
Ashley Thompson
Jay Thompson
Jennifer Thornton
Clay Tilford
David Timmons
Kenneth Traub
Le Tsai
Lori Upton
Brittney Viers
Katie Villanueva
Thomas Walker
Justin Wallace
Nissa Wallace
Lemuel Watts
Christopher Weaver
Andrew Wendell
Dwayne White
Leslie Whitehead
Rachel Wiesen
Elvira Wilds
William Wilson
Shawn Witherspoon
Bobby Wong Ha Wei
Audrey Woodard
Kenneth Wynn
Christakis Yiannakkas
Rebecca Yusko
Bethany Ziegemeier

Bachelor of Science in Agriculture

Total: 58

Robert Alexander
John Allen
Jarrod Augustino
Ashleigh Barnhill
Leslie Belt
Jessica Blank

Murray State University Board Report
Undergraduate Degree Applicants
December 16, 2006

Christina Boyer
Trisha Brandreth
Kristine Brown
Shelby Brown
Jessica Carter
Tiffany Cooper
Michelle Delap
Daneka Dewitt
Sara Downes
Beth Dunavant
Michelle Getz
Hannah Goodman
David Gramenz
Betsy Gresham
Adrienne Haley
Jeffrey Hall
Whitney Hand
Lynnette Handley
Jill Harrawood
Megan Humphreys
Sydney Hutson
Josh Johnson
Stacy Kinkead
James Lamb
Jacob Lewis
Lauri Lewis
Gary Mathis
Amanda McCormick
Vincent Mitchell
Brittany Monroe
John Montgomery
Will Moss
Hallie Muncy
Jacqueline Nethery
Tyler Owen
Maryanna Pendley
Kyle Penick
Rebecca Prince
Jennifer Rister
Miranda Robinson
Patrick Shartzter
Stephanie Spann
Rachel Steele
Daniel Tapp
Jared Tapp
Mary Thorpe

Adam Thurston
Jay Towler
Matthew Walden
Daniel Watkins
Shelby Winterrowd
Kevin Young

Bachelor of Science in Business

Total: 79

Matthew Barnes
Latoya Battle
Casey Beals
Jeffery Bell
Blair Bennett
Andrew Bishop
Lacey Blankenship
Kelly Carpenter
Michael Cashman
Mark Chamberlain
Constantinos Charalambous
Juliette Charles
Michael Choate
Audrey Cooke
William Cox
John Duffy
Scott Ellison
James Frazier
Amberly Futrell
Joseph Gagel
Angela Gibbs
Jennifer Gilkey
Sarah Guier
Michael Harris
Jeffery Hayes
Dustin Hoesli
Allen Hopson
Jeremy Hunter
Paul Johnson
Andrew Kaelin
Philip Keel
Stephen Kerstiens
Keith Kirkwood
Megan Knickman
Lindsay Koester
Cheryl Langford
Sheree Lauer

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From: Registrar's Office

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Murray State University Board Report
Undergraduate Degree Applicants
December 16, 2006

Shannon Lilley
Phillip Logsdon
Ashley Lykins
Heather MacHa
Ronald McCall
Rebecca McLaren
Sarah Menary
Sherry Menser
Tiffany Meredith
Abby Mitchell
Ashley Morris
Brigette Morse
Stephanie Murphy
Lindsey Nail
Diana Neely
Steven Nizick
Derrick Pace
Steven Parks
Jennifer Partin
Shanna Pazdera
Deborah Pitman
Bradley Power
Peter Rago
Douglas Ray
Valerie Reeder
Elizabeth Scott
Randal Scott
Richard Shepherd
Kyle Shirley
Katrina Smith
Quent Smith
Timothy Stolt
Amanda Thornberry
Tiffany Turner
Eury Tynes
Hsiao-chin Wang
Adam Watson
Carley Williams
Micah Wilson
Angie Worden
Patrick Young
Jessica Zaugg

Bachelor of Science in Nursing

Total: 35

Tonya Austin

Ashley Barrett
Ashley Boggess
Kimberly Bunnage
William Burnett
Elizabeth Canada
Jessica Cecil
Tracy Dicus
Anna Edwards
Emily Edwards
Alicia Erwin
Megan Fondaw
Leighann Gholson
Cara Hadley
Barbie Jenkins
Kelly Kuehn
John Lyons
Christy Madding
Victor Martin
Whitney Medley
Jessica Mosley
Jessica Nagle
Michael Redd
Cecelia Reed
Kelly Rowland
Sarah Settles
Nicole Steenrod
Shelley Traynham
Kayla Turner
Sarah Veatch
Deidra Walk
Heather Williams
Belinda Wooten
Amber Wurth
Veronica Yocum

Bachelor of Independent Studies

Total: 49

Christina Aleman
Brandon Barnhill
Benjamin Bunch
Dawn Butler
Sasha Catlett
Kelly Cavanaugh
Jessica Cotton
Richard Deutch
Kelly Dycus

Murray State University Board Report
Undergraduate Degree Applicants
December 16, 2006

Shirley Dyess
Roger Estes
Emily Evans
Callie Fowler
Heather Frick
Andrew Gibbs
Sherri Goins
Joshua Gosa
Rachel Herndon
Jessica Hirsch
Elizabeth Holland
Samuel Huskey
Christy Jones
Pamela Jones
Samantha Kessler
Johnathon Liles
James Luker
Brenda Matthews
Venishia McGregor
Christine McKnight
Audrey Morrisette
Cathy Norman
Julie Null
Amanda Ort
Issian Redding
Julie Richardson
Patty Sue Robertson
Brittany Rogers
Sheila Rogers
Paul Rohrer
Michael Romagnoli
Eugene Russell
Charles Shockley
Mark Slaughter
Regina Slaughter
Laneir Sprague
Rachel Steele
Barry Thomas
Christy Townsend
Michael Wurth

Sarah Neal
Venty Wijaya
Wirawan Wijaya

Bachelor of Social Work

Total: 12

Ashley Bierman
Tanya Carr
Roshelle Conner
Jennifer Eldridge
Shannan Griggs
Joan Kemp
Kylee Kingsley
Kezia McClain
Gladys Metcalf
Christina Morgan
Heather Oliverio
Heather Sullivan

Bachelor of Arts in Business

Total: 6

Huichen Hung
Nikomil Mihaylov
Eric Moore

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From: Registrar's Office

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Murray State University Board Report
Undergraduate Degree Applicants
December 16, 2006

Total Number of Degree Applicants : 579

Murray State University Board Report

Graduate Degree Applicants

December 16, 2006

Master of Arts in Education

Total: 81

Jason Allard
Lisa Allen
Ashley Arnold
Shannon Bailey
Maureen Barefield-Moore
Tricia Baumer
Allyssa Binkley
Kecia Blake
Latrisha Bradley
Sue Bremer
Melissa Burnett
Marianna Chrysiliou
Jane Cranor
Cejae Cross
Sara Crowder
Nicholas Dietrich
Jennifer Dunnaway
Lorie Eaves
Dara Edgin
Misty Emerson
Melissa Engleman
Christina Etheridge
Amanda Farley
Bruce Farley
Kasey Farmer
Brian Gardner
Steven Garner
Amber Goldsberry
Danielle Gream
Amy Hall
Elizabeth Harper
Tony Hawkins
Aymee Herndon
Morgan Hicks
Matthew Hinz
Stephanie Hinz
Cherie Howell
Geraldine Huber
Susan Jones
Shih Lin Kao
Bethany Karcher
Joetta Kelly
Jennifer Long
Marga Lopez

Lori Lynn
Ronnie Martin
Amanda Matheny
Alisha McClure
Jerry McKellips
Heath Meadows
Lisa Mendoza
Christy Mulligan
Michael Ohstrom
Jessica O'neal
Jeremy Pirtle
Faria P'pool
Amy Ramage
Latasha Richardson
Debra Riley
Amy Rushing
Martha Ryan
Jamie Scott
Karen Shoulders
Laura Shreve
Aleta Sisk
Sidney Slaughter
Karl Smith
Malissa Smothers
Anthony Sneed
Paula Snorton
Toni Spence
Misty Stanley
Katherine Starr
Olympia Stewart
Bradley Stieg
Lisa Streetman
Sherry Towe
Michelle Walden
Laura West
Lisa Wigley
Erica Wilson

Master of Business Administration

Total: 28

Candi Agee
Tracey Brindley
Steven Courtright
Misty Darnell
Nathaniel Hantle
Chad Henneke

Murray State University Board Report
Graduate Degree Applicants
December 16, 2006

Andrew Hinz
Craig Jacobs
Rihab Jalal
Sophanit Jenwongwirot
Salwa Jorho
Asadawut Kaitawarn
Byoung-wook Kang
Rebekah Kent
Shwu Huoy Kwek
Marcus Little
Melva McGuirk
Shelley McKeel
Said Miraman
Jonathan Mitchell
Terrell Neasley
Wyndell Sanders
Anna Shanklin
Jeanne Stroup
Kittipong Thapanapaha
Mary Ward
Michael Wathen
Yuan-chieh Yu

Master of Music Education

Total: 4

Christopher Hayden
Natalie Krupansky
Leslie McManus
Stephen O'neal

Master of Arts in Teaching

Total: 1

Lindsey Heath

Master of Science

Total: 89

Colleen Adams
Brenda Alexander
Matthew Anderson
Lanita Ballard
Allison Binford
Heather Blankenship
Rachel Bowling
Karen Boyd
Jonathan Brown
Amber Cain
Wen-chi Chang

Anna Cherry
Suttinee Chotika-arpa
Tamra Clinger
David Cobb
Johngella Davis
Robert Dodge
Cassie Driskill
Sunisa Faksang
Ryan Fox
Nathaniel Francis
Kevin Frilling
James Hall
Marteze Hammonds
Amy Hardin
Darrin Holder
Gary Holder
Chen-fang Hsu
Chih-kai Hsu
Vivian Hudspeth
Rebecca James
Michael Jones
Vickie Jost
Prasopsook Kattirat
Tracy Keller
Thandol Kosin
Prasanna Kudimvscula
Jutathip Lapviboonsuk
Young Gil Lee
Leleagaatutui Loi-on
Nettisha Lyte
Stephanie Mathis
Manuel Matos
Richie McClerkin
Tami McQueen
Robert Menser
Jackie Minniear
Betty Mollaun
Jaime Morgan
Keith Morgan
Isaac Moses
Suzyo Mulenga
Pornlapas Na Lamphun
Ahmed Mahmoud Nasir
Nancy Nerney
Natalie Ohl
John Osborne

Murray State University Board Report
Graduate Degree Applicants
December 16, 2006

Tomas Payne
Treva Peace
Prashanti Rajol Sardar
James Ramsey
Apinya Ratchakue
Meredith Richmond
James Rodgers
Marianna Romero
Tressa Ross
Danielle Rudolph
Mary Ryan
Pa-lamin Sarr
Maulikkumar Shah
Joseph Siddens
Roger Simpson
Eugene Smith
Michael Smith
Surin Sony
Jennifer Stafford
Bradley Stevenson
Carlos Stiassni
Andrea Stocker
Suparat Sukpayak
Surassavadee Sumphutchalit
Warakhun Suwannachit
William Thomas
Jonathan Thompson
Karen Tilford
John Tomes
Naratip Viengteerawat
Robert White
Lauren Wilson

Master of Arts

Total: 14

Donald Bridgeman
Cheng-ho Chen
Scott Cockrum
Koun Eum
Wen-yi Lo
David Mangum
Jerad Moxley
Lisa Ripley
John Thurman
Hugh Williams
Ashley Wilson

Miranda Wilson
Randell Wolff
Mi Sook Yoo Yeon

Master of Public Administration

Total: 6

Jamie Bell
Shirley Cohen
John Huffine
Jennifer Thomas
Samantha Wood
Jennifer Wright

Master of Science in Nursing

Total: 8

Tara Blackwell
Starr Dunn
Willard Fiessinger
Lillian Gierhart
Stefanie Gray
Virginia Hurt
Maegan Mathis
Robyn Whitehair

Master of Professional Accountancy

Total: 5

Huichen Hung
Michael Lewis
Misty Phipps
Elizabeth Scott
Venkata Singupalli

Specialist in Education

Total: 1

Daniel Lavit

Murray State University Board Report
Graduate Degree Applicants
December 16, 2006

Total Number of Degree Applicants : 237



Audit Committee
Murray State University
Murray, Kentucky

As part of our audit of the financial statements of Murray State University (University) as of and for the year ended June 30, 2006, we wish to communicate the following to you.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

Significant Accounting Policies

The University's significant accounting policies are described in Note 1 of the audited financial statements.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The allowance for doubtful accounts, loans receivable, self-insurance liabilities and other liabilities are significant areas involving such estimates for which we are prepared to discuss management's estimation process and our procedures for testing of those estimates.

Significant Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. No adjustments were proposed during the audit.

Disagreements with Management

No matters are reportable.

Audit Committee
Murray State University
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Difficulties Encountered in Performing the Audit

No matters are reportable.

* * * * *

This letter is intended solely for the information and use of the audit committee, the board of regents and management and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

BKD, LLP

September 8, 2006



Interim President Dr. Thomas I. Miller
and Board of Regents
Murray State University
Murray, Kentucky
and
The Kentucky Auditor of Public Accounts
Frankfort, Kentucky

We have audited the financial statements of Murray State University (University) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 8, 2006. With respect to this engagement, we make the following representations to you:

1. We are independent of the University and the Commonwealth oversight entity in accordance with the objectivity and independence standards of ET Sections 55, 101 and 102 of the Code of Professional Conduct of the American Institute of Certified Public Accountants.
2. We have complied with the peer review requirement of *Government Auditing Standards*. Our latest completed peer review covered the year ended May 31, 2005, and an unqualified report was received.
3. We have complied with the continuing professional education requirements of *Government Auditing Standards*, as applicable, to the various professional personnel participating in the engagement.

BKD, LLP

September 8, 2006



Independent Accountants' Report

Interim President Dr. Thomas I. Miller
and Board of Regents
Murray State University
Murray, Kentucky
and
Secretary for Finance and Administration Cabinet
Frankfort, Kentucky

We have examined management's assertion that Murray State University (University) complied with the requirements of Commonwealth of Kentucky House Bill 622 regarding the University's:
(a) accounting, auditing and payroll procedures, (b) investments and interest income procedures, (c) purchasing function policies and procedures and required reporting procedures to the Legislative Research Commission and (d) the annual financial reporting and general principles of accounting and purchasing procedures of the University's compliance with those requirements. Our responsibility is to express an opinion on the University's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the University's compliance with specified requirements.

In our opinion, Murray State University complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2006, based on the criteria set forth in Commonwealth of Kentucky Finance and Administration Cabinet Minimum Audit Scope for Compliance with House Bill 622 dated August 1983.

This report is intended solely for the information and use of the board of regents, University management and the Secretary for Finance and Administration Cabinet and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

September 8, 2006



Independent Accountant's Report

Interim President Dr. Thomas I. Miller
Board of Regents and Auditor of Public Accounts
Murray State University
Murray, Kentucky

We have examined management's assertion that the accompanying schedule of all real property leases awarded by the Finance and Administration Cabinet is complete and that for each lease awarded for the year ended June 30, 2006, in the accompanying schedule, Murray State University (University) has complied with the requirements of KRS 48.111, 48.190 and 56.800 through 56.823 (Kentucky's Lease Law). Management is responsible for compliance with the requirements of Kentucky's Lease Law. Our responsibility is to express an opinion on the University's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the compliance of the University's compliance with Kentucky's Lease Law and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of management's compliance with specified requirements.

In our opinion, the University complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2006.

This report is intended solely for the information and use of the governor, Finance and Administration Cabinet, the Department for Facilities Management and the Council on Postsecondary Education and is not intended to be and should not be used by anyone other than these specified parties.

June 30, 2006

BKD, LLP

Murray State University
Schedule of Real Estate Leases
Kentucky's Lease Law
6/30/2006

Lessor	Lessee	Governmental Unit / Emergency	Description of Lease	Term		Aggregate Annual Payments	Renewal Option	Automatic Renewal	Renewal Term (Years)	Renewal Extensions	Purchase Option	Tested for FYE 6/30/2006	Reason
				Begin	End								
1) Immanuel Lutheran Church	Murray State University	No	100 S 15th St, Murray, KY 42071 - 80 Parking Spaces	7/1/2001	6/30/2002	7,632.00	YES	YES	2	3	NO	NO	
2) University of Kentucky	Murray State University	Yes	300 Irvin Cobb Drive, Paducah, McCraken Co., Kentucky - Crisp Building	1/1/1998	6/30/1998	124,390.36	YES	YES	1	10	YES	YES	RENEWED / ANNUAL PMTS >\$100,000
3) Ronald Holmes Dunn, Randall Herbert Dunn, Roger Cary Dunn	Murray State University	No	1403 N 12th St, Murray, KY 42071 - Building & Real Property	6/1/2001	6/30/2006	59,700.00	YES	YES	1	2	NO	NO	
4) Board of Education of Henderson County, Kentucky	Murray State University	Yes	Green Street, Henderson, KY - School Building and Surrounding Land	11/1/2002	12/31/2012	48,000.00	YES	NO	TBD	1 +	NO	NO	
5) Murray State University Foundation	Murray State University	No	1510 Chestnut, Murray, KY - Parking	7/1/2004	6/30/2015	6,875.00	YES	YES	5	1 +	YES	NO	
6) Murray State University Foundation	Murray State University	No	Pullen Property, Murray, KY - House, Barn and Land	7/1/2002	6/30/2003	1.00	YES	YES	1	1 +	NO	YES	RENEWED
7) Murray State University Foundation	Murray State University	No	Pullen Greenhouse Property, Murray, KY - Land	7/1/2002	6/30/2033	1.00	YES	YES	5	1 +	NO	NO	
8) Hopkinsville-Christian County Chamber of Commerce	Murray State University	No	2800 Ft Campbell Blvd, Hopkinsville, KY 42240 - Building & Real Property	11/1/2005	6/30/2008	7,200.00	YES	YES	1	1	NO	YES	NEW
9) James and Lois Wittle dba J&L Rentals	Murray State University	No	403A W 8th St, Hopkinsville, KY 42240 - Building & Real Property	10/1/2003	9/30/2004	11,400.00	YES	YES	2	1	NO	NO	
10) Green River Area Development District	Murray State University	Yes	3860 US Hwy 60 W, Owensboro, KY - WKSBD Office Space	7/1/2006	6/30/2007	4,800.00	YES	NO	1	1 +	NO	NO	

NOTE: During the year ended June 30, 2006, Murray State University had a total of 10 real property leases, 3 of which were tested as new or renewed real property leases for compliance with Kentucky's Lease Law, as indicated above.

+ Multi year extensions
with no specified limit.

Murray State University
A Component Unit of the State of Kentucky
Accountants' Report and Financial Statements
June 30, 2006 and 2005





Board of Regents
Murray State University
Murray, Kentucky

As part of our audit of the financial statements of Murray State University (University) for the year ended June 30, 2006, we studied and evaluated the University's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all reportable conditions or opportunities for improvement. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We observed the following matters and offer these comments and suggestions.

Bookstore Segregation of Duties

Segregation of duties is an essential element of effective internal controls. To maintain control over cash handling procedures, it is important to maintain an effective internal control process. Effective internal controls are designed to protect one person from the sole responsibility for all cash handling procedures and it serves to limit the possibility of errors or fraud going undetected in the normal course of business. Proper internal control requires that different individuals be responsible for handling each aspect of the cash handling process and that responsibility is transferred whenever funds are transferred among employees.

As part of our audit for the year ended June 30, 2006, we noted that one individual, the bookstore's bookkeeper, reconciles cash trays to register tapes and also prepares the daily cash transmittals. We also noted that this individual did not maintain a form documenting how the register tapes balanced to the daily cash transmittals.

BKD recommends that each cashier be provided with a form to reconcile, summarize and sign off on their individual cash trays. This form, along with the register tapes and daily receipts, should be submitted to the bookstore's bookkeeper. The bookkeeper should then prepare a summary of daily activity for all registers and use the summary to complete the daily cash transmittal.

Management's Response

The bookstore is in the process of strengthening their internal controls over cash. At the beginning of fiscal year 2006-2007, they added an additional bookkeeping position funded directly with bookstore revenues.

The director of the bookstore will be having a series of meetings with the University's internal auditor to update procedures to reinforce cash controls. Steps will be taken to implement additional procedural changes by January 1, 2007.

Board of Regents
Murray State University
Page 2

* * * * *

We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on the University's overall internal control structure; it does, however, include items which we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

This letter is intended solely for the information and use of the board of regents and management and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

September 8, 2006



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Independent Accountants' Report on Financial Statements and Supplementary Information

Interim President Dr. Thomas I. Miller
and Board of Regents
Murray State University
Murray, Kentucky

We have audited the accompanying basic financial statements of Murray State University (University) and its aggregate discretely presented component units, collectively a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Murray State University Foundation, Inc. and Murray State University Athletic Foundation, Inc., discretely presented component units, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2006 and 2005, and the 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.

Interim President Dr. Thomas I. Miller
and Board of Regents
Murray State University
Page 2

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.

BKD, LLP

September 8, 2006

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 centers in four other cities where it offers a diverse range of degree programs from associate to master levels, through a framework of approximately 30 departmental units in 5 colleges and 1 school, and contributes to the region and state through related research and public service programs. The University is a charter member of the Ohio Valley Conference and a Division I member of the NCAA. Murray State University serves as a residential, regional university offering core programs in the liberal arts, humanities, sciences and selected high-quality professional programs for approximately 10,275 students. The University has not only continued to post record enrollment figures, it has increased its graduation rate to an impressive 57.3 percent.

The tuition and fees for the 2005-06 academic year increased by \$222 per semester for a full time resident undergraduate student. Tuition and fees at the University continues to be significantly less than the national average.

Murray State University consistently ranks among the nation's best regional universities each year and has been recognized for its academic quality and affordability. For 16 consecutive years *U.S. News & World Report* has ranked the University as one of the best public schools in America. In the 2007 edition of the publication, the University ranked ninth in the nation among public master's universities. The University ranked second in the South's public master's universities "Great Schools at a Great Price" category for 2007. The University's solid academic programs and affordable price have placed it in the top two best values among public schools in the South. This is the fourth consecutive year the University has been ranked in this category, and it is the only Kentucky university ranked in this class. Factors considered in the rankings are reputation, retention rate, graduation rate, class size, student-faculty ratio and SAT/ACT scoring.

Murray State University has been consistently recognized in the past for its high quality, affordable education and its unique setting. In addition to *U.S. News*, the University has been highly ranked by the *Princeton Review*, *Money Guide*, *Kiplinger's Personal Finance*, *Southern Living*, the *MIT Student Review*, and a Carnegie Mellon study. Murray State has also been featured in the *New York Times*, the *Chronicle of Higher Education*, and the *London Times*.

The University continues to have a commitment to academic and extracurricular excellence, while retaining its status as an affordable institution of higher education.

Murray State University

A Component Unit of the State of Kentucky

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 approximately 4,020 individuals, including 545 faculty and 1,130 staff members and 2,345 students. These amounts include 1,324 regular and full time faculty and staff.
- State appropriations for operational use from the Commonwealth of Kentucky increased by \$5.6 million.
- The Athletic Department's fundraising and sponsorship activities were transferred to the University from the Murray State University Athletic Foundation, Inc., effective July 1, 2005. This change significantly improved the institutional control of the Athletic Department.
- Phase III of a multi-phase science complex was funded with \$15 million from the Commonwealth of Kentucky 2006-2008 biennium budget.

Construction of the Phase II facility of the science complex was started in the Summer 2006 and is planned to house the chemistry program. The second phase was funded with \$15 million from the Commonwealth of Kentucky 2004-06 biennium budget and is scheduled for substantial completion in the Winter of 2007. Additional funds from Phase III will be needed for final completion of the Chemistry Phase II facility.

Construction of the Phase I facility in the science complex has been substantially completed and currently houses the biology program. The first phase was funded with \$13 million from the Commonwealth of Kentucky in the 2000-2002 biennium budget. A portion of the funding from Phase II will be utilized to complete the second floor of this building, which will fully complete the interior and exterior of this building.

- The Western Regional Center for Emerging Technologies (business incubator), located on the north edge of the main campus, opened for operations in the Fall of 2005. Additional construction is needed to finish interior office and business space. Funding of \$3 million was secured in 2002-03 from state and federal agencies to construct this facility. 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.
- The University continues the fund raising campaign for the revitalization of Waterfield Library. Proceeds from this campaign are planned to be used for deferred maintenance, enhancements in library holdings and technology improvements, which included wireless connectivity throughout the library.

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

- 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
A Component Unit of the State of Kentucky
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	<u>\$221,882,000</u>	<u>\$199,566,277</u>	<u>\$194,076,385</u>
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	<u>\$63,795,926</u>	<u>\$51,589,623</u>	<u>\$50,404,219</u>
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	<u>158,086,074</u>	<u>147,976,654</u>	<u>143,672,166</u>
Total liabilities and net assets	<u>\$221,882,000</u>	<u>\$199,566,277</u>	<u>\$194,076,385</u>

Net Assets

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

- Invested in capital assets, net of related debt - This category represents the institution's equity in property, buildings, equipment, library holdings and other plant assets owned by the University, less related depreciation.
- Restricted - This category represents those assets subject to externally imposed restrictions governing their use and includes classifications of nonexpendable and expendable.

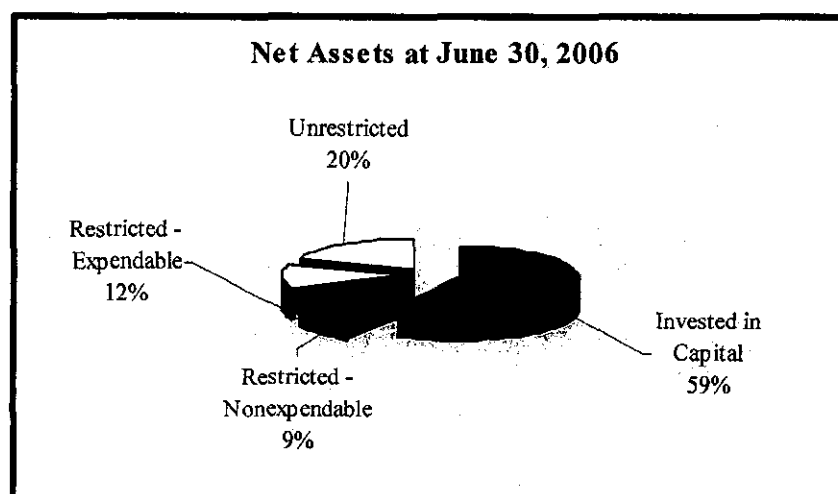
Murray State University

A Component Unit of the State of Kentucky

Management's Discussion and Analysis

- Restricted nonexpendable net assets - Restricted nonexpendable net assets consist solely of permanent endowments owned by the University. The corpus, as specified by the donor, is invested in perpetuity and may not be expended.
- Restricted expendable net assets - Restricted expendable net assets consist of those assets that may be expended by the University, but must be spent for purposes as defined by the donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- Unrestricted - This category represents the net assets held by the University that have no formal restrictions 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 categories is provided in the following chart:



Statements of Revenues, Expenses and Changes in Net Assets

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

The Statements of Net Assets are prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. A public university's dependency on state appropriations will result in reported operating losses. The Governmental Accounting Standards Board requires state appropriations to be classified as non-operating revenues. The utilization of long-

Murray State University

A Component Unit of the State of Kentucky

Management's Discussion and Analysis

lived capital assets is reflected in the financial statements as depreciation, which expenses the costs of an asset over its expected useful life.

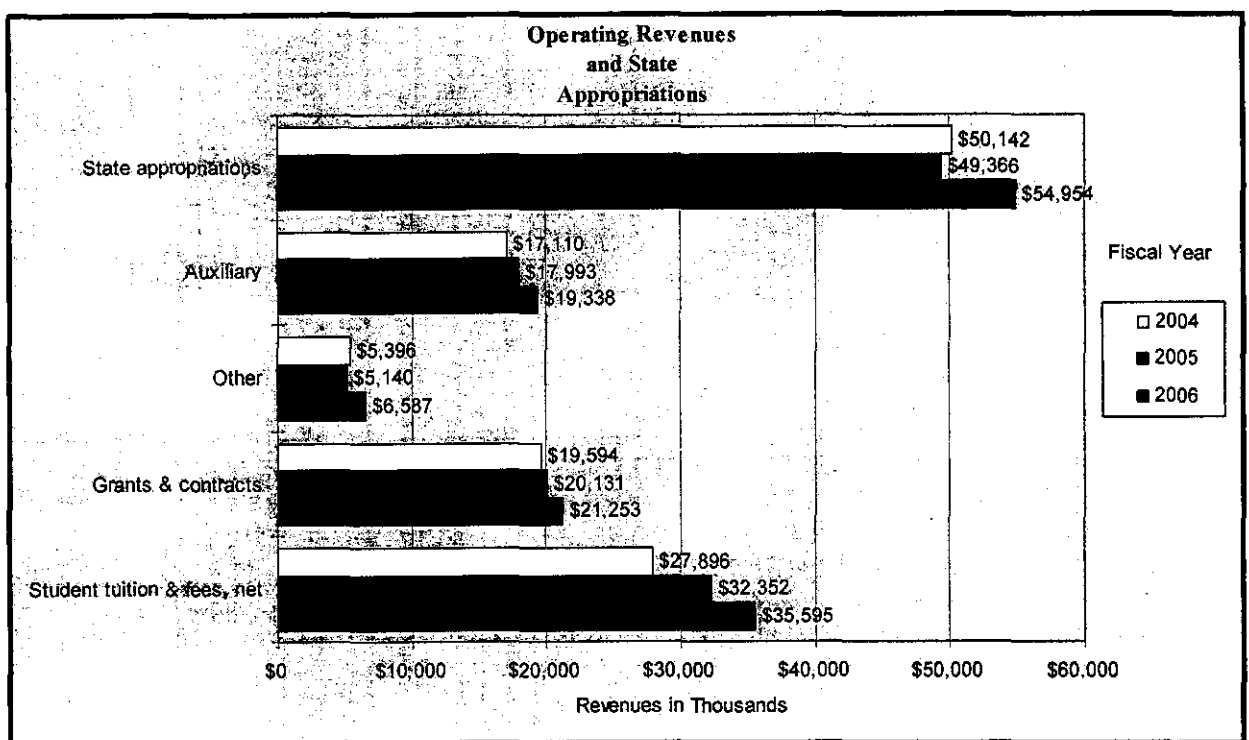
Revenues

Total operating revenues, which exclude state appropriations, for the 2006 fiscal year were \$82.8 million, including student tuition and fees, net of related discounts and allowances, of \$35.6 million, operating grants and contracts revenues of \$21.3 million, and auxiliary services net revenue of \$19.3 million.

Operating revenues increased during the year by \$7.2 million. This increase is comprised of \$3.2 million from net student tuition, fees, room, and board, \$1.1 million from federal and state grants and contracts, and \$1.3 auxiliary revenues.

For 2006, the University received a net of \$54.9 million of state appropriations. State appropriations are required to be classified as nonoperating revenues; however, these funds were used to support University operating activities.

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



Murray State University

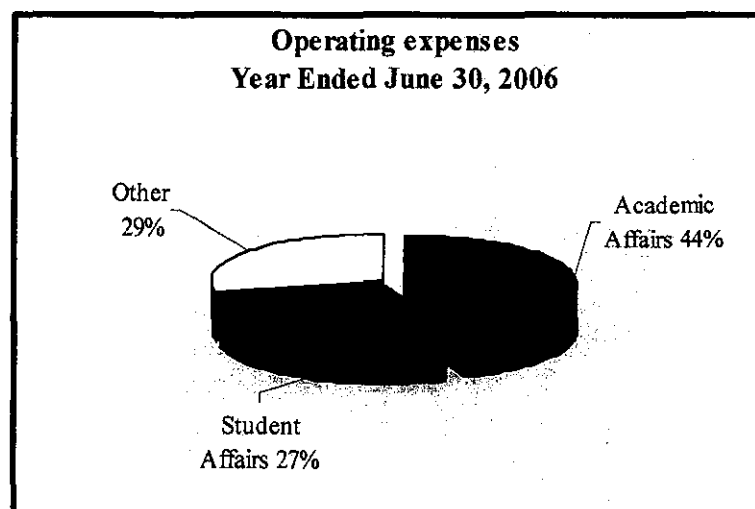
A Component Unit of the State of Kentucky

Management's Discussion and Analysis

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.



The net loss from operations for the year ended June 30, 2006, was \$55.2 million. Nonoperating revenues, net of expenses, amounted to \$61.6 million and non-debt related capital funding amounted to \$3.7 million, resulting in an increase in net assets of \$10.1 million for the year ended June 30, 2006.

The net loss from operations for the year ended June 30, 2005, was \$56.1 million. Nonoperating revenues, net of expenses, amounted to \$57.1 million and non-debt related capital funding amounted to \$3.3 million, resulting in an increase in net assets of \$4.3 million for the year ended June 30, 2005.

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	<u>82,773,816</u>	<u>75,615,319</u>	<u>69,995,715</u>
Operating expenses			
Instruction	50,564,149	47,040,216	46,574,969
Other educational and general	63,769,387	62,023,778	56,662,972
Depreciation	6,621,914	6,527,977	5,840,909
Auxiliary enterprises	16,570,655	15,267,241	14,592,820
Auxiliary depreciation	455,042	831,987	779,527
Total operating expenses	<u>137,981,147</u>	<u>131,691,199</u>	<u>124,451,197</u>
Operating loss	<u>(55,207,331)</u>	<u>(56,075,880)</u>	<u>(54,455,482)</u>
Nonoperating revenues (expenses)			
State appropriations	54,954,200	49,366,100	50,141,800
Other nonoperating revenues (expenses)	10,362,551	11,014,268	19,151,101
Total nonoperating revenues (expenses)	<u>65,316,751</u>	<u>60,380,368</u>	<u>69,292,901</u>
Increase in net assets	<u>10,109,420</u>	<u>4,304,488</u>	<u>14,837,419</u>
Net assets, beginning of year	<u>147,976,654</u>	<u>143,672,166</u>	<u>128,834,747</u>
Net assets, end of year	<u>\$ 158,086,074</u>	<u>\$ 147,976,654</u>	<u>\$ 143,672,166</u>

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.

For the year ended June 30, 2006:

The net cash used in operating activities reflects the net cash used for general operations of the University, which changed by \$.6 million during 2006.

The cash flows from noncapital financing activities, changed by \$4 million during 2006. This change was due to an increase in state appropriations.

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

The net cash flows used in capital and related financing activities represent cash received and used for the acquisition, construction, and renovation of capital assets, which changed by \$9.4 million during 2006. A large portion of this change is due to the sale of Series Q Housing and Dining bonds to finance the construction of the new Clark residential college.

The cash flows provided by (used in) investing activities represent the cash activities of investments, which changed by \$4.5 million for 2006. A portion of this change is related to the purchase of investments for the Housing and Dining sinking and reserve funds and improved realized gains on investments.

For the year ended June 30, 2005:

The net cash used in operating activities reflects the net cash used for general operations of the University, which changed by \$.9 million during 2005.

The cash flows from noncapital financing activities, changed by \$.5 million during 2005. This change was due to a decrease in net state appropriations.

The net cash flows used in capital and related financing activities represent cash received and used for the acquisition, construction, and renovation of capital assets, which changed by \$7.3 million during 2005. A large portion of this change is due to reduced expenses in 2005 related to capital construction projects, such as the student recreation/wellness center and phase I of the science complex.

The cash flows provided by (used in) investing activities represent the cash activities of investments, which changed by \$2.8 million for 2005. This change is related to the purchase of investments for the energy performance project debt escrow fund.

Condensed Statements of Cash Flows

	2006	2005	2004
Cash provided/(used by):			
Operating activities	\$ (47,902,135)	\$ (48,520,987)	\$ (47,628,530)
Noncapital financing activities	58,455,183	54,474,090	54,974,561
Capital and related financing activities	3,583,628	(5,788,732)	(13,041,031)
Investing activities	3,142,266	(1,368,063)	1,508,087
Net (decrease) increase in cash	17,278,942	(1,203,692)	(4,186,913)
Cash and cash equivalents, beginning of year	42,137,694	43,341,386	47,528,299
Cash and cash equivalents, end of year	<u>\$ 59,416,636</u>	<u>\$ 42,137,694</u>	<u>\$ 43,341,386</u>

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

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	<u>\$ 121,625,301</u>	<u>\$ 2,370,685</u>

The University issued new debt of \$15.9 million which included \$15.8 million for the construction of a new residential college. The University also paid off \$3.9 million of long term debt.

Debt as of June 30, 2006, is summarized below:

	Balance June 30, 2006
Housing and Dining System Revenue Bonds	\$ 25,705,000
Consolidated Educational Buildings Revenue Bonds	3,535,000
Bond discount	(481,583)
City of Murray – Susan E. Bauernfeind Student Recreation and Wellness Center	9,910,000
Other (Note 11 of Notes to Financial Statements)	10,052,956
Total	<u>\$ 48,721,373</u>

Murray State University

A Component Unit of the State of Kentucky

Management's Discussion and Analysis

Infrastructure Assets

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

Economic Factors Affecting Future Periods

- General state appropriations from the Commonwealth of Kentucky (Commonwealth) are expected to remain constant or slightly increase over the next period.
- The University provides health insurance to employees through a self-funded program. As reflected in national trends, the costs of health claims will continue to be a major expense for the institution.
- Prior to the 2006-07 academic year, the governing bodies of each public university within the Commonwealth of Kentucky had been delegated the authority to set tuition rates for its respective university. For the 2006-07 academic year, the Commonwealth of Kentucky's Council on Postsecondary Education rescinded this delegation and began to approve the tuition rate parameters for all public universities within the Commonwealth.
- The University received \$13,077,000 authorization in the Commonwealth of Kentucky 2006-2008 biennium budget to issue Housing and Dining bonds to construct a new residential college facility to replace the existing Richmond Residential College.
- In partnership with the Tennessee Valley Authority and Murray Electric System, the University plans to begin a new energy project. This project will entail the construction of a building to house diesel or natural gas generators on the main campus. These generators will allow the University to obtain better electrical utility rates per unit.
- In the Fall 2006, the University will begin the selection phase for a new Enterprise Resource Planning (ERP) system. This system is needed to replace aging core mainframe applications, such as those for Admissions and Records, Student Financial Aid, and financial areas. A software partner for a new system is expected to be selected in the Winter of 2007. The installation of a new campus wide ERP system will enhance the technology available to future and current students and enhance the data capabilities of all administrative systems. The project will be funded over a period of years from existing funds from within the University's operating budget.

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

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	<u>27,229</u>	<u>15,055</u>
Total current assets	<u>48,479,918</u>	<u>40,690,369</u>
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	<u>604,374</u>	<u>433,211</u>
Total noncurrent assets	<u>173,402,082</u>	<u>158,875,908</u>
 Total assets	 <u>\$ 221,882,000</u>	 <u>\$ 199,566,277</u>

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

LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
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	<u>3,961,923</u>	<u>3,761,404</u>
Total current liabilities	<u>18,886,714</u>	<u>18,355,649</u>
Noncurrent Liabilities		
Deposits	149,762	205,805
Revenue bonds, notes payable, and capital leases	<u>44,759,450</u>	<u>33,028,169</u>
Total noncurrent liabilities	<u>44,909,212</u>	<u>33,233,974</u>
Total liabilities	<u>63,795,926</u>	<u>51,589,623</u>
Net Assets		
Invested in capital assets, net of related debt	92,579,768	89,933,928
Restricted for		
Nonexpendable – permanent endowments	14,854,340	14,781,227
Expendable		
Scholarships, research, instruction and other	5,448,627	4,578,913
Loans	4,904,484	4,919,668
Capital assets	2,383,819	3,174,364
Debt service	6,338,671	4,144,190
Unrestricted	<u>31,576,365</u>	<u>26,444,364</u>
Total net assets	<u>158,086,074</u>	<u>147,976,654</u>
Total liabilities and net assets	<u>\$ 221,882,000</u>	<u>\$ 199,566,277</u>

See Notes to Financial Statements

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	<u>3,654,445</u>	<u>3,284,482</u>
Total assets	<u>\$ 63,061,561</u>	<u>\$ 58,763,037</u>

LIABILITIES AND NET ASSETS

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	<u>132,034</u>	<u>83,802</u>
Total liabilities	<u>19,973,748</u>	<u>18,070,729</u>

Net Assets

Unrestricted	7,040,978	6,041,631
Temporarily restricted	13,056,224	12,210,710
Permanently restricted	<u>22,990,611</u>	<u>22,439,967</u>
Total net assets	<u>43,087,813</u>	<u>40,692,308</u>
Total liabilities and net assets	<u>\$ 63,061,561</u>	<u>\$ 58,763,037</u>

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	\$ <u>821,103</u>	\$ <u>967,197</u>

LIABILITIES AND NET ASSETS (DEFICIT)

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
Net Assets (Deficit)		
Unrestricted	(243,561)	(192,072)
Temporarily restricted	—	82,773
Total net assets (deficit)	(243,561)	(109,299)
Total liabilities and net assets (deficit)	\$ <u>821,103</u>	\$ <u>967,197</u>

See Notes to Financial Statements

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

	<u>2006</u>	<u>2005</u>
Revenues		
Operating revenues		
Student tuition and fees	\$ 59,539,363	\$ 52,096,603
Less discounts and allowances	<u>(23,944,031)</u>	<u>(19,745,096)</u>
Net tuition and fees	<u>35,595,332</u>	<u>32,351,507</u>
Federal grants and contracts	12,544,061	12,463,138
State grants and contracts	8,343,541	7,421,792
Local and private grants and contracts	<u>365,702</u>	<u>245,580</u>
Total grants and contracts	<u>21,253,304</u>	<u>20,130,510</u>
Sales and services of educational departments	4,234,826	3,429,670
Other operating revenues	<u>2,352,224</u>	<u>1,710,510</u>
Total sales, services, and other revenues	<u>6,587,050</u>	<u>5,140,180</u>
Auxiliary enterprises revenues (Revenues are pledged as security for the Housing and Dining Revenue System Bond Series A - Q)	20,292,760	18,742,513
Less discounts and allowances	<u>(954,630)</u>	<u>(749,391)</u>
Net auxiliary revenue	<u>19,338,130</u>	<u>17,993,122</u>
Total operating revenues	<u>82,773,816</u>	<u>75,615,319</u>
Expenses		
Operating expenses		
Instruction	50,564,149	47,040,216
Research	2,968,954	2,647,825
Public service	5,948,602	5,803,477
Libraries	1,596,098	1,621,110
Academic support	6,216,530	5,418,991
Student services	12,878,334	11,201,585
Institutional support	12,449,351	10,918,645
Operational and maintenance of plant	14,539,404	17,439,073
Student financial aid	7,172,114	6,973,072
Depreciation	6,621,914	6,527,977
Auxiliary enterprises	16,570,655	15,267,241
Auxiliary depreciation	<u>455,042</u>	<u>831,987</u>
Total operating expenses	<u>137,981,147</u>	<u>131,691,199</u>
Operating Loss	<u>(55,207,331)</u>	<u>(56,075,880)</u>

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

	<u>2006</u>	<u>2005</u>
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	<u>(73,680)</u>	<u>(51,311)</u>
Net nonoperating revenues (expenses)	<u>61,581,856</u>	<u>57,117,836</u>
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	<u>—</u>	<u>121,763</u>
Increase in Net Assets	10,109,420	4,304,488
Net Assets, Beginning of Year	<u>147,976,654</u>	<u>143,672,166</u>
Net Assets, End of Year	<u>\$ 158,086,074</u>	<u>\$ 147,976,654</u>

See Notes to Financial Statements

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

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Contributions	\$ 1,024,561	\$ 826,300	\$ 453,803	\$ 2,304,664
Revenues from operations of golf course	553,400	—	—	553,400
Fees	132,216	—	—	132,216
Investment return	576,741	2,599,233	6,322	3,182,296
Other	183,536	2,203	90,519	276,258
Net assets released from restrictions	<u>2,582,222</u>	<u>(2,582,222)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>5,052,676</u>	<u>845,514</u>	<u>550,644</u>	<u>6,448,834</u>
Expenses and Losses				
Payments made on behalf of Murray State University	2,582,222	—	—	2,582,222
Golf course	596,498	—	—	596,498
General and administrative	<u>874,609</u>	<u>—</u>	<u>—</u>	<u>874,609</u>
Total expenses and losses	<u>4,053,329</u>	<u>—</u>	<u>—</u>	<u>4,053,329</u>
Change in Net Assets	999,347	845,514	550,644	2,395,505
Net Assets, Beginning of Year	<u>6,041,631</u>	<u>12,210,710</u>	<u>22,439,967</u>	<u>40,692,308</u>
Net Assets, End of Year	<u>\$ 7,040,978</u>	<u>\$ 13,056,224</u>	<u>\$ 22,990,611</u>	<u>\$ 43,087,813</u>

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	<u>1,832,135</u>	<u>(1,832,135)</u>	<u>—</u>	<u>—</u>
 Total revenues, gains and other support	 <u>3,951,014</u>	 <u>3,235,285</u>	 <u>1,380,443</u>	 <u>8,566,742</u>
Expenses and Losses				
Payments made on behalf of Murray State University	2,242,375	—	—	2,242,375
Golf course	555,052	—	—	555,052
General and administrative	<u>921,212</u>	<u>—</u>	<u>—</u>	<u>921,212</u>
 Total expenses and losses	 <u>3,718,639</u>	 <u>—</u>	 <u>—</u>	 <u>3,718,639</u>
 Change in Net Assets	 232,375	 3,235,285	 1,380,443	 4,848,103
 Net Assets, Beginning of Year	 <u>5,809,256</u>	 <u>8,975,425</u>	 <u>21,059,524</u>	 <u>35,844,205</u>
 Net Assets, End of Year	 <u>\$ 6,041,631</u>	 <u>\$ 12,210,710</u>	 <u>\$ 22,439,967</u>	 <u>\$ 40,692,308</u>

See Notes to Financial Statements

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

	2006		
	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Contributions	\$ —	\$ —	\$ —
Sponsorships and promotions	1,600	—	1,600
Fund raising events	—	—	—
Investment return	13,916	—	13,916
Gain on sale of real estate held for sale	—	—	—
Other	25,292	—	25,292
Net assets released from restrictions	82,773	(82,773)	—
Total revenues, gains and other support	123,581	(82,773)	40,808
Expenses			
Sponsorships and promotions	—	—	—
Contributions to Murray State University			
Athletic department	64,648	—	64,648
General operations	—	—	—
General and administrative	68,892	—	68,892
Fund raising events	29	—	29
Membership activities	—	—	—
Interest	41,501	—	41,501
Total expenses	175,070	—	175,070
Change in Net Assets (Deficit)	(51,489)	(82,773)	(134,262)
Net Assets (Deficit), Beginning of Year	(192,072)	82,773	(109,299)
Net Assets (Deficit), End of Year	\$ (243,561)	\$ —	\$ (243,561)

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

	2005		
	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Contributions	\$ 70,775	\$ 435,503	\$ 506,278
Sponsorships and promotions	387,489	—	387,489
Fund raising events	72,677	52,003	124,680
Investment return	7,823	—	7,823
Gain on sale of real estate held for sale	335,198	—	335,198
Other	30,279	—	30,279
Net assets released from restrictions	516,650	(516,650)	—
Total revenues, gains and other support	1,420,891	(29,144)	1,391,747
Expenses			
Sponsorships and promotions	370,452	—	370,452
Contributions to Murray State University			
Athletic department	668,221	—	668,221
General operations	70,226	—	70,226
General and administrative	236,589	—	236,589
Fund raising events	61,644	—	61,644
Membership activities	10,661	—	10,661
Interest	69,291	—	69,291
Total expenses	1,487,084	—	1,487,084
Change in Net Assets (Deficit)	(66,193)	(29,144)	(95,337)
Net Assets (Deficit), Beginning of Year	(125,879)	111,917	(13,962)
Net Assets (Deficit), End of Year	\$ (192,072)	\$ 82,773	\$ (109,299)

See Notes to Financial Statements

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		
Tuition and fees	\$ 35,916,699	\$ 32,726,025
Grants and contracts	21,545,444	19,220,602
Salaries, wages, and benefits	(78,720,876)	(72,347,127)
Payments to suppliers	(28,468,656)	(28,716,663)
Payments to students for financial aid	(7,172,114)	(6,973,072)
Computer loans issued to employees	(50,511)	(39,833)
Collection of computer loans to employees	47,750	43,444
Loans issued to students	(1,085,773)	(1,297,203)
Collection of loans to students	1,105,110	1,161,354
Sales and services	3,859,771	3,183,549
Other operating revenues	2,352,534	1,708,241
Auxiliary enterprises revenues		
Food service	6,669,217	5,877,915
Housing	7,023,589	6,785,347
Book store	5,388,443	4,971,841
Other	226,068	238,424
Auxiliary enterprises payments		
Salaries, wages, and benefits	(5,059,154)	(4,658,079)
Payment to suppliers	(11,479,676)	(10,405,752)
Net cash used in operating activities	<u>(47,902,135)</u>	<u>(48,520,987)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	54,954,200	49,366,100
Grants and contracts	3,378,408	5,773,091
Endowment transfers to MSU Foundation	(704,960)	(770,350)
Gifts for other than capital purposes	821,014	100,100
Agency transactions	6,521	5,149
Net cash provided by noncapital financing activities	<u>58,455,183</u>	<u>54,474,090</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt, net of discount and issuance costs	15,974,688	7,465,190
Payment receipt for loan issued for capital project	91,700	91,700
Restricted student fees pledged for debt service	660,629	646,417
Insurance proceeds	—	121,763
State capital appropriations	—	546,402
Purchases of capital assets	(8,840,067)	(11,195,885)
Capital gift	892,385	135,400
Capital grants	388,288	1,468,179
Principal paid on capital debt and leases	(3,971,496)	(3,561,130)
Interest paid on capital debt and leases	(1,612,499)	(1,506,768)
Net cash provided by (used in) capital and related financing activities	<u>3,583,628</u>	<u>(5,788,732)</u>

Murray State University
A Component Unit of the State of Kentucky
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
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	<u>3,213,230</u>	<u>1,812,771</u>
Net cash provided by (used in) investing activities	<u>3,142,266</u>	<u>(1,368,063)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	17,278,942	(1,203,692)
Cash and Cash Equivalents, Beginning of Year	<u>42,137,694</u>	<u>43,341,386</u>
Cash and Cash Equivalents, End of Year	<u>\$ 59,416,636</u>	<u>\$ 42,137,694</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash and cash equivalents	\$ 37,978,869	\$ 31,733,726
Restricted cash and cash equivalents	<u>21,437,767</u>	<u>10,403,968</u>
Total cash and cash equivalents	<u>\$ 59,416,636</u>	<u>\$ 42,137,694</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$ (55,207,331)	\$ (56,075,880)
Depreciation	7,076,956	7,359,964
Bad debt	211,071	169,248
Changes in assets and liabilities		
Accounts receivable, net	(244,872)	732,388
Inventories	(30,748)	38,326
Prepaid expenses	169,651	(191,775)
Accounts payable	152,516	(171,624)
Self-insured health liability	81,396	(73,646)
Accrued payroll	411,802	69,923
Deposits	1,344	(12,858)
Deferred revenue	<u>(523,920)</u>	<u>(365,053)</u>
Net cash used in operating activities	<u>\$ (47,902,135)</u>	<u>\$ (48,520,987)</u>
Supplemental Cash Flows Information		
Gifts of capital assets	\$ 103,425	\$ 262,407
Accounts payable incurred for capital assets	\$ 780,904	\$ 274,268

See Notes to 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

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 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.

In accordance with the provisions of Governmental Accounting Standards Board Statement No. 39 (GASB No. 39), *Determining Whether Certain Organizations are Component Units*, certain organizations are to be reported as component units of a primary government based on the nature and significance of that organization's relationship to the primary government. Application of this statement results in including Murray State University Foundation, Inc. and Murray State University Athletic Foundation, Inc. (the Foundations) as discretely presented component units of the University. The Foundations are private nonprofit organizations that report under FASB standards, including FASB No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations' financial information in the University's financial report for these differences.

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

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

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)

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:

<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 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.

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)

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.

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)

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 appropriations, investment income and endowment income, are recorded as nonoperating revenues, in accordance with GASB No. 35.

Tuition Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of discounts and allowances. Discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is payable by students. Certain governmental grants, such as Pell grants and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a discount and allowance. Payments made directly to students are presented as student financial aid expenses.

Income Taxes

The University is a component of the Commonwealth of Kentucky and is not subject to Federal income tax as described in section 115 of the Internal Revenue Code. However, the University is subject to Federal income tax on any unrelated business taxable income.

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

Note 1: Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions. The accompanying financial statements include estimates for items such as allowances for doubtful accounts and loans receivable, self-insurance liabilities and other accrued liabilities. Actual results could differ from those estimates.

Recent Accounting Pronouncements

The Governmental Accounting Standards Board has issued three pronouncements relating to the governance of postemployment and termination benefits. Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* provides uniform financial reporting standards for other postemployment benefits (OPEB) and becomes effective for the year ended June 30, 2007. Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* further provides guidance regarding the reporting of OPEB benefits and becomes effective for the year ended June 30, 2008. Statement No. 47, *Accounting for Termination Benefits* provides guidance for reporting all termination benefits, and becomes effective with the implementation of Statement No. 45. The impact of applying these new statements has not yet been determined.

Note 2: Accounts Receivable

Accounts receivable consisted of:

	2006	2005
Current accounts receivable:		
Student tuition and fees	\$ 2,060,063	\$ 1,798,983
Grants and contracts	2,087,436	2,579,957
Auxiliary fees	632,418	566,719
MSU and Racer Foundations	941,915	575,472
Employee computer loans	18,207	15,447
Outside sales	473,965	510,525
State agencies	8,394	6,700
Commonwealth of KY – science complex phase II	1,649,219	55,364
Capital construction receivable - vendors	117,184	91,831
Allowance for doubtful accounts	<u>(1,139,286)</u>	<u>(988,920)</u>
Total current accounts receivable	<u>6,849,515</u>	<u>5,212,078</u>
Noncurrent accounts receivable:		
Capital construction receivable	<u>—</u>	<u>91,700</u>
Total accounts receivable	<u>\$ 6,849,515</u>	<u>\$ 5,303,778</u>

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

Note 3: Inventories

Inventories consisted of:

	<u>2006</u>	<u>2005</u>
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	<u>5,026</u>	<u>13,319</u>
Total inventories	<u>\$ 2,013,668</u>	<u>\$ 1,982,920</u>

Note 4: Loans Receivable

Student loans made through the Federal Perkins Loan Program (the Program) comprise substantially all of the loans receivable at June 30, 2006 and 2005. The Program provides for service cancellation of a loan at rates of 15% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2006 and 2005, the allowance for uncollectible loans was \$200,947 and \$207,105, respectively.

Loans receivable consisted of:

	<u>2006</u>	<u>2005</u>
Current loans receivable:		
University loan programs	\$ 87,037	\$ 88,740
Federal nursing program	81,897	80,442
Federal Perkins program	<u>734,747</u>	<u>700,801</u>
Total current loans receivable, net	<u>903,681</u>	<u>869,983</u>
Noncurrent loans receivable:		
Federal nursing program	347,600	359,702
Federal Perkins program	<u>3,240,402</u>	<u>3,281,335</u>
Total noncurrent loans receivable, net	<u>3,588,002</u>	<u>3,641,037</u>
Total loans receivable, net	<u>\$ 4,491,683</u>	<u>\$ 4,511,020</u>

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

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 charged with the oversight of the Commonwealth's investment programs pursuant to KRS 42.500. The Commonwealth's investments are categorized into four distinct classifications or "pools". The Short-Term Pool consists primarily of General Fund cash balances and provides liquidity for the remaining pools. The Intermediate-Term Pool represents Agency Fund investments, state held component unit and fiduciary fund accounts held for the benefit of others by the state. The Long-Term Pool invests the Budget Reserve Trust Fund account and any other funds deemed appropriate for the pool where liquidity is not a serious concern. The remaining fund is the Bond Proceeds Pool where capital construction bond proceeds are invested until expended for their intended purpose. Shares of the pool represent a divisible interest in the underlying securities and are not federally insured or guaranteed by the U.S. Government, FDIC, or any federal agency. The pools have not been approved by the Securities and Exchange Commission. The University's shares within the pools may indirectly expose it to risks associated with fixed income investments; however, specific information about any such transactions is not available to the University.

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

Deposits as of June 30, 2006 and 2005 consisted of:

	<u>2006</u>	<u>2005</u>
Depository accounts:		
Local bank deposits, collateral held as a pledge in the University's name	\$ 8,404,495	\$ 6,629,654
Cash on hand	74,725	78,464
Foreign currency deposits	292,973	285,997
State Investment Pool – uninsured and uncollateralized	<u>50,644,443</u>	<u>35,143,579</u>
Total deposits	<u>\$ 59,416,636</u>	<u>\$ 42,137,694</u>

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

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

Deposits as presented in the balance sheet captions include:

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

Investments

Investments consisted of:

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

Restricted investments for capital purposes are comprised of amounts invested for sinking fund and debt service reserves. Investments in U.S. government securities and the collateral for repurchase agreements are registered in the name of Murray State University or held in the University's name by its agents and trustees. The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in equity securities.

University investments held by the Murray State University Foundation, Inc. are comprised of private donations received directly by the University and consist of expendable restricted funds as well as endowments. Assets held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

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

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

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

	<u>2006</u>	<u>2005</u>
Percentage of pool invested in:		
Mutual funds in equity securities	63%	61%
Mutual funds in fixed income securities	35%	34%
Other	2%	5%
Total	<u>100%</u>	<u>100%</u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not within its investment policy formally limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The money market mutual funds are 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 statute. 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 issuer. The University does not hold more than 5% of its investments with a single issuer, other than those investments held in mutual funds.

Investment Income

Investment income for the years ended June 30, 2006 and 2005, consisted of:

	<u>2006</u>	<u>2005</u>
Assets held by the University:		
Interest income	\$ 2,195,779	\$ 1,405,163
Assets held by MSU Foundation:		
Investment income	1,348,962	610,465
Net increase in fair value of investments	<u>36,024</u>	<u>448,846</u>
Total investment income	<u>\$ 3,580,765</u>	<u>\$ 2,464,474</u>

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

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, 2006:

<u>Funding Period</u>	<u>External Match Receipts</u>					<u>External Match Pledges</u>
	<u>CPE Funding Available</u>	<u>CPE Funding Received</u>	<u>Held By University</u>	<u>Held By Foundation</u>	<u>Total</u>	
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 878,250	\$ 831,750	\$ 1,710,000	\$ —
2000-2002	3,521,787	3,521,787	—	3,411,682	3,411,682	110,105
2002-2004	<u>3,259,000</u>	<u>3,259,000</u>	<u>1,468,041</u>	<u>1,790,959</u>	<u>3,259,000</u>	—
Total	\$ <u>8,490,787</u>	\$ <u>8,490,787</u>	\$ <u>2,346,291</u>	\$ <u>6,034,391</u>	\$ <u>8,380,682</u>	\$ <u>110,105</u>

The following is a summary of the funding for the RUETF as of June 30, 2005:

<u>Funding Period</u>	<u>External Match Receipts</u>					<u>External Match Pledges</u>
	<u>CPE Funding Available</u>	<u>CPE Funding Received</u>	<u>Held By University</u>	<u>Held By Foundation</u>	<u>Total</u>	
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 878,250	\$ 831,750	\$ 1,710,000	\$ —
2000-2002	3,521,787	3,521,787	—	3,411,682	3,411,682	110,105
2002-2004	<u>3,259,000</u>	<u>3,259,000</u>	<u>1,468,041</u>	<u>1,790,959</u>	<u>3,259,000</u>	—
Total	\$ <u>8,490,787</u>	\$ <u>8,490,787</u>	\$ <u>2,346,291</u>	\$ <u>6,034,391</u>	\$ <u>8,380,682</u>	\$ <u>110,105</u>

The University's external match pledges have not been recorded for financial reporting purposes in accordance with GASB No. 33. The above pledges must be fulfilled within a five year period of time due to the guidelines of the funding program.

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

Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2006, was:

	Balance June 30, 2005	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2006
Land	\$ 6,791,881	\$ —	\$ 849,699	\$ —	\$ 7,641,580
Construction in progress	3,055,589	7,360,570	(6,122,356)	(193,202)	4,100,601
Museum and collectibles	<u>497,193</u>	<u>18,100</u>	<u>—</u>	<u>—</u>	<u>515,293</u>
Total capital assets not being depreciated	<u>10,344,663</u>	<u>7,378,670</u>	<u>(5,272,657)</u>	<u>(193,202)</u>	<u>12,257,474</u>
Buildings	182,540,678	112,000	5,272,657	(337,084)	187,588,251
Non-building improvements	9,623,707	—	—	—	9,623,707
Equipment	19,865,288	1,210,040	—	(610,262)	20,465,066
Library holdings	25,957,764	1,055,569	—	(59,910)	26,953,423
Livestock	<u>122,750</u>	<u>55,000</u>	<u>—</u>	<u>—</u>	<u>177,750</u>
Total other capital assets	<u>238,110,187</u>	<u>2,432,609</u>	<u>5,272,657</u>	<u>(1,007,256)</u>	<u>244,808,197</u>
Total capital assets before depreciation	<u>248,454,850</u>	<u>9,811,279</u>	<u>—</u>	<u>(1,200,458)</u>	<u>257,065,671</u>
Less accumulated depreciation					
Buildings	90,605,490	4,380,139	—	(179,713)	94,805,916
Improvements other than buildings	4,617,040	371,917	—	—	4,988,957
Equipment	14,106,751	1,254,425	—	(600,195)	14,760,981
Library holdings	19,843,129	1,055,071	—	(56,913)	20,841,287
Livestock	<u>27,825</u>	<u>15,404</u>	<u>—</u>	<u>—</u>	<u>43,229</u>
Total accumulated depreciation	<u>129,200,235</u>	<u>\$ 7,076,956</u>	<u>\$ —</u>	<u>\$ (836,821)</u>	<u>135,440,370</u>
Capital assets, net	<u>\$ 119,254,615</u>				<u>\$ 121,625,301</u>

Murray State University
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Notes to Financial Statements
June 30, 2006 and 2005

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	<u>29,543,932</u>	<u>8,738,011</u>	<u>(25,808,124)</u>	<u>(2,129,156)</u>	<u>10,344,663</u>
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
Equipment	18,269,072	1,616,369	453,261	(473,414)	19,865,288
Library holdings	25,004,956	998,383	—	(45,575)	25,957,764
Livestock	94,250	28,500	—	—	122,750
Total other capital assets	<u>210,397,501</u>	<u>2,643,252</u>	<u>25,808,124</u>	<u>(738,690)</u>	<u>238,110,187</u>
Total capital assets before depreciation	<u>239,941,433</u>	<u>11,381,263</u>	<u>—</u>	<u>(2,867,846)</u>	<u>248,454,850</u>
Less accumulated depreciation					
Buildings	86,156,323	4,544,056	—	(94,889)	90,605,490
Improvements other than buildings	4,221,202	395,838	—	—	4,617,040
Equipment	13,183,426	1,367,809	—	(444,484)	14,106,751
Library holdings	18,844,985	1,041,440	—	(43,296)	49,843,129
Livestock	17,004	10,821	—	—	27,825
Total accumulated depreciation	<u>122,422,940</u>	<u>\$ 7,359,964</u>	<u>\$ —</u>	<u>\$ (582,669)</u>	<u>129,200,235</u>
Capital assets, net	<u>\$ 117,518,493</u>				<u>\$ 119,254,615</u>

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

Note 8: Accounts Payable

Accounts payable consisted of:

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

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

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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.

Funding of the plan is from eligible employees who contribute 5.00% of their salary through payroll deductions and the University, which also contributes 5.89% of current eligible employees' salaries to the non-hazardous KERS fund. Employees covered by the hazardous KERS fund contribute 8.00% of gross salary and the University contributes 18.84 % of gross salaries. The Kentucky Revised Statutes and the Board of Trustees of the Kentucky Retirement Systems determine contribution rates each biennium. The University's contributions to KERS for the years ended June 30, 2006, 2005, and 2004 were \$916,026, \$835,942, and \$820,956, respectively, and were equal to the required contributions.

University Health Self-Insurance Program

The University maintains a self-insurance program for employees' health insurance. For the fiscal year ended June 30, 2006, the University paid approximately 79% of total plan expenses for permanent full-time employees and their families. Expenses incurred to cover claims paid by the University under the plan for years ended June 30, 2006 and 2005 totaled \$3,983,735 and \$3,678,402 respectively, excluding administrative and stop-loss fees. Stop-loss and administrative fees incurred for the years ended June 30, 2006 and 2005 were \$653,045 and \$716,324 respectively. The University's stop-loss insurance limits its exposure for claims to \$100,000 per individual.

Changes in the liability for self insurance are follows:

	<u>2006</u>	<u>2005</u>
Liability, beginning of year	\$ 1,079,117	\$ 1,152,763
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	5,900,595	5,374,011
Administrative and stop loss fees	(653,045)	(716,324)
Claims paid	<u>(5,166,154)</u>	<u>(4,731,333)</u>
Liability, end of year	<u>\$ 1,160,513</u>	<u>\$ 1,079,117</u>

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Note 10: Deferred Revenue

Deferred revenue consisted of:

	<u>2006</u>	<u>2005</u>
Current deferred revenue:		
Prepaid tuition and fees	\$ 2,166,040	\$ 1,589,722
International studies programs	425,331	553,226
Grants and contracts	503,819	717,938
Auxiliary enterprises	3,827	5,110
Capital state appropriations	<u>—</u>	<u>756,941</u>
Total current deferred revenue	<u>\$ 3,099,017</u>	<u>\$ 3,622,937</u>

Note 11: Revenue Bonds, Notes Payable and Capital Leases

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long Term Portion</u>
Bonds payable	\$ 15,785,000	\$ 15,800,000	\$ (2,345,000)	\$ 29,240,000	\$ 2,460,000	\$ 26,780,000
Less bond discounts	<u>(212,026)</u>	<u>(310,616)</u>	<u>41,060</u>	<u>(481,582)</u>	<u>(38,787)</u>	<u>(442,795)</u>
Bonds payable, net of discounts	15,572,974	15,489,384	(2,303,940)	28,758,418	2,421,213	26,337,205
City of Murray payable	10,000,000	—	(90,000)	9,910,000	105,000	9,805,000
Master lease notes payable	9,420,731	372,850	(1,202,626)	8,590,955	1,333,710	7,257,245
Capital leases	1,559,000	—	(97,000)	1,462,000	102,000	1,360,000
Notes payable	144,400	—	(144,400)	—	—	—
MSU Foundation notes payable	<u>92,468</u>	<u>—</u>	<u>(92,468)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total bonds, notes and capital leases	<u>\$ 36,789,573</u>	<u>\$ 15,862,234</u>	<u>\$ (3,930,434)</u>	<u>\$ 48,721,373</u>	<u>\$ 3,961,923</u>	<u>\$ 44,759,450</u>

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

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2005:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long Term Portion
Bonds payable	\$ 18,127,000	\$ —	\$ (2,342,000)	\$ 15,785,000	\$ 2,345,000	\$ 13,440,000
Less bond discounts	(239,581)	—	27,555	(212,026)	(27,554)	(184,472)
Bonds payable, net of discounts	17,887,419	—	(2,314,445)	15,572,974	2,317,446	13,255,528
City of Murray payable	10,000,000	—	—	10,000,000	90,000	9,910,000
Master lease notes payable	2,932,254	7,445,190	(956,713)	9,420,731	1,073,272	8,347,459
Capital leases	1,703,193	—	(144,193)	1,559,000	97,000	1,462,000
Notes payable	234,400	—	(90,000)	144,400	144,400	—
MSU Foundation notes payable	100,693	20,000	(28,225)	92,468	39,286	53,182
Total bonds, notes and capital leases	\$ 32,857,959	\$ 7,465,190	\$ (3,533,576)	\$ 36,789,573	\$ 3,761,404	\$ 33,028,169

Maturity Information

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

Years Ending June 30	Bonds	Notes	Total Principal	Interest	Total Payments
2007	\$ 2,460,000	\$ 1,540,710	\$ 4,000,710	\$ 2,064,402	\$ 6,065,112
2008	985,000	1,410,649	2,395,649	1,890,546	4,286,195
2009	1,555,000	1,030,529	2,585,529	1,792,245	4,377,774
2010	1,405,000	987,483	2,392,483	1,697,579	4,090,062
2011	1,470,000	841,576	2,311,576	1,605,898	3,917,474
2012-2016	6,655,000	4,852,108	11,507,108	6,620,865	18,127,973
2017-2021	7,040,000	2,879,900	9,919,900	4,217,036	14,136,936
2022-2026	5,440,000	2,250,000	7,690,000	2,395,999	10,085,999
2027-2031	2,230,000	2,835,000	5,065,000	846,146	5,911,146
2032-2033	—	1,335,000	1,335,000	67,971	1,402,971
Total	\$ 29,240,000	\$ 19,962,955	\$ 49,202,955	\$ 23,198,687	\$ 72,401,642

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Notes to Financial Statements
June 30, 2006 and 2005

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; Winslow Cafeteria	2,500,000	2,305,000	75,315	100,000
Series Q bonds dated December 1, 2005 with interest from 4.00% to 4.59%; final principal payment due September 1, 2027; Clark Hall	<u>15,800,000</u>	<u>15,800,000</u>	<u>192,382</u>	<u>—</u>
Total housing and dining system revenue bonds payable	<u>\$ 29,105,000</u>	<u>\$ 25,705,000</u>	<u>\$ 606,991</u>	<u>\$ 640,000</u>

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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				
Series G (second series) dated March 1, 1993, with interest from 3.10% to 5.60%; final principal payment due May 1, 2007; I&T building	\$ 11,660,000	\$ 1,510,000	\$ 151,024	\$ 1,510,000
Series H (second series) dated September 1, 2003, with interest from 2.00% to 3.80%; final principal payment due May 1, 2012; Underground condensate lines for Old Fine Arts building	<u>2,855,000</u>	<u>2,025,000</u>	<u>68,630</u>	<u>310,000</u>
Total consolidated educational buildings revenue bonds payable	<u>14,515,000</u>	<u>3,535,000</u>	<u>219,654</u>	<u>1,820,000</u>
Bonds payable before discount	43,620,000	29,240,000	826,645	2,460,000
Less bond discount	<u>—</u>	<u>(481,582)</u>	<u>—</u>	<u>(38,787)</u>
Total bonds payable	<u>\$ 43,620,000</u>	<u>\$ 28,758,418</u>	<u>\$ 826,645</u>	<u>\$ 2,421,213</u>
City of Murray Payable				
Agreement dated 12/30/02 with interest of 2.50% to 4.85%; final principal payment due June 1, 2033	<u>\$ 10,000,000</u>	<u>\$ 9,910,000</u>	<u>\$ 454,860</u>	<u>\$ 105,000</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	\$ 159,990	\$ 12,512	\$ 136,511
Deferred Maintenance – Master lease dated May 10, 2002, with interest from 3.56% to 4.79%; final principal payment due December 3, 2010	2,232,000	1,145,105	50,466	349,060
Campus Networking Upgrade – Master lease dated March 24, 2004, with interest of 3.16% to 3.30%; Final principal payment due April 1, 2008	1,627,727	555,793	29,531	273,097

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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
Master Lease Payable (Continued)				
Campus Energy Performance Upgrade – Masterlease dated February 10, 2005, with interest of 3.94%. Final principal payment due August 10, 2017	6,707,876	6,486,572	267,394	455,772
Oracle Software – Masterlease dated August 11, 2005 with interest of 4.13%. Final principal payment due September 1, 2007	<u>372,850</u>	<u>243,495</u>	<u>8,404</u>	<u>119,270</u>
Total Master lease payable	<u>\$ 11,740,453</u>	<u>\$ 8,590,955</u>	<u>\$ 368,307</u>	<u>\$ 1,333,710</u>
Capital Leases				
University of Kentucky dated June 25, 1998, with interest rate at 5.14%; final principal payment due January 1, 2017	<u>\$ 2,200,000</u>	<u>\$ 1,462,000</u>	<u>\$ 81,974</u>	<u>\$ 102,000</u>
Total capital leases	<u>\$ 2,200,000</u>	<u>\$ 1,462,000</u>	<u>\$ 81,974</u>	<u>\$ 102,000</u>
Interest on paid off debt in current year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,911</u>	<u>\$ -</u>
Total all Bond Issues, Notes Payable and Capital Leases	<u>\$ 67,560,453</u>	<u>\$ 48,721,373</u>	<u>\$ 1,739,697</u>	<u>\$ 3,961,923</u>

The revenue bond indentures requires the University to make deposits to sinking and reserve funds in annual amounts to meet the principal and interest payments due within the next twelve months as well as maintain a reserve balance as a percentage of outstanding balances. As of June 30, 2006 and 2005, the sinking fund and reserve fund requirements have been funded as required.

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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:

	<u>2006</u>	<u>2005</u>
Capital lease assets, at cost	\$ 2,200,000	\$ 2,516,960
Less accumulated depreciation	<u>(1,430,000)</u>	<u>(1,691,960)</u>
Net book value	<u>\$ 770,000</u>	<u>\$ 825,000</u>

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

<u>Year Ending June 30</u>	<u>Total</u>
2007	\$ 179,259
2008	179,230
2009	179,870
2010	179,118
2011	179,030
2012-2016	896,693
2017-2018	<u>179,282</u>
	1,972,482
Less amount representing interest	<u>(510,482)</u>
Present value of capital lease obligations	<u>\$ 1,462,000</u>

Note 12: Deposits

The deposits held by the University consisted of:

	<u>2006</u>	<u>2005</u>
Current:		
Horse stall rentals	\$ 3,180	\$ 2,870
Racer card declining balances	84,745	63,820
Housing deposits	108,448	58,251
Post office box deposits	360	—
Agency account balances	<u>49,378</u>	<u>42,857</u>
Total current deposits	<u>246,111</u>	<u>167,798</u>
Noncurrent:		
Housing deposits	<u>149,762</u>	<u>205,805</u>
Total deposits	<u>\$ 395,873</u>	<u>\$ 373,603</u>

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Note 12: Deposits (Continued)

Noncurrent housing deposit additions were \$89,809 and \$134,000 for years ended June 30, 2006 and 2005, respectively. Noncurrent housing deposit deductions were \$145,853 and \$100,128 for years ended June 30, 2006 and 2005, respectively.

Note 13: Unrestricted Net Assets

The University's designations of unrestricted net assets consisted of:

	<u>2006</u>	<u>2005</u>
Unrestricted net assets		
Allocated for		
Prior year carryovers		
Renovation and maintenance	\$ 2,621,747	\$ 2,230,527
Departmental operations	10,481,159	8,644,032
Encumbrances	1,042,851	697,277
Working capital	2,959,990	2,673,297
Revenue contingency	2,690,984	2,498,013
General contingency	10,879,634	8,801,218
Self insurance	<u>900,000</u>	<u>900,000</u>
Total unrestricted net assets	<u>\$ 31,576,365</u>	<u>\$ 26,444,364</u>

Note 14: Component Units

Murray State University Foundation, Inc.

Murray State University Foundation, Inc. (Foundation) is a Kentucky nonprofit corporation formed to receive, invest, and expend funds for the enhancement and improvement of the University. It is a legally separate, tax-exempt component unit of the University that manages certain endowments and investments on behalf of the University. The Foundation has a Board of Trustees separate from that of the University; however, the President and certain other officers of the University are also officers of the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statement package.

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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, was \$64,648 and \$738,447, respectively. Accounts receivable from the Racer Foundation were \$422,163 and \$435,897 as of June 30, 2006 and June 30, 2005, respectively. Complete financial statements for the Racer Foundation can be obtained from the MSU Athletic Foundation Office, Stewart Stadium, Murray, Kentucky, 42071.

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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.

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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:

Fund Classification	Year Ended June 30, 2006						
	Natural 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

Fund Classification	Year Ended June 30, 2005						
	Natural 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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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		
Current assets	\$ 1,827,175	\$ 3,453,983
Noncurrent assets	19,743,778	2,599,923
Capital assets, net of accumulated depreciation	8,712,989	9,974,190
Total assets	<u>\$ 30,283,942</u>	<u>\$ 16,028,096</u>
Liabilities		
Current liabilities	\$ 1,941,267	\$ 6,616,423
Noncurrent liabilities	25,443,731	10,670,852
Total liabilities	<u>\$ 27,384,998</u>	<u>\$ 17,287,275</u>

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

Note 18: Segment Information (Continued)

Housing and Dining System - Condensed Balance Sheets (Continued)

	2006	2005
Net assets		
Invested in capital assets, net of related debt	\$ (970,023)	\$ (312,986)
Restricted		
Expendable capital	(1,538,418)	990,757
Expendable debt service	4,475,505	1,230,683
Unrestricted	<u>931,880</u>	<u>(3,167,633)</u>
Total net assets	<u>2,898,944</u>	<u>(1,259,179)</u>
Total liabilities and net assets	<u>\$ 30,283,942</u>	<u>\$ 16,028,096</u>

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

	2006	2005
Operating revenues	\$ 13,757,119	\$ 12,772,576
Operating expenses	(11,557,888)	(10,635,598)
Depreciation expense	<u>(453,543)</u>	<u>(830,486)</u>
Operating income	1,745,688	1,306,492
Nonoperating revenues (expenses)	<u>2,412,435</u>	<u>(636,999)</u>
Change in net assets	4,158,123	669,493
Net assets, beginning of year	<u>(1,259,179)</u>	<u>(1,928,672)</u>
Net assets, end of year	<u>\$ 2,898,944</u>	<u>\$ (1,259,179)</u>

Housing and Dining System - Condensed Statements of Cash Flows

	2006	2005
Cash flows from		
Operating activities	\$ 3,189,781	\$ 2,462,413
Noncapital financing activities	(2,627,502)	(1,373,178)
Capital and related financing activities	14,526,960	(1,182,680)
Investing activities	<u>(1,957,411)</u>	<u>515,169</u>
Net increase in cash	13,131,828	421,724
Cash, beginning of year	<u>3,182,122</u>	<u>2,760,398</u>
Cash, end of year	<u>\$ 16,313,950</u>	<u>\$ 3,182,122</u>

Murray State University
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Notes to Financial Statements
June 30, 2006 and 2005

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		
Current assets	\$ 25,485	\$ 130
Noncurrent assets	1,152,698	1,376,075
Capital assets, net of accumulated depreciation	<u>10,018,652</u>	<u>10,018,905</u>
Total assets	<u>\$ 11,196,835</u>	<u>\$ 11,395,110</u>
Liabilities		
Current liabilities	\$ 73,494	\$ 39,620
Noncurrent liabilities	<u>9,910,000</u>	<u>10,000,000</u>
Total liabilities	<u>9,983,494</u>	<u>10,039,620</u>
Net assets		
Invested in capital assets, net of related debt	432,743	354,999
Restricted		
Expendable capital	531,641	818,643
Expendable debt service	262,731	184,069
Unrestricted	<u>(13,774)</u>	<u>(2,221)</u>
Total net assets	<u>1,213,341</u>	<u>1,355,490</u>
Total liabilities and net assets	<u>\$ 11,196,835</u>	<u>\$ 11,395,110</u>

Murray State University
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Notes to Financial Statements
June 30, 2006 and 2005

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
Net assets, beginning of year	1,355,490	1,328,702
Net assets, end of year	\$ 1,213,341	\$ 1,355,490

Wellness Center - Condensed Statement of Cash Flows

	2006	2005
Cash flows from		
Operating activities	\$ (543,407)	\$ (220,169)
Noncapital financing activities	367,867	190,826
Capital and related financing activities	(136,585)	(3,503,040)
Investing activities	89,197	165,249
Net decrease in cash	(222,928)	(3,367,134)
Cash, beginning of year	1,037,761	4,404,895
Cash, end of year	\$ 814,833	\$ 1,037,761

Murray State University

A Component Unit of the State of Kentucky

Accountants' Report and Financial Statements

Reports Required by *Government Auditing Standards* and

OMB Circular A-133

June 30, 2006 and 2005



Murray

MURRAY STATE UNIVERSITY

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MURRAY STATE UNIVERSITY

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Independent Accountants' Report on Financial Statements and Supplementary Information

Interim President Dr. Thomas I. Miller and
Board of Regents
Murray State University
Murray, Kentucky

We have audited the accompanying basic financial statements of Murray State University (University) and its aggregate discretely presented component units, collectively a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Murray State University Foundation, Inc. and Murray State University Athletic Foundation, Inc. discretely presented component units, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2006 and 2005, and the 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Interim President Dr. Thomas I. Miller and
Board of Regents
Murray State University
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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 opinions on the financial statements that collectively comprise 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*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

September 8, 2006

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 centers in four other cities where it offers a diverse range of degree programs from associate to master levels, through a framework of approximately 30 departmental units in 5 colleges and 1 school, and contributes to the region and state through related research and public service programs. The University is a charter member of the Ohio Valley Conference and a Division I member of the NCAA. Murray State University serves as a residential, regional university offering core programs in the liberal arts, humanities, sciences and selected high-quality professional programs for approximately 10,275 students. The University has not only continued to post record enrollment figures, it has increased its graduation rate to an impressive 57.3 percent.

The tuition and fees for the 2005-06 academic year increased by \$222 per semester for a full time resident undergraduate student. Tuition and fees at the University continues to be significantly less than the national average.

Murray State University consistently ranks among the nation's best regional universities each year and has been recognized for its academic quality and affordability. For 16 consecutive years *U.S. News & World Report* has ranked the University as one of the best public schools in America. In the 2007 edition of the publication, the University ranked ninth in the nation among public master's universities. The University ranked second in the South's public master's universities "Great Schools at a Great Price" category for 2007. The University's solid academic programs and affordable price have placed it in the top two best values among public schools in the South. This is the fourth consecutive year the University has been ranked in this category, and it is the only Kentucky university ranked in this class. Factors considered in the rankings are reputation, retention rate, graduation rate, class size, student-faculty ratio and SAT/ACT scoring.

Murray State University has been consistently recognized in the past for its high quality, affordable education and its unique setting. In addition to *U.S. News*, the University has been highly ranked by the *Princeton Review*, *Money Guide*, *Kiplinger's Personal Finance*, *Southern Living*, the *MIT Student Review*, and a Carnegie Mellon study. Murray State has also been featured in the *New York Times*, the *Chronicle of Higher Education*, and the *London Times*.

The University continues to have a commitment to academic and extracurricular excellence, while retaining its status as an affordable institution of higher education.

Murray State University

A Component Unit of the State of Kentucky

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 approximately 4,020 individuals, including 545 faculty and 1,130 staff members and 2,345 students. These amounts include 1,324 regular and full time faculty and staff.
- State appropriations for operational use from the Commonwealth of Kentucky increased by \$5.6 million.
- The Athletic Department's fundraising and sponsorship activities were transferred to the University from the Murray State University Athletic Foundation, Inc., effective July 1, 2005. This change significantly improved the institutional control of the Athletic Department.
- Phase III of a multi-phase science complex was funded with \$15 million from the Commonwealth of Kentucky 2006-2008 biennium budget.

Construction of the Phase II facility of the science complex was started in the Summer 2006 and is planned to house the chemistry program. The second phase was funded with \$15 million from the Commonwealth of Kentucky 2004-06 biennium budget and is scheduled for substantial completion in the Winter of 2007. Additional funds from Phase III will be needed for final completion of the Chemistry Phase II facility.

Construction of the Phase I facility in the science complex has been substantially completed and currently houses the biology program. The first phase was funded with \$13 million from the Commonwealth of Kentucky in the 2000-2002 biennium budget. A portion of the funding from Phase II will be utilized to complete the second floor of this building, which will fully complete the interior and exterior of this building.

- The Western Regional Center for Emerging Technologies (business incubator), located on the north edge of the main campus, opened for operations in the Fall of 2005. Additional construction is needed to finish interior office and business space. Funding of \$3 million was secured in 2002-03 from state and federal agencies to construct this facility. 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.
- The University continues the fund raising campaign for the revitalization of Waterfield Library. Proceeds from this campaign are planned to be used for deferred maintenance, enhancements in library holdings and technology improvements, which included wireless connectivity throughout the library.

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Management's Discussion and Analysis

- 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	<u>121,625,301</u>	<u>119,254,615</u>	<u>117,518,493</u>
Total assets	<u>\$221,882,000</u>	<u>\$199,566,277</u>	<u>\$194,076,385</u>
Liabilities			
Current liabilities	\$18,886,714	\$18,355,649	\$20,571,802
Noncurrent liabilities	<u>44,909,212</u>	<u>33,233,974</u>	<u>29,832,417</u>
Total liabilities	<u>\$63,795,926</u>	<u>\$51,589,623</u>	<u>\$50,404,219</u>
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	<u>31,576,365</u>	<u>26,444,364</u>	<u>21,485,540</u>
Total net assets	<u>158,086,074</u>	<u>147,976,654</u>	<u>143,672,166</u>
Total liabilities and net assets	<u>\$221,882,000</u>	<u>\$199,566,277</u>	<u>\$194,076,385</u>

Net Assets

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

- Invested in capital assets, net of related debt - This category represents the institution's equity in property, buildings, equipment, library holdings and other plant assets owned by the University, less related depreciation.
- Restricted - This category represents those assets subject to externally imposed restrictions governing their use and includes classifications of nonexpendable and expendable.

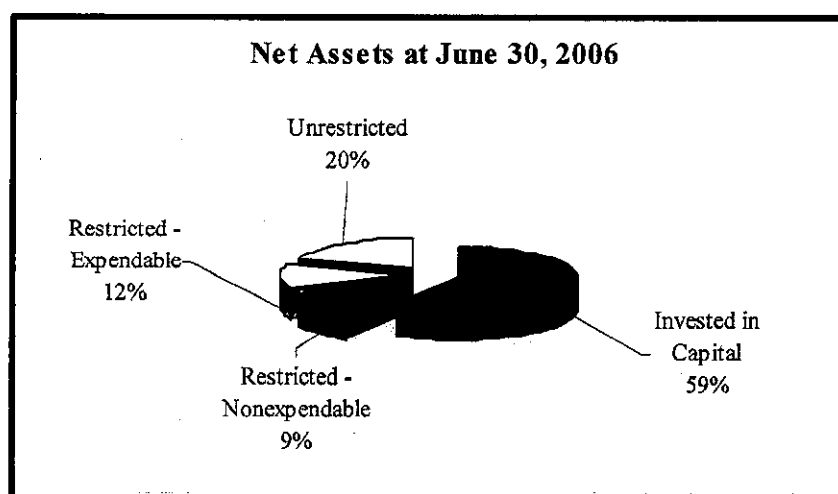
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- Restricted nonexpendable net assets - Restricted nonexpendable net assets consist solely of permanent endowments owned by the University. The corpus, as specified by the donor, is invested in perpetuity and may not be expended.
- Restricted expendable net assets - Restricted expendable net assets consist of those assets that may be expended by the University, but must be spent for purposes as defined by the donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- Unrestricted - This category represents the net assets held by the University that have no formal restrictions 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 categories is provided in the following chart:



Statements of Revenues, Expenses and Changes in Net Assets

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

The Statements of Net Assets are prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. A public university's dependency on state appropriations will result in reported operating losses. The Governmental Accounting Standards Board requires state appropriations to be classified as non-operating revenues. The utilization of long-

Murray State University

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Management's Discussion and Analysis

lived capital assets is reflected in the financial statements as depreciation, which expenses the costs of an asset over its expected useful life.

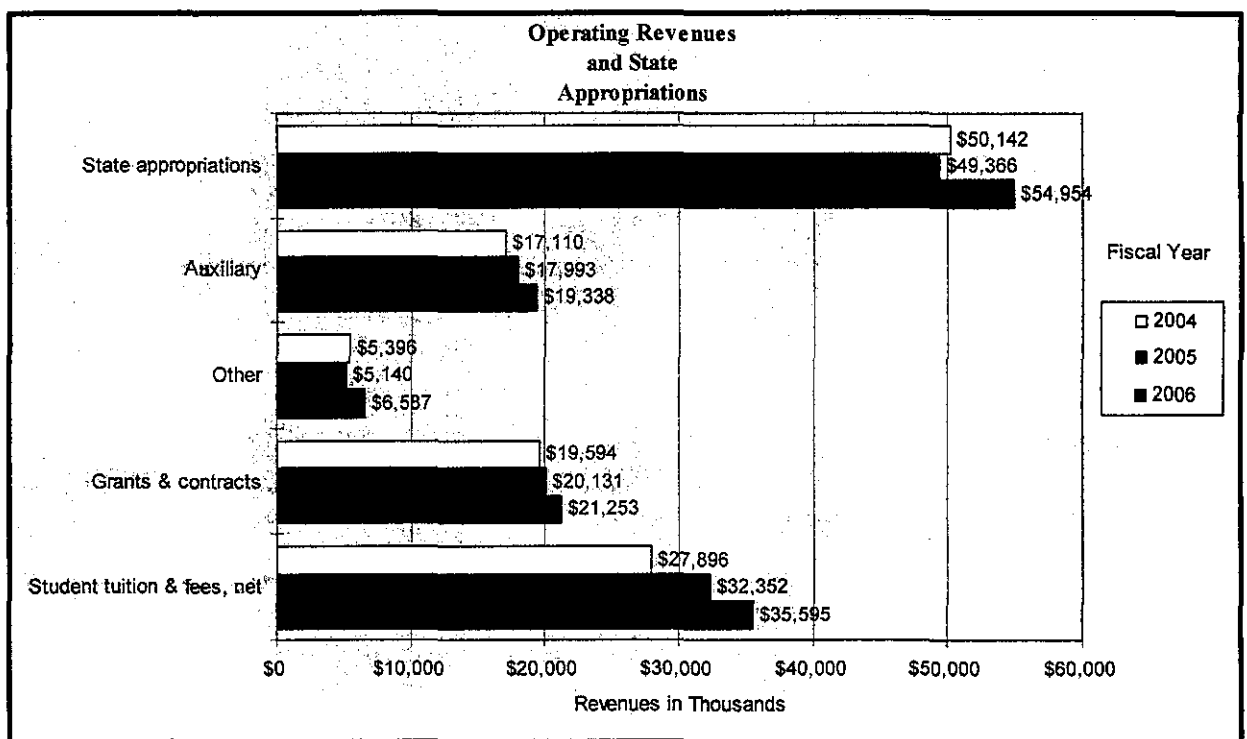
Revenues

Total operating revenues, which exclude state appropriations, for the 2006 fiscal year were \$82.8 million, including student tuition and fees, net of related discounts and allowances, of \$35.6 million, operating grants and contracts revenues of \$21.3 million, and auxiliary services net revenue of \$19.3 million.

Operating revenues increased during the year by \$7.2 million. This increase is comprised of \$3.2 million from net student tuition, fees, room, and board, \$1.1 million from federal and state grants and contracts, and \$1.3 auxiliary revenues.

For 2006, the University received a net of \$54.9 million of state appropriations. State appropriations are required to be classified as nonoperating revenues; however, these funds were used to support University operating activities.

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



Murray State University

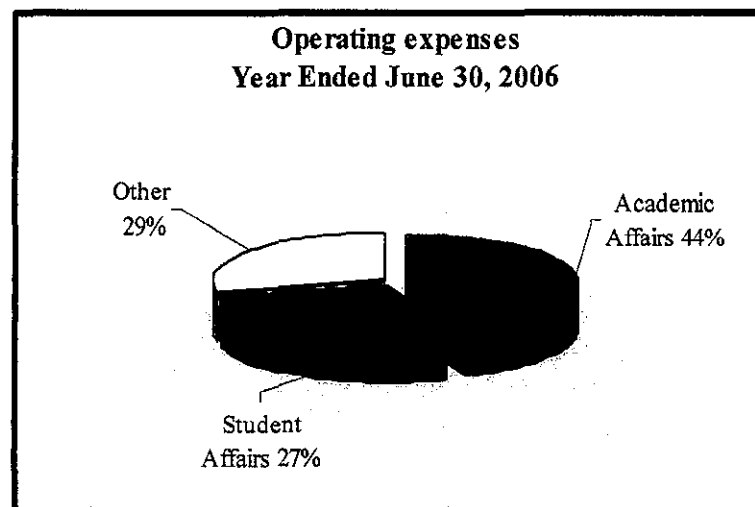
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Management's Discussion and Analysis

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.



The net loss from operations for the year ended June 30, 2006, was \$55.2 million. Nonoperating revenues, net of expenses, amounted to \$61.6 million and non-debt related capital funding amounted to \$3.7 million, resulting in an increase in net assets of \$10.1 million for the year ended June 30, 2006.

The net loss from operations for the year ended June 30, 2005, was \$56.1 million. Nonoperating revenues, net of expenses, amounted to \$57.1 million and non-debt related capital funding amounted to \$3.3 million, resulting in an increase in net assets of \$4.3 million for the year ended June 30, 2005.

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	<u>82,773,816</u>	<u>75,615,319</u>	<u>69,995,715</u>
Operating expenses			
Instruction	50,564,149	47,040,216	46,574,969
Other educational and general	63,769,387	62,023,778	56,662,972
Depreciation	6,621,914	6,527,977	5,840,909
Auxiliary enterprises	16,570,655	15,267,241	14,592,820
Auxiliary depreciation	455,042	831,987	779,527
Total operating expenses	<u>137,981,147</u>	<u>131,691,199</u>	<u>124,451,197</u>
Operating loss	<u>(55,207,331)</u>	<u>(56,075,880)</u>	<u>(54,455,482)</u>
Nonoperating revenues (expenses)			
State appropriations	54,954,200	49,366,100	50,141,800
Other nonoperating revenues (expenses)	10,362,551	11,014,268	19,151,101
Total nonoperating revenues (expenses)	<u>65,316,751</u>	<u>60,380,368</u>	<u>69,292,901</u>
Increase in net assets	<u>10,109,420</u>	<u>4,304,488</u>	<u>14,837,419</u>
Net assets, beginning of year	<u>147,976,654</u>	<u>143,672,166</u>	<u>128,834,747</u>
Net assets, end of year	<u>\$ 158,086,074</u>	<u>\$ 147,976,654</u>	<u>\$ 143,672,166</u>

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.

For the year ended June 30, 2006:

The net cash used in operating activities reflects the net cash used for general operations of the University, which changed by \$.6 million during 2006.

The cash flows from noncapital financing activities, changed by \$4 million during 2006. This change was due to an increase in state appropriations.

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The net cash flows used in capital and related financing activities represent cash received and used for the acquisition, construction, and renovation of capital assets, which changed by \$9.4 million during 2006. A large portion of this change is due to the sale of Series Q Housing and Dining bonds to finance the construction of the new Clark residential college.

The cash flows provided by (used in) investing activities represent the cash activities of investments, which changed by \$4.5 million for 2006. A portion of this change is related to the purchase of investments for the Housing and Dining sinking and reserve funds and improved realized gains on investments.

For the year ended June 30, 2005:

The net cash used in operating activities reflects the net cash used for general operations of the University, which changed by \$.9 million during 2005.

The cash flows from noncapital financing activities, changed by \$.5 million during 2005. This change was due to a decrease in net state appropriations.

The net cash flows used in capital and related financing activities represent cash received and used for the acquisition, construction, and renovation of capital assets, which changed by \$7.3 million during 2005. A large portion of this change is due to reduced expenses in 2005 related to capital construction projects, such as the student recreation/wellness center and phase I of the science complex.

The cash flows provided by (used in) investing activities represent the cash activities of investments, which changed by \$2.8 million for 2005. This change is related to the purchase of investments for the energy performance project debt escrow fund.

Condensed Statements of Cash Flows

	2006	2005	2004
Cash provided/(used by):			
Operating activities	\$ (47,902,135)	\$ (48,520,987)	\$ (47,628,530)
Noncapital financing activities	58,455,183	54,474,090	54,974,561
Capital and related financing activities	3,583,628	(5,788,732)	(13,041,031)
Investing activities	3,142,266	(1,368,063)	1,508,087
Net (decrease) increase in cash	<u>17,278,942</u>	<u>(1,203,692)</u>	<u>(4,186,913)</u>
Cash and cash equivalents, beginning of year	<u>42,137,694</u>	<u>43,341,386</u>	<u>47,528,299</u>
Cash and cash equivalents, end of year	<u>\$ 59,416,636</u>	<u>\$ 42,137,694</u>	<u>\$ 43,341,386</u>

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

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	<u>\$ 121,625,301</u>	<u>\$ 2,370,685</u>

The University issued new debt of \$15.9 million which included \$15.8 million for the construction of a new residential college. The University also paid off \$3.9 million of long term debt.

Debt as of June 30, 2006, is summarized below:

	Balance June 30, 2006
Housing and Dining System Revenue Bonds	\$ 25,705,000
Consolidated Educational Buildings Revenue Bonds	3,535,000
Bond discount	(481,583)
City of Murray – Susan E. Bauernfeind Student Recreation and Wellness Center	9,910,000
Other (Note 11 of Notes to Financial Statements)	10,052,956
Total	<u>\$ 48,721,373</u>

Murray State University

A Component Unit of the State of Kentucky

Management's Discussion and Analysis

Infrastructure Assets

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

Economic Factors Affecting Future Periods

- General state appropriations from the Commonwealth of Kentucky (Commonwealth) are expected to remain constant or slightly increase over the next period.
- The University provides health insurance to employees through a self-funded program. As reflected in national trends, the costs of health claims will continue to be a major expense for the institution.
- Prior to the 2006-07 academic year, the governing bodies of each public university within the Commonwealth of Kentucky had been delegated the authority to set tuition rates for its respective university. For the 2006-07 academic year, the Commonwealth of Kentucky's Council on Postsecondary Education rescinded this delegation and began to approve the tuition rate parameters for all public universities within the Commonwealth.
- The University received \$13,077,000 authorization in the Commonwealth of Kentucky 2006-2008 biennium budget to issue Housing and Dining bonds to construct a new residential college facility to replace the existing Richmond Residential College.
- In partnership with the Tennessee Valley Authority and Murray Electric System, the University plans to begin a new energy project. This project will entail the construction of a building to house diesel or natural gas generators on the main campus. These generators will allow the University to obtain better electrical utility rates per unit.
- In the Fall 2006, the University will begin the selection phase for a new Enterprise Resource Planning (ERP) system. This system is needed to replace aging core mainframe applications, such as those for Admissions and Records, Student Financial Aid, and financial areas. A software partner for a new system is expected to be selected in the Winter of 2007. The installation of a new campus wide ERP system will enhance the technology available to future and current students and enhance the data capabilities of all administrative systems. The project will be funded over a period of years from existing funds from within the University's operating budget.

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

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

	<u>2006</u>	<u>2005</u>
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	<u>27,229</u>	<u>15,055</u>
Total current assets	<u>48,479,918</u>	<u>40,690,369</u>
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	<u>604,374</u>	<u>433,211</u>
Total noncurrent assets	<u>173,402,082</u>	<u>158,875,908</u>
 Total assets	 <u>\$ 221,882,000</u>	 <u>\$ 199,566,277</u>

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	<u>3,961,923</u>	<u>3,761,404</u>
Total current liabilities	<u>18,886,714</u>	<u>18,355,649</u>
Noncurrent Liabilities		
Deposits	149,762	205,805
Revenue bonds, notes payable, and capital leases	<u>44,759,450</u>	<u>33,028,169</u>
Total noncurrent liabilities	<u>44,909,212</u>	<u>33,233,974</u>
Total liabilities	<u>63,795,926</u>	<u>51,589,623</u>
Net Assets		
Invested in capital assets, net of related debt	92,579,768	89,933,928
Restricted for		
Nonexpendable – permanent endowments	14,854,340	14,781,227
Expendable		
Scholarships, research, instruction and other	5,448,627	4,578,913
Loans	4,904,484	4,919,668
Capital assets	2,383,819	3,174,364
Debt service	6,338,671	4,144,190
Unrestricted	<u>31,576,365</u>	<u>26,444,364</u>
Total net assets	<u>158,086,074</u>	<u>147,976,654</u>
Total liabilities and net assets	<u>\$ 221,882,000</u>	<u>\$ 199,566,277</u>

See Notes to Financial Statements

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

ASSETS

	<u>2006</u>	<u>2005</u>
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	<u>3,654,445</u>	<u>3,284,482</u>
Total assets	<u>\$ 63,061,561</u>	<u>\$ 58,763,037</u>

LIABILITIES AND NET ASSETS

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	<u>132,034</u>	<u>83,802</u>
Total liabilities	<u>19,973,748</u>	<u>18,070,729</u>

Net Assets

Unrestricted	7,040,978	6,041,631
Temporarily restricted	13,056,224	12,210,710
Permanently restricted	<u>22,990,611</u>	<u>22,439,967</u>
Total net assets	<u>43,087,813</u>	<u>40,692,308</u>
Total liabilities and net assets	<u>\$ 63,061,561</u>	<u>\$ 58,763,037</u>

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	<u>2,794</u>	<u>5,750</u>
Total assets	<u>\$ 821,103</u>	<u>\$ 967,197</u>

LIABILITIES AND NET ASSETS (DEFICIT)

Liabilities		
Accounts payable to Murray State University	\$ 422,163	\$ 435,897
Accounts payable and accrued expenses	34,829	32,927
Note payable	<u>607,672</u>	<u>607,672</u>
Total liabilities	<u>1,064,664</u>	<u>1,076,496</u>
Net Assets (Deficit)		
Unrestricted	(243,561)	(192,072)
Temporarily restricted	<u>—</u>	<u>82,773</u>
Total net assets (deficit)	<u>(243,561)</u>	<u>(109,299)</u>
Total liabilities and net assets (deficit)	<u>\$ 821,103</u>	<u>\$ 967,197</u>

See Notes to Financial Statements

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

	<u>2006</u>	<u>2005</u>
Revenues		
Operating revenues		
Student tuition and fees	\$ 59,539,363	\$ 52,096,603
Less discounts and allowances	<u>(23,944,031)</u>	<u>(19,745,096)</u>
Net tuition and fees	<u>35,595,332</u>	<u>32,351,507</u>
Federal grants and contracts	12,544,061	12,463,138
State grants and contracts	8,343,541	7,421,792
Local and private grants and contracts	<u>365,702</u>	<u>245,580</u>
Total grants and contracts	<u>21,253,304</u>	<u>20,130,510</u>
Sales and services of educational departments	4,234,826	3,429,670
Other operating revenues	<u>2,352,224</u>	<u>1,710,510</u>
Total sales, services, and other revenues	<u>6,587,050</u>	<u>5,140,180</u>
Auxiliary enterprises revenues (Revenues are pledged as security for the Housing and Dining Revenue System Bond Series A – Q)	20,292,760	18,742,513
Less discounts and allowances	<u>(954,630)</u>	<u>(749,391)</u>
Net auxiliary revenue	<u>19,338,130</u>	<u>17,993,122</u>
Total operating revenues	<u>82,773,816</u>	<u>75,615,319</u>
Expenses		
Operating expenses		
Instruction	50,564,149	47,040,216
Research	2,968,954	2,647,825
Public service	5,948,602	5,803,477
Libraries	1,596,098	1,621,110
Academic support	6,216,530	5,418,991
Student services	12,878,334	11,201,585
Institutional support	12,449,351	10,918,645
Operational and maintenance of plant	14,539,404	17,439,073
Student financial aid	7,172,114	6,973,072
Depreciation	6,621,914	6,527,977
Auxiliary enterprises	16,570,655	15,267,241
Auxiliary depreciation	<u>455,042</u>	<u>831,987</u>
Total operating expenses	<u>137,981,147</u>	<u>131,691,199</u>
Operating Loss	<u>(55,207,331)</u>	<u>(56,075,880)</u>

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

	<u>2006</u>	<u>2005</u>
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	<u>(73,680)</u>	<u>(51,311)</u>
Net nonoperating revenues (expenses)	<u>61,581,856</u>	<u>57,117,836</u>
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	<u>—</u>	<u>121,763</u>
Increase in Net Assets	10,109,420	4,304,488
Net Assets, Beginning of Year	<u>147,976,654</u>	<u>143,672,166</u>
Net Assets, End of Year	<u>\$ 158,086,074</u>	<u>\$ 147,976,654</u>

See Notes to Financial Statements

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

	2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	\$ 1,024,561	\$ 826,300	\$ 453,803	\$ 2,304,664
Revenues from operations of golf course	553,400	—	—	553,400
Fees	132,216	—	—	132,216
Investment return	576,741	2,599,233	6,322	3,182,296
Other	183,536	2,203	90,519	276,258
Net assets released from restrictions	<u>2,582,222</u>	<u>(2,582,222)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>5,052,676</u>	<u>845,514</u>	<u>550,644</u>	<u>6,448,834</u>
Expenses and Losses				
Payments made on behalf of Murray State University	2,582,222	—	—	2,582,222
Golf course	596,498	—	—	596,498
General and administrative	<u>874,609</u>	<u>—</u>	<u>—</u>	<u>874,609</u>
Total expenses and losses	<u>4,053,329</u>	<u>—</u>	<u>—</u>	<u>4,053,329</u>
Change in Net Assets	999,347	845,514	550,644	2,395,505
Net Assets, Beginning of Year	<u>6,041,631</u>	<u>12,210,710</u>	<u>22,439,967</u>	<u>40,692,308</u>
Net Assets, End of Year	<u>\$ 7,040,978</u>	<u>\$ 13,056,224</u>	<u>\$ 22,990,611</u>	<u>\$ 43,087,813</u>

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	<u>1,832,135</u>	<u>(1,832,135)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>3,951,014</u>	<u>3,235,285</u>	<u>1,380,443</u>	<u>8,566,742</u>
Expenses and Losses				
Payments made on behalf of Murray State University	2,242,375	—	—	2,242,375
Golf course	555,052	—	—	555,052
General and administrative	<u>921,212</u>	<u>—</u>	<u>—</u>	<u>921,212</u>
Total expenses and losses	<u>3,718,639</u>	<u>—</u>	<u>—</u>	<u>3,718,639</u>
Change in Net Assets	232,375	3,235,285	1,380,443	4,848,103
Net Assets, Beginning of Year	<u>5,809,256</u>	<u>8,975,425</u>	<u>21,059,524</u>	<u>35,844,205</u>
Net Assets, End of Year	<u>\$ 6,041,631</u>	<u>\$ 12,210,710</u>	<u>\$ 22,439,967</u>	<u>\$ 40,692,308</u>

See Notes to Financial Statements

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

	2006		
	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Contributions	\$ —	\$ —	\$ —
Sponsorships and promotions	1,600	—	1,600
Fund raising events	—	—	—
Investment return	13,916	—	13,916
Gain on sale of real estate held for sale	—	—	—
Other	25,292	—	25,292
Net assets released from restrictions	82,773	(82,773)	—
Total revenues, gains and other support	123,581	(82,773)	40,808
Expenses			
Sponsorships and promotions	—	—	—
Contributions to Murray State University			
Athletic department	64,648	—	64,648
General operations	—	—	—
General and administrative	68,892	—	68,892
Fund raising events	29	—	29
Membership activities	—	—	—
Interest	41,501	—	41,501
Total expenses	175,070	—	175,070
Change in Net Assets (Deficit)	(51,489)	(82,773)	(134,262)
Net Assets (Deficit), Beginning of Year	(192,072)	82,773	(109,299)
Net Assets (Deficit), End of Year	\$ (243,561)	\$ —	\$ (243,561)

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

	2005		
	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Contributions	\$ 70,775	\$ 435,503	\$ 506,278
Sponsorships and promotions	387,489	—	387,489
Fund raising events	72,677	52,003	124,680
Investment return	7,823	—	7,823
Gain on sale of real estate held for sale	335,198	—	335,198
Other	30,279	—	30,279
Net assets released from restrictions	516,650	(516,650)	—
Total revenues, gains and other support	1,420,891	(29,144)	1,391,747
Expenses			
Sponsorships and promotions	370,452	—	370,452
Contributions to Murray State University			
Athletic department	668,221	—	668,221
General operations	70,226	—	70,226
General and administrative	236,589	—	236,589
Fund raising events	61,644	—	61,644
Membership activities	10,661	—	10,661
Interest	69,291	—	69,291
Total expenses	1,487,084	—	1,487,084
Change in Net Assets (Deficit)	(66,193)	(29,144)	(95,337)
Net Assets (Deficit), Beginning of Year	(125,879)	111,917	(13,962)
Net Assets (Deficit), End of Year	\$ (192,072)	\$ 82,773	\$ (109,299)

See Notes to Financial Statements

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		
Tuition and fees	\$ 35,916,699	\$ 32,726,025
Grants and contracts	21,545,444	19,220,602
Salaries, wages, and benefits	(78,720,876)	(72,347,127)
Payments to suppliers	(28,468,656)	(28,716,663)
Payments to students for financial aid	(7,172,114)	(6,973,072)
Computer loans issued to employees	(50,511)	(39,833)
Collection of computer loans to employees	47,750	43,444
Loans issued to students	(1,085,773)	(1,297,203)
Collection of loans to students	1,105,110	1,161,354
Sales and services	3,859,771	3,183,549
Other operating revenues	2,352,534	1,708,241
Auxiliary enterprises revenues		
Food service	6,669,217	5,877,915
Housing	7,023,589	6,785,347
Book store	5,388,443	4,971,841
Other	226,068	238,424
Auxiliary enterprises payments		
Salaries, wages, and benefits	(5,059,154)	(4,658,079)
Payment to suppliers	(11,479,676)	(10,405,752)
Net cash used in operating activities	<u>(47,902,135)</u>	<u>(48,520,987)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	54,954,200	49,366,100
Grants and contracts	3,378,408	5,773,091
Endowment transfers to MSU Foundation	(704,960)	(770,350)
Gifts for other than capital purposes	821,014	100,100
Agency transactions	<u>6,521</u>	<u>5,149</u>
Net cash provided by noncapital financing activities	<u>58,455,183</u>	<u>54,474,090</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt, net of discount and issuance costs	15,974,688	7,465,190
Payment receipt for loan issued for capital project	91,700	91,700
Restricted student fees pledged for debt service	660,629	646,417
Insurance proceeds	—	121,763
State capital appropriations	—	546,402
Purchases of capital assets	(8,840,067)	(11,195,885)
Capital gift	892,385	135,400
Capital grants	388,288	1,468,179
Principal paid on capital debt and leases	(3,971,496)	(3,561,130)
Interest paid on capital debt and leases	<u>(1,612,499)</u>	<u>(1,506,768)</u>
Net cash provided by (used in) capital and related financing activities	<u>3,583,628</u>	<u>(5,788,732)</u>

Murray State University
A Component Unit of the State of Kentucky
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
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	<u>3,213,230</u>	<u>1,812,771</u>
Net cash provided by (used in) investing activities	<u>3,142,266</u>	<u>(1,368,063)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	17,278,942	(1,203,692)
Cash and Cash Equivalents, Beginning of Year	<u>42,137,694</u>	<u>43,341,386</u>
Cash and Cash Equivalents, End of Year	<u>\$ 59,416,636</u>	<u>\$ 42,137,694</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash and cash equivalents	\$ 37,978,869	\$ 31,733,726
Restricted cash and cash equivalents	<u>21,437,767</u>	<u>10,403,968</u>
Total cash and cash equivalents	<u>\$ 59,416,636</u>	<u>\$ 42,137,694</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$ (55,207,331)	\$ (56,075,880)
Depreciation	7,076,956	7,359,964
Bad debt	211,071	169,248
Changes in assets and liabilities		
Accounts receivable, net	(244,872)	732,388
Inventories	(30,748)	38,326
Prepaid expenses	169,651	(191,775)
Accounts payable	152,516	(171,624)
Self-insured health liability	81,396	(73,646)
Accrued payroll	411,802	69,923
Deposits	1,344	(12,858)
Deferred revenue	<u>(523,920)</u>	<u>(365,053)</u>
Net cash used in operating activities	<u>\$ (47,902,135)</u>	<u>\$ (48,520,987)</u>
Supplemental Cash Flows Information		
Gifts of capital assets	\$ 103,425	\$ 262,407
Accounts payable incurred for capital assets	\$ 780,904	\$ 274,268

See Notes to 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

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 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.

In accordance with the provisions of Governmental Accounting Standards Board Statement No. 39 (GASB No. 39), *Determining Whether Certain Organizations are Component Units*, certain organizations are to be reported as component units of a primary government based on the nature and significance of that organization's relationship to the primary government. Application of this statement results in including Murray State University Foundation, Inc. and Murray State University Athletic Foundation, Inc. (the Foundations) as discretely presented component units of the University. The Foundations are private nonprofit organizations that report under FASB standards, including FASB No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations' financial information in the University's financial report for these differences.

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

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

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)

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:

<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 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.

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)

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.

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)

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 appropriations, investment income and endowment income, are recorded as nonoperating revenues, in accordance with GASB No. 35.

Tuition Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of discounts and allowances. Discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is payable by students. Certain governmental grants, such as Pell grants and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a discount and allowance. Payments made directly to students are presented as student financial aid expenses.

Income Taxes

The University is a component of the Commonwealth of Kentucky and is not subject to Federal income tax as described in section 115 of the Internal Revenue Code. However, the University is subject to Federal income tax on any unrelated business taxable income.

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

Note 1: Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions. The accompanying financial statements include estimates for items such as allowances for doubtful accounts and loans receivable, self-insurance liabilities and other accrued liabilities. Actual results could differ from those estimates.

Recent Accounting Pronouncements

The Governmental Accounting Standards Board has issued three pronouncements relating to the governance of postemployment and termination benefits. Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* provides uniform financial reporting standards for other postemployment benefits (OPEB) and becomes effective for the year ended June 30, 2007. Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* further provides guidance regarding the reporting of OPEB benefits and becomes effective for the year ended June 30, 2008. Statement No. 47, *Accounting for Termination Benefits* provides guidance for reporting all termination benefits, and becomes effective with the implementation of Statement No. 45. The impact of applying these new statements has not yet been determined.

Note 2: Accounts Receivable

Accounts receivable consisted of:

	2006	2005
Current accounts receivable:		
Student tuition and fees	\$ 2,060,063	\$ 1,798,983
Grants and contracts	2,087,436	2,579,957
Auxiliary fees	632,418	566,719
MSU and Racer Foundations	941,915	575,472
Employee computer loans	18,207	15,447
Outside sales	473,965	510,525
State agencies	8,394	6,700
Commonwealth of KY – science complex phase II	1,649,219	55,364
Capital construction receivable - vendors	117,184	91,831
Allowance for doubtful accounts	(1,139,286)	(988,920)
Total current accounts receivable	<u>6,849,515</u>	<u>5,212,078</u>
Noncurrent accounts receivable:		
Capital construction receivable	<u>—</u>	<u>91,700</u>
Total accounts receivable	<u>\$ 6,849,515</u>	<u>\$ 5,303,778</u>

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

Note 3: Inventories

Inventories consisted of:

	<u>2006</u>	<u>2005</u>
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	13,319
Total inventories	<u>\$ 2,013,668</u>	<u>\$ 1,982,920</u>

Note 4: Loans Receivable

Student loans made through the Federal Perkins Loan Program (the Program) comprise substantially all of the loans receivable at June 30, 2006 and 2005. The Program provides for service cancellation of a loan at rates of 15% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2006 and 2005, the allowance for uncollectible loans was \$200,947 and \$207,105, respectively.

Loans receivable consisted of:

	<u>2006</u>	<u>2005</u>
Current loans receivable:		
University loan programs	\$ 87,037	\$ 88,740
Federal nursing program	81,897	80,442
Federal Perkins program	<u>734,747</u>	<u>700,801</u>
Total current loans receivable, net	<u>903,681</u>	<u>869,983</u>
Noncurrent loans receivable:		
Federal nursing program	347,600	359,702
Federal Perkins program	<u>3,240,402</u>	<u>3,281,335</u>
Total noncurrent loans receivable, net	<u>3,588,002</u>	<u>3,641,037</u>
Total loans receivable, net	<u>\$ 4,491,683</u>	<u>\$ 4,511,020</u>

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

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 charged with the oversight of the Commonwealth's investment programs pursuant to KRS 42.500. The Commonwealth's investments are categorized into four distinct classifications or "pools". The Short-Term Pool consists primarily of General Fund cash balances and provides liquidity for the remaining pools. The Intermediate-Term Pool represents Agency Fund investments, state held component unit and fiduciary fund accounts held for the benefit of others by the state. The Long-Term Pool invests the Budget Reserve Trust Fund account and any other funds deemed appropriate for the pool where liquidity is not a serious concern. The remaining fund is the Bond Proceeds Pool where capital construction bond proceeds are invested until expended for their intended purpose. Shares of the pool represent a divisible interest in the underlying securities and are not federally insured or guaranteed by the U.S. Government, FDIC, or any federal agency. The pools have not been approved by the Securities and Exchange Commission. The University's shares within the pools may indirectly expose it to risks associated with fixed income investments; however, specific information about any such transactions is not available to the University.

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

Deposits as of June 30, 2006 and 2005 consisted of:

	<u>2006</u>	<u>2005</u>
Depository accounts:		
Local bank deposits, collateral held as a pledge in the University's name	\$ 8,404,495	\$ 6,629,654
Cash on hand	74,725	78,464
Foreign currency deposits	292,973	285,997
State Investment Pool – uninsured and uncollateralized	<u>50,644,443</u>	<u>35,143,579</u>
Total deposits	<u>\$ 59,416,636</u>	<u>\$ 42,137,694</u>

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

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

Deposits as presented in the balance sheet captions include:

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

Investments

Investments consisted of:

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

Restricted investments for capital purposes are comprised of amounts invested for sinking fund and debt service reserves. Investments in U.S. government securities and the collateral for repurchase agreements are registered in the name of Murray State University or held in the University's name by its agents and trustees. The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in equity securities.

University investments held by the Murray State University Foundation, Inc. are comprised of private donations received directly by the University and consist of expendable restricted funds as well as endowments. Assets held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

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

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

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

	<u>2006</u>	<u>2005</u>
Percentage of pool invested in:		
Mutual funds in equity securities	63%	61%
Mutual funds in fixed income securities	35%	34%
Other	2%	5%
Total	<u>100%</u>	<u>100%</u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not within its investment policy formally limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The money market mutual funds are 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 statute. 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 issuer. The University does not hold more than 5% of its investments with a single issuer, other than those investments held in mutual funds.

Investment Income

Investment income for the years ended June 30, 2006 and 2005, consisted of:

	<u>2006</u>	<u>2005</u>
Assets held by the University:		
Interest income	\$ 2,195,779	\$ 1,405,163
Assets held by MSU Foundation:		
Investment income	1,348,962	610,465
Net increase in fair value of investments	<u>36,024</u>	<u>448,846</u>
Total investment income	<u>\$ 3,580,765</u>	<u>\$ 2,464,474</u>

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

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, 2006:

<u>Funding Period</u>	<u>External Match Receipts</u>					<u>External Match Pledges</u>
	<u>CPE Funding Available</u>	<u>CPE Funding Received</u>	<u>Held By University</u>	<u>Held By Foundation</u>	<u>Total</u>	
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 878,250	\$ 831,750	\$ 1,710,000	\$ —
2000-2002	3,521,787	3,521,787	—	3,411,682	3,411,682	110,105
2002-2004	<u>3,259,000</u>	<u>3,259,000</u>	<u>1,468,041</u>	<u>1,790,959</u>	<u>3,259,000</u>	—
Total	\$ <u>8,490,787</u>	\$ <u>8,490,787</u>	\$ <u>2,346,291</u>	\$ <u>6,034,391</u>	\$ <u>8,380,682</u>	\$ <u>110,105</u>

The following is a summary of the funding for the RUETF as of June 30, 2005:

<u>Funding Period</u>	<u>External Match Receipts</u>					<u>External Match Pledges</u>
	<u>CPE Funding Available</u>	<u>CPE Funding Received</u>	<u>Held By University</u>	<u>Held By Foundation</u>	<u>Total</u>	
1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 878,250	\$ 831,750	\$ 1,710,000	\$ —
2000-2002	3,521,787	3,521,787	—	3,411,682	3,411,682	110,105
2002-2004	<u>3,259,000</u>	<u>3,259,000</u>	<u>1,468,041</u>	<u>1,790,959</u>	<u>3,259,000</u>	—
Total	\$ <u>8,490,787</u>	\$ <u>8,490,787</u>	\$ <u>2,346,291</u>	\$ <u>6,034,391</u>	\$ <u>8,380,682</u>	\$ <u>110,105</u>

The University's external match pledges have not been recorded for financial reporting purposes in accordance with GASB No. 33. The above pledges must be fulfilled within a five year period of time due to the guidelines of the funding program.

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

Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2006, was:

	Balance June 30, 2005	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2006
Land	\$ 6,791,881	\$ —	\$ 849,699	\$ —	\$ 7,641,580
Construction in progress	3,055,589	7,360,570	(6,122,356)	(193,202)	4,100,601
Museum and collectibles	497,193	18,100	—	—	515,293
Total capital assets not being depreciated	<u>10,344,663</u>	<u>7,378,670</u>	<u>(5,272,657)</u>	<u>(193,202)</u>	<u>12,257,474</u>
Buildings	182,540,678	112,000	5,272,657	(337,084)	187,588,251
Non-building improvements	9,623,707	—	—	—	9,623,707
Equipment	19,865,288	1,210,040	—	(610,262)	20,465,066
Library holdings	25,957,764	1,055,569	—	(59,910)	26,953,423
Livestock	122,750	55,000	—	—	177,750
Total other capital assets	<u>238,110,187</u>	<u>2,432,609</u>	<u>5,272,657</u>	<u>(1,007,256)</u>	<u>244,808,197</u>
Total capital assets before depreciation	<u>248,454,850</u>	<u>9,811,279</u>	<u>—</u>	<u>(1,200,458)</u>	<u>257,065,671</u>
Less accumulated depreciation					
Buildings	90,605,490	4,380,139	—	(179,713)	94,805,916
Improvements other than buildings	4,617,040	371,917	—	—	4,988,957
Equipment	14,106,751	1,254,425	—	(600,195)	14,760,981
Library holdings	19,843,129	1,055,071	—	(56,913)	20,841,287
Livestock	27,825	15,404	—	—	43,229
Total accumulated depreciation	<u>129,200,235</u>	<u>\$ 7,076,956</u>	<u>\$ —</u>	<u>\$ (836,821)</u>	<u>135,440,370</u>
Capital assets, net	<u>\$ 119,254,615</u>				<u>\$ 121,625,301</u>

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

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	<u>29,543,932</u>	<u>8,738,011</u>	<u>(25,808,124)</u>	<u>(2,129,156)</u>	<u>10,344,663</u>
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
Equipment	18,269,072	1,616,369	453,261	(473,414)	19,865,288
Library holdings	25,004,956	998,383	—	(45,575)	25,957,764
Livestock	94,250	28,500	—	—	122,750
Total other capital assets	<u>210,397,501</u>	<u>2,643,252</u>	<u>25,808,124</u>	<u>(738,690)</u>	<u>238,110,187</u>
Total capital assets before depreciation	<u>239,941,433</u>	<u>11,381,263</u>	<u>—</u>	<u>(2,867,846)</u>	<u>248,454,850</u>
Less accumulated depreciation					
Buildings	86,156,323	4,544,056	—	(94,889)	90,605,490
Improvements other than buildings	4,221,202	395,838	—	—	4,617,040
Equipment	13,183,426	1,367,809	—	(444,484)	14,106,751
Library holdings	18,844,985	1,041,440	—	(43,296)	49,843,129
Livestock	17,004	10,821	—	—	27,825
Total accumulated depreciation	<u>122,422,940</u>	<u>\$ 7,359,964</u>	<u>\$ —</u>	<u>\$ (582,669)</u>	<u>129,200,235</u>
Capital assets, net	<u>\$ 117,518,493</u>				<u>\$ 119,254,615</u>

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

Note 8: Accounts Payable

Accounts payable consisted of:

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

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

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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.

Funding of the plan is from eligible employees who contribute 5.00% of their salary through payroll deductions and the University, which also contributes 5.89% of current eligible employees' salaries to the non-hazardous KERS fund. Employees covered by the hazardous KERS fund contribute 8.00% of gross salary and the University contributes 18.84 % of gross salaries. The Kentucky Revised Statutes and the Board of Trustees of the Kentucky Retirement Systems determine contribution rates each biennium. The University's contributions to KERS for the years ended June 30, 2006, 2005, and 2004 were \$916,026, \$835,942, and \$820,956, respectively, and were equal to the required contributions.

University Health Self-Insurance Program

The University maintains a self-insurance program for employees' health insurance. For the fiscal year ended June 30, 2006, the University paid approximately 79% of total plan expenses for permanent full-time employees and their families. Expenses incurred to cover claims paid by the University under the plan for years ended June 30, 2006 and 2005 totaled \$3,983,735 and \$3,678,402 respectively, excluding administrative and stop-loss fees. Stop-loss and administrative fees incurred for the years ended June 30, 2006 and 2005 were \$653,045 and \$716,324 respectively. The University's stop-loss insurance limits its exposure for claims to \$100,000 per individual.

Changes in the liability for self insurance are follows:

	<u>2006</u>	<u>2005</u>
Liability, beginning of year	\$ 1,079,117	\$ 1,152,763
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	5,900,595	5,374,011
Administrative and stop loss fees	(653,045)	(716,324)
Claims paid	<u>(5,166,154)</u>	<u>(4,731,333)</u>
Liability, end of year	\$ <u>1,160,513</u>	\$ <u>1,079,117</u>

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Note 10: Deferred Revenue

Deferred revenue consisted of:

	<u>2006</u>	<u>2005</u>
Current deferred revenue:		
Prepaid tuition and fees	\$ 2,166,040	\$ 1,589,722
International studies programs	425,331	553,226
Grants and contracts	503,819	717,938
Auxiliary enterprises	3,827	5,110
Capital state appropriations	<u>—</u>	<u>756,941</u>
Total current deferred revenue	<u>\$ 3,099,017</u>	<u>\$ 3,622,937</u>

Note 11: Revenue Bonds, Notes Payable and Capital Leases

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long Term Portion</u>
Bonds payable	\$ 15,785,000	\$ 15,800,000	\$ (2,345,000)	\$ 29,240,000	\$ 2,460,000	\$ 26,780,000
Less bond discounts	<u>(212,026)</u>	<u>(310,616)</u>	<u>41,060</u>	<u>(481,582)</u>	<u>(38,787)</u>	<u>(442,795)</u>
Bonds payable, net of discounts	15,572,974	15,489,384	(2,303,940)	28,758,418	2,421,213	26,337,205
City of Murray payable	10,000,000	—	(90,000)	9,910,000	105,000	9,805,000
Master lease notes payable	9,420,731	372,850	(1,202,626)	8,590,955	1,333,710	7,257,245
Capital leases	1,559,000	—	(97,000)	1,462,000	102,000	1,360,000
Notes payable	144,400	—	(144,400)	—	—	—
MSU Foundation notes payable	<u>92,468</u>	<u>—</u>	<u>(92,468)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total bonds, notes and capital leases	<u>\$ 36,789,573</u>	<u>\$ 15,862,234</u>	<u>\$ (3,930,434)</u>	<u>\$ 48,721,373</u>	<u>\$ 3,961,923</u>	<u>\$ 44,759,450</u>

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

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2005:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long Term Portion
Bonds payable	\$ 18,127,000	\$ —	\$ (2,342,000)	\$ 15,785,000	\$ 2,345,000	\$ 13,440,000
Less bond discounts	<u>(239,581)</u>	<u>—</u>	<u>27,555</u>	<u>(212,026)</u>	<u>(27,554)</u>	<u>(184,472)</u>
Bonds payable, net of discounts	17,887,419	—	(2,314,445)	15,572,974	2,317,446	13,255,528
City of Murray payable	10,000,000	—	—	10,000,000	90,000	9,910,000
Master lease notes payable	2,932,254	7,445,190	(956,713)	9,420,731	1,073,272	8,347,459
Capital leases	1,703,193	—	(144,193)	1,559,000	97,000	1,462,000
Notes payable	234,400	—	(90,000)	144,400	144,400	—
MSU Foundation notes payable	<u>100,693</u>	<u>20,000</u>	<u>(28,225)</u>	<u>92,468</u>	<u>39,286</u>	<u>53,182</u>
Total bonds, notes and capital leases	<u>\$ 32,857,959</u>	<u>\$ 7,465,190</u>	<u>\$ (3,533,576)</u>	<u>\$ 36,789,573</u>	<u>\$ 3,761,404</u>	<u>\$ 33,028,169</u>

Maturity Information

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

Years Ending June 30	Bonds	Notes	Total Principal	Interest	Total Payments
2007	\$ 2,460,000	\$ 1,540,710	\$ 4,000,710	\$ 2,064,402	\$ 6,065,112
2008	985,000	1,410,649	2,395,649	1,890,546	4,286,195
2009	1,555,000	1,030,529	2,585,529	1,792,245	4,377,774
2010	1,405,000	987,483	2,392,483	1,697,579	4,090,062
2011	1,470,000	841,576	2,311,576	1,605,898	3,917,474
2012-2016	6,655,000	4,852,108	11,507,108	6,620,865	18,127,973
2017-2021	7,040,000	2,879,900	9,919,900	4,217,036	14,136,936
2022-2026	5,440,000	2,250,000	7,690,000	2,395,999	10,085,999
2027-2031	2,230,000	2,835,000	5,065,000	846,146	5,911,146
2032-2033	<u>—</u>	<u>1,335,000</u>	<u>1,335,000</u>	<u>67,971</u>	<u>1,402,971</u>
Total	<u>\$ 29,240,000</u>	<u>\$ 19,962,955</u>	<u>\$ 49,202,955</u>	<u>\$ 23,198,687</u>	<u>\$ 72,401,642</u>

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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; Winslow Cafeteria	2,500,000	2,305,000	75,315	100,000
Series Q bonds dated December 1, 2005 with interest from 4.00% to 4.59%; final principal payment due September 1, 2027; Clark Hall	<u>15,800,000</u>	<u>15,800,000</u>	<u>192,382</u>	<u>—</u>
Total housing and dining system revenue bonds payable	<u>\$ 29,105,000</u>	<u>\$ 25,705,000</u>	<u>\$ 606,991</u>	<u>\$ 640,000</u>

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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				
Series G (second series) dated March 1, 1993, with interest from 3.10% to 5.60%; final principal payment due May 1, 2007; I&T building	\$ 11,660,000	\$ 1,510,000	\$ 151,024	\$ 1,510,000
Series H (second series) dated September 1, 2003, with interest from 2.00% to 3.80%; final principal payment due May 1, 2012; Underground condensate lines for Old Fine Arts building	<u>2,855,000</u>	<u>2,025,000</u>	<u>68,630</u>	<u>310,000</u>
Total consolidated educational buildings revenue bonds payable	<u>14,515,000</u>	<u>3,535,000</u>	<u>219,654</u>	<u>1,820,000</u>
Bonds payable before discount	43,620,000	29,240,000	826,645	2,460,000
Less bond discount	<u>—</u>	<u>(481,582)</u>	<u>—</u>	<u>(38,787)</u>
Total bonds payable	<u>\$ 43,620,000</u>	<u>\$ 28,758,418</u>	<u>\$ 826,645</u>	<u>\$ 2,421,213</u>
City of Murray Payable				
Agreement dated 12/30/02 with interest of 2.50% to 4.85%; final principal payment due June 1, 2033	<u>\$ 10,000,000</u>	<u>\$ 9,910,000</u>	<u>\$ 454,860</u>	<u>\$ 105,000</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	\$ 159,990	\$ 12,512	\$ 136,511
Deferred Maintenance – Master lease dated May 10, 2002, with interest from 3.56% to 4.79%; final principal payment due December 3, 2010	2,232,000	1,145,105	50,466	349,060
Campus Networking Upgrade – Master lease dated March 24, 2004, with interest of 3.16% to 3.30%; Final principal payment due April 1, 2008	1,627,727	555,793	29,531	273,097

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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
Master Lease Payable (Continued)				
Campus Energy Performance Upgrade – Masterlease dated February 10, 2005, with interest of 3.94%. Final principal payment due August 10, 2017	6,707,876	6,486,572	267,394	455,772
Oracle Software – Masterlease dated August 11, 2005 with interest of 4.13%. Final principal payment due September 1, 2007	<u>372,850</u>	<u>243,495</u>	<u>8,404</u>	<u>119,270</u>
Total Master lease payable	<u>\$ 11,740,453</u>	<u>\$ 8,590,955</u>	<u>\$ 368,307</u>	<u>\$ 1,333,710</u>
Capital Leases				
University of Kentucky dated June 25, 1998, with interest rate at 5.14%; final principal payment due January 1, 2017	<u>\$ 2,200,000</u>	<u>\$ 1,462,000</u>	<u>\$ 81,974</u>	<u>\$ 102,000</u>
Total capital leases	<u>\$ 2,200,000</u>	<u>\$ 1,462,000</u>	<u>\$ 81,974</u>	<u>\$ 102,000</u>
Interest on paid off debt in current year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,911</u>	<u>\$ -</u>
Total all Bond Issues, Notes Payable and Capital Leases	<u>\$ 67,560,453</u>	<u>\$ 48,721,373</u>	<u>\$ 1,739,697</u>	<u>\$ 3,961,923</u>

The revenue bond indentures requires the University to make deposits to sinking and reserve funds in annual amounts to meet the principal and interest payments due within the next twelve months as well as maintain a reserve balance as a percentage of outstanding balances. As of June 30, 2006 and 2005, the sinking fund and reserve fund requirements have been funded as required.

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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
Capital lease assets, at cost	\$ 2,200,000	\$ 2,516,960
Less accumulated depreciation	<u>(1,430,000)</u>	<u>(1,691,960)</u>
Net book value	<u>\$ 770,000</u>	<u>\$ 825,000</u>

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

Year Ending June 30	Total
2007	\$ 179,259
2008	179,230
2009	179,870
2010	179,118
2011	179,030
2012-2016	896,693
2017-2018	<u>179,282</u>
	1,972,482
Less amount representing interest	<u>(510,482)</u>
Present value of capital lease obligations	<u>\$ 1,462,000</u>

Note 12: Deposits

The deposits held by the University consisted of:

	2006	2005
Current:		
Horse stall rentals	\$ 3,180	\$ 2,870
Racer card declining balances	84,745	63,820
Housing deposits	108,448	58,251
Post office box deposits	360	—
Agency account balances	<u>49,378</u>	<u>42,857</u>
Total current deposits	<u>246,111</u>	<u>167,798</u>
Noncurrent:		
Housing deposits	<u>149,762</u>	<u>205,805</u>
Total deposits	<u>\$ 395,873</u>	<u>\$ 373,603</u>

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Note 12: Deposits (Continued)

Noncurrent housing deposit additions were \$89,809 and \$134,000 for years ended June 30, 2006 and 2005, respectively. Noncurrent housing deposit deductions were \$145,853 and \$100,128 for years ended June 30, 2006 and 2005, respectively.

Note 13: Unrestricted Net Assets

The University's designations of unrestricted net assets consisted of:

	<u>2006</u>	<u>2005</u>
Unrestricted net assets		
Allocated for		
Prior year carryovers		
Renovation and maintenance	\$ 2,621,747	\$ 2,230,527
Departmental operations	10,481,159	8,644,032
Encumbrances	1,042,851	697,277
Working capital	2,959,990	2,673,297
Revenue contingency	2,690,984	2,498,013
General contingency	10,879,634	8,801,218
Self insurance	900,000	900,000
Total unrestricted net assets	<u>\$ 31,576,365</u>	<u>\$ 26,444,364</u>

Note 14: Component Units

Murray State University Foundation, Inc.

Murray State University Foundation, Inc. (Foundation) is a Kentucky nonprofit corporation formed to receive, invest, and expend funds for the enhancement and improvement of the University. It is a legally separate, tax-exempt component unit of the University that manages certain endowments and investments on behalf of the University. The Foundation has a Board of Trustees separate from that of the University; however, the President and certain other officers of the University are also officers of the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statement package.

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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, was \$64,648 and \$738,447, respectively. Accounts receivable from the Racer Foundation were \$422,163 and \$435,897 as of June 30, 2006 and June 30, 2005, respectively. Complete financial statements for the Racer Foundation can be obtained from the MSU Athletic Foundation Office, Stewart Stadium, Murray, Kentucky, 42071.

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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.

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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:

Fund Classification	Year Ended June 30, 2006						
	Natural Classification						Total
	Compensation and Benefits	Operations	Utilities	Non-capitalized Equipment	Scholarships	Depreciation	
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

Fund Classification	Year Ended June 30, 2005						
	Natural Classification						Total
	Compensation and Benefits	Operations	Utilities	Non-capitalized Equipment	Scholarships	Depreciation	
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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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		
Current assets	\$ 1,827,175	\$ 3,453,983
Noncurrent assets	19,743,778	2,599,923
Capital assets, net of accumulated depreciation	<u>8,712,989</u>	<u>9,974,190</u>
Total assets	<u>\$ 30,283,942</u>	<u>\$ 16,028,096</u>
Liabilities		
Current liabilities	\$ 1,941,267	\$ 6,616,423
Noncurrent liabilities	<u>25,443,731</u>	<u>10,670,852</u>
Total liabilities	<u>\$ 27,384,998</u>	<u>\$ 17,287,275</u>

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

Note 18: Segment Information (Continued)

Housing and Dining System - Condensed Balance Sheets (Continued)

	2006	2005
Net assets		
Invested in capital assets, net of related debt	\$ (970,023)	\$ (312,986)
Restricted		
Expendable capital	(1,538,418)	990,757
Expendable debt service	4,475,505	1,230,683
Unrestricted	931,880	(3,167,633)
Total net assets	<u>2,898,944</u>	<u>(1,259,179)</u>
Total liabilities and net assets	<u>\$ 30,283,942</u>	<u>\$ 16,028,096</u>

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

	2006	2005
Operating revenues	\$ 13,757,119	\$ 12,772,576
Operating expenses	(11,557,888)	(10,635,598)
Depreciation expense	(453,543)	(830,486)
Operating income	1,745,688	1,306,492
Nonoperating revenues (expenses)	2,412,435	(636,999)
Change in net assets	4,158,123	669,493
Net assets, beginning of year	(1,259,179)	(1,928,672)
Net assets, end of year	<u>\$ 2,898,944</u>	<u>\$ (1,259,179)</u>

Housing and Dining System - Condensed Statements of Cash Flows

	2006	2005
Cash flows from		
Operating activities	\$ 3,189,781	\$ 2,462,413
Noncapital financing activities	(2,627,502)	(1,373,178)
Capital and related financing activities	14,526,960	(1,182,680)
Investing activities	(1,957,411)	515,169
Net increase in cash	13,131,828	421,724
Cash, beginning of year	3,182,122	2,760,398
Cash, end of year	<u>\$ 16,313,950</u>	<u>\$ 3,182,122</u>

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

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		
Current assets	\$ 25,485	\$ 130
Noncurrent assets	1,152,698	1,376,075
Capital assets, net of accumulated depreciation	<u>10,018,652</u>	<u>10,018,905</u>
Total assets	<u>\$ 11,196,835</u>	<u>\$ 11,395,110</u>
Liabilities		
Current liabilities	\$ 73,494	\$ 39,620
Noncurrent liabilities	<u>9,910,000</u>	<u>10,000,000</u>
Total liabilities	<u>9,983,494</u>	<u>10,039,620</u>
Net assets		
Invested in capital assets, net of related debt	432,743	354,999
Restricted		
Expendable capital	531,641	818,643
Expendable debt service	262,731	184,069
Unrestricted	<u>(13,774)</u>	<u>(2,221)</u>
Total net assets	<u>1,213,341</u>	<u>1,355,490</u>
Total liabilities and net assets	<u>\$ 11,196,835</u>	<u>\$ 11,395,110</u>

Murray State University
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Notes to Financial Statements
June 30, 2006 and 2005

Note 18: Segment Information (Continued)

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

	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 56,259	\$ 48,067
Operating expenses	(574,515)	(268,235)
Depreciation	<u>(274,721)</u>	<u>(274,721)</u>
Operating income (loss)	<u>(792,977)</u>	<u>(494,889)</u>
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	<u>(454,860)</u>	<u>(455,045)</u>
Nonoperating revenues	<u>650,828</u>	<u>521,677</u>
Change in net assets	(142,149)	26,788
Net assets, beginning of year	<u>1,355,490</u>	<u>1,328,702</u>
Net assets, end of year	<u>\$ 1,213,341</u>	<u>\$ 1,355,490</u>

Wellness Center - Condensed Statement of Cash Flows

	<u>2006</u>	<u>2005</u>
Cash flows from		
Operating activities	\$ (543,407)	\$ (220,169)
Noncapital financing activities	367,867	190,826
Capital and related financing activities	(136,585)	(3,503,040)
Investing activities	<u>89,197</u>	<u>165,249</u>
Net decrease in cash	(222,928)	(3,367,134)
Cash, beginning of year	<u>1,037,761</u>	<u>4,404,895</u>
Cash, end of year	<u>\$ 814,833</u>	<u>\$ 1,037,761</u>

SUPPLEMENTARY INFORMATION

MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE STATE OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Grantor/Program Title	Pass Through Grant Agency	Pass Through Grant Number	Federal CFDA Number	Federal Expenditures
Student Financial Aid - Cluster				
Department of Education:				
SEOG Program			84.007	\$ 315,788
Federal Family Education Loan Program			84.032	23,949,000
Work-study Program			84.033	470,124
Perkins Student Loan Fund (includes current year advances and prior year loan balances)			84.038	5,033,713
Pell Grant Program			84.063	<u>6,311,671</u>
				<u>36,080,296</u>
Department of Health and Human Services:				
Student Nursing Loan Program			93.364	<u>520,545</u>
Total Student Financial Aid - Cluster				<u>\$ 36,600,841</u>
Research and Development - Cluster				
Department of Agriculture:				
Variable Rate Nitrogen Management	University of Kentucky Research Foundation	UKRF 4-71887-03-304	10.200	<u>\$ 7,516</u>
Department of Commerce:				
Determining Impacts of Aquatic Ecosystems of New Ionic Liquids	Notre Dame University	200945	11.460	17,852
NIST Summer Undergraduate Research Fellowship 2005			11.609	<u>1,323</u>
				<u>\$ 19,175</u>

MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE STATE OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Grantor/Program Title	Pass Through Grant Agency	Pass Through Grant Number	Federal CFDA Number	Federal Expenditures
United States Army Corps of Engineers:				
Waterfowl and Bald Eagle Ecology for Olmsted Lock and Dam 2005	Kentucky Department of Fish and Wildlife	M-04699231	12.114	\$ 2,501
Waterfowl and Bald Eagle Ecology for Olmsted Lock and Dam 2006	Kentucky Department of Fish and Wildlife	M-06008684	12.114	11,858
				<u>14,359</u>
Department of Defense:				
ARINC Land Analysis	ARINC Incorporated	169760	12.300	<u>5,514</u>
Department of Interior:				
Evaluation of Mussel Resources in Kentucky Dam Tailwater 2004			15.632	8,852
Assessment of Assemblages of Turtle Species at Select Locations in Western Kentucky	Kentucky Commerce Cabinet	M-04209462	15.634	(20)
Development and Immunity of Dragonfly Nymphs: Indicators of Water Quality	University of Kentucky Research Foundation	UKRF 4-64694-05-387	15.805	13,865
				<u>22,697</u>
Department of Justice - Homeland Security:				
Simulations of Catastrophic Events and Associated Emergency Response Planning	Eastern Kentucky University	EKU 05-343	16.560	144,065
Simulations of Catastrophic Events and Associated Emergency Response Planning - UK	Eastern Kentucky University	EKU 05-343	16.560	16,731
Man-Portable Tactical Operations Center	University of Louisville Research Foundation	ULRF 05-0941	16.560	10,000
Blast Mitigation and Armor Systems for Rail Transportation	Eastern Kentucky University	EKU 06-201 PALLONE	16.560	35,095
				<u>205,891</u>
Office of Personnel Management:				
MARC: Fort Campbell, Kentucky	U. S. Army, Fort Campbell, Kentucky	MIPR6RTLCMUR01	27.001	\$ 79,413

MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE STATE OF KENTUCKY
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YEAR ENDED JUNE 30, 2006

Grantor/Program Title	Pass Through Grant Agency	Pass Through Grant Number	Federal CFDA Number	Federal Expenditures
National Aeronautics and Space Administration:				
Exploring Enhanced Radiation Heat Transfer in Vacuum Using MEMS	Western Kentucky University Research Foundation	WKU 516171-06-02	WKU 516171-06-02	\$ 9,671
Development and Control of Mitebots	Western Kentucky University Research Foundation	WKU 516171-06-05	WKU 516171-06-05	8,411
Campus Objectives 05-06	Western Kentucky University Research Foundation	WKU 516171-06-20	WKU 516171-06-20	690
Robust Systems Using Evolvable Neural Nets	Western Kentucky University Research Foundation	WKURF 516140-05-13	WKURF 516140-05-13	10,276
				<u>29,048</u>
National Science Foundation:				
RUI: Inverse Spectral Problems in One and Two Dimensions			47.049	18,400
Mathematical Modeling of the Chemotherapy Immunotherapy and Vaccine Therapy	Harvey Mudd College	DMS-0414011	47.049	12,905
Biology and Mathematics in Population Studies			47.049	63,828
Probing Protein Based Molecular Recognition Through Computation and Stimulation	University of Mississippi	UM 06-08-007	47.049	9,267
Plio-Pleistocene Mammal Faunas and Environmental Change in Meade Basin			47.050	10,490
Biogeochemical and Ecological Processes			47.074	22,830
RUI: Collaborative Research on Mechanisms Underlying Salamander			47.074	77,477
Regulation of Neural Gene Expression By Glycosaminoglycans	University of Kentucky Research Foundation	UKRF 3046901800-06-4	47.076	7,414
				<u>222,611</u>
Tennessee Valley Authority:				
Kentucky 99 Project			62.001	3,648
Coliform Sampling in Kentucky Lake Year II and III			62.001	8,319
				<u>11,967</u>
Department of Veteran Affairs:				
SLC26A7 Knockout Mice			64.018	\$ 10,001

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YEAR ENDED JUNE 30, 2006

Grantor/Program Title	Pass Through Grant Agency	Pass Through Grant Number	Federal CFDA Number	Federal Expenditures
Environmental Protection Agency:				
Total Maximum Daily Load Development for the Clarks River Basin	Environmental and Public Protection Cabinet		66.419	\$ 165,200
Biological Baseline Conditions in the Little River Watershed	Environmental and Public Protection Cabinet	M-04103404	66.460	5,155
EPA Epscor - White			66.500	18,738
EPA Epscor - Whiteman			66.500	180
EPA Epscor - University of Louisville			66.500	123,672
				<u>312,945</u>
Department of Energy:				
Kentucky Research Consortium For Energy and Environment	University of Kentucky Research Foundation	UKRF 4-67380-04-247	81.092	30,009
Kentucky Research Consortium For Energy and Environment -Whiteman	University of Kentucky Research Foundation	UKRF304673800006251	81.092	7,957
				<u>37,966</u>
Department of Health and Human Services:				
Cardiac Na+ Channel Gating and Local Anesthetic Block			93.859	28,700
				<u>28,700</u>
Total Research and Development - Cluster				<u>\$ 1,007,803</u>
Public Works and Economic Development - Cluster				
Regional Center for Emerging Technology Building - EDA			11.300	\$ 236,913
Total Public Works and Economic Development - Cluster				<u>\$ 236,913</u>

MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE STATE OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Grantor/Program Title	Pass Through Grant Agency	Pass Through Grant Number	Federal CFDA Number	Federal Expenditures
WIA - Cluster				
Western Regional Center For Emerging Technology - West Kentucky Workforce	West Kentucky Workforce Investment Board	A060207	17.258	\$ 37,944
Workforce Connections 04-05	West Kentucky Workforce Investment Board	A05521	17.259	(5)
Career Discovery Center 04-05	West Kentucky Workforce Investment Board	A050200	17.260	600
Career Discovery Center 05-06	West Kentucky Workforce Investment Board	A060200	17.260	261,156
Total WIA - Cluster				\$ 299,695
Special Education - Cluster (IDEA)				
Special Education Traineeship 04-05	Northern Kentucky University		84.027	\$ 3,000
Special Education Alternative Certification Model Program	Kentucky Department of Education	M-04147430	84.027A	708
Special Education Alternative Certification Model Program 05-06	Kentucky Department of Education	M-05194979	84.027A	162,451
Special Education Traineeship 05-06	Northern Kentucky University		84.027A	117,322
Total Special Education - Cluster (IDEA)				\$ 283,481
TRIO - Cluster				
Student Support Services 03-04			84.042A	\$ (20)
Student Support Services 04-05			84.042A	35,983
Student Support Services 05-06			84.042A	188,995
Student Support Services 05-06 Grant Aid			84.042A	10,200
Educational Talent Search 03-04			84.044A	6,298
Educational Talent Search 04-05			84.044A	66,664

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A COMPONENT UNIT OF THE STATE OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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Grantor/Program Title	Pass Through Grant Agency	Pass Through Grant Number	Federal CFDA Number	Federal Expenditures
TRIO - Cluster (Continued)				
Educational Talent Search 05-06			84.044A	\$ 214,360
Upward Bound 04-05			84.047A	5,482
Upward Bound 05-06			84.047A	358,849
Upward Bound 06-07			84.047A	57,008
Upward Bound AIMS 03-04			84.047M	830
Upward Bound AIMS 04-05			84.047M	53,394
Upward Bound AIMS 05-06			84.047M	201,932
McNair Post-Baccalaureate 03-04			84.217A	18,689
McNair Post-Baccalaureate 04-05			84.217A	59,598
McNair Post-Baccalaureate 05-06			84.217A	148,383
Total TRIO - Cluster				\$ 1,426,645
Other				
Department of Agriculture:				
Enhancement of Diagnostic Services at MSU Breathitt Veterinary Center 05-06			10.025	\$ 151,375
Classical Swine Fever Surveillance			10.025	1,500
Creating a Geographic Information System for Land Between the Lakes Modification 6	Land Between The Lakes	01-CS-11086001-003	10.202	15,404
Creating a Geographic Information System for Land Between the Lakes Modification 8	Land Between The Lakes	01-CS-11086001-003	10.202	49,037
National Animal Health Laboratory Network - Kentucky			10.304	7,920
Rural Business Enterprise Grant 04-05	Kentucky Agriculture Rural Development	20-018-611005783	10.769	28,282
				\$ 253,518

MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE STATE OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Grantor/Program Title	Pass Through Grant Agency	Pass Through Grant Number	Federal CFDA Number	Federal Expenditures
Department of Justice:				
Kentucky State Police Spanish Language Refresher Course - Pro 9	Kentucky State Police	MOA No. OSP 2005-180	16.592	\$ 2,070
Spanish Language Immersion - Pro3C	Kentucky State Police	MOA No. OSP 2006-010	16.592	9,160
Bulletproof Vest Reimbursement			16.607	1,982
Reduce High Risk Drinking Among College Students Under 21	Morehead State University		16.727	4,000
				<u>17,212</u>
Federal Highway Administration:				
Buckle Up in Your Truck	Governor's Highway Safety Program		20.600	<u>1,097</u>
National Science Foundation:				
Project Access			47.076	71,973
Faculty Institutes for Reforming Science Teaching thru Field Stations II	University of Oregon	204621C	47.076	2,114
Computer Science, Engineering and Mathematics Scholarship Program (2004-08)			47.076	44,821
				<u>118,908</u>
Railroad Retirement Board:				
Spanish Language Immersion - Pro3A#1			57.001	1,380
Spanish Language Immersion - Pro3A#2			57.001	1,660
				<u>3,040</u>
Small Business Administration:				
Small Business Development Center 04-05	University of Kentucky Research Foundation	UKRF 4-68323-05-209	59.037	55,854
Small Business Development Center 05-06	University of Kentucky Research Foundation	UKRF 304697030006273	59.037	122,169
				<u>\$ 178,023</u>

MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE STATE OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Grantor/Program Title	Pass Through Grant Agency	Pass Through Grant Number	Federal CFDA Number	Federal Expenditures
Environmental Protection Agency:				
Kentucky Nonpoint Source Education For Landuse Development	Western Kentucky University Research Foundation	WKURF 541205-05-01	66.460	\$ 29,801
The Comprehensive Commonwealth Water Education Project	University of Louisville Research Foundation	ULRF G03-1016-06	66.460	7,259
Modeling Statewide Capacity Building Using Training of Environmental Education			66.951	11,461
Model Environmental Education for Secondary Preservice Teachers			66.951	5,646
				<u>54,167</u>
Department of Education:				
Perkins Title 1 Vocational Education Program 05-06	Workforce Investment Department	M-05123654	84.048	76,871
Improve Career and Technical Education Pre-Service Teacher Education Programs	Workforce Investment Department	M-05123654	84.048	23,702
Tech Prep: An Enhanced Learning Community	Workforce Investment Department	M-06082428	84.048	17,921
Professional Development Technical Assistance for Technical Education Teachers 2005-06	Workforce Investment Department	M-05123654	84.048	15,471
Perkins Title 1 Vocational Education Program 04-05	Kentucky Cabinet For Workforce Development	M-05014393	84.048	15,264
Professional Development Technical Assistance for Technical Education Teachers	Kentucky Cabinet For Workforce Development	M-05014393	84.048	9,082
West Kentucky Tech Prep 05-06	West Kentucky Technical College		84.048	4,915
Tech Prep Integration Project	Department for Workforce Investment	M-05121894	84.048	3,957
Perkins Carry-Forward Funds FY06	Workforce Investment Department	M-05123654	84.048	3,901
Improve Career and Technical Education Pre-Service Teacher Education Programs	Kentucky Cabinet For Workforce Development	M-05014393	84.048	2,568
Murray Independent Schools Tech Prep 05-06	Murray Independent Schools		84.048	2,199
Perkins Carry-Forward Funds	Department for Workforce Investment	M-05014393	84.048	684
Vocational Education: Professional Development	Kentucky Cabinet For Workforce Development	DBB0 2424 46204 102KK49	84.048	584
West Kentucky Consortium Tech Prep 04-05	West Kentucky Technical College	M-04226558	84.048	(149)
Project to Reduce High Risk Drinking Among College Students Under 21	Morehead State University		84.184	12
Funding Improvement of Education Award 2			84.215K	105,169
Funding Improvement of Education - University of Louisville			84.215K	47,695

MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE STATE OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Grantor/Program Title	Pass Through Grant Agency	Pass Through Grant Number	Federal CFDA Number	Federal Expenditures
Department of Education: (Continued)				
Funding Improvement of Education			84.215K	\$ 37,859
Funding Improvement of Education Award 2 - Western Kentucky University			84.215K	7,000
Funding Improvement of Education Award 2 - Northern Kentucky University			84.215K	6,271
Funding Improvement of Education Award 2 - University of Kentucky			84.215K	6,038
Funding Improvement of Education Award 2 - Morehead University			84.215K	5,115
Funding Improvement of Education Award 2 - Eastern Kentucky University			84.215K	3,368
Funding Improvement of Education Award 2 - University of Louisville			84.215K	1,752
Funding Improvement of Education Award 2 - Kentucky State University			84.215K	1,306
Funding Improvement of Education - Morehead University			84.215K	641
Teaching American History Opportunities For Educators (TAHOE) Year 2	West Kentucky Educational Cooperative	U215X030040	84.215X	2,120
Teaching American History Opportunities For Educators (TAHOE) Year 3	West Kentucky Educational Cooperative	S215X020268	84.215X	6,538
Teaching American History Opportunities For Educators(TAHOE II)	West Kentucky Educational Cooperative	U215X030040	84.215X	11,859
Teaching American History Opportunities For Educators (TAHOE PLUS)	West Kentucky Educational Cooperative	U215X050020	84.215X	7,884
Web Page Development for WKEC	West Kentucky Educational Cooperative	MOA No. OSP 2004-163	84.334	101
Gear Up Year V	Kentucky Council on Postsecondary Education	M-04576969	84.334S	149,024
Gear up 2 Year 1	Kentucky Council on Postsecondary Education	M-05508308	84.334S	52,810
Data Transfer Project	Western Kentucky University Research Foundation	WKURF 543604-04-09	84.336B	15,127
Teacher Quality Enhancement Year 1	Western Kentucky University Research Foundation	WKURF 543604-04-08	84.336B	1,791
Teacher Quality Enhancement Year 2	Western Kentucky University Research Foundation	WKURF 543604-05-21	84.336B	35,241
Data Transfer Project Year 2	Western Kentucky University Research Foundation	WKURF 543604-04-09	84.336B	52,132
Teacher Quality Enhancement Year 3	Western Kentucky University Research Foundation	WKURF 543604-06-40	84.336B	110,813
Reading First Coach 04-05	Kentucky Department of Education	M-04114072	84.357	2,680
Reading First Coach 05-06	Kentucky Department of Education	M-05104462	84.357	110,649

MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE STATE OF KENTUCKY
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Grantor/Program Title	Pass Through Grant Agency	Pass Through Grant Number	Federal CFDA Number	Federal Expenditures
Department of Education: (Continued)				
West Kentucky Math Alliance	Kentucky Department of Education	M-05256255	84.367	\$ 173,369
West Kentucky Partners in Math and Science: Tiered Mentoring Program	Kentucky Department of Education	M-04048004	84.367A	58,368
West Kentucky Partners in Math and Science: Tiered Mentoring Program Year 2	Kentucky Department of Education	M-04142895	84.367A	225,290
Develop Qualified Middle School Math and Science Teachers: Alternative Certifications	Kentucky Department of Education	M-04047868	84.367A	(443)
Develop Qualified Middle School Math and Science Teachers: Alternative Certifications: 2	Kentucky Department of Education	M-04138933	84.367A	98,467
West Kentucky Science Alliance Partnership	Kentucky Department of Education	M-05415226	84.367A	131,200
Modeling Watershed Year 3	Kentucky Council on Postsecondary Education	M-05032918	84.367B	63,834
Modeling Watershed Year 2: Morehead University	Kentucky Council on Postsecondary Education		84.367B	58,919
Spanish Immersion and Mentoring	Kentucky Council on Postsecondary Education	M-06046731	84.367B	57,731
Modeling Watershed Year 2: Eastern Kentucky University	Kentucky Council on Postsecondary Education		84.367B	51,673
Modeling Watershed Year 3: Eastern Kentucky University	Kentucky Council on Postsecondary Education	M-05032918	84.367B	41,193
Modeling Watershed Year 3: University of Louisville	Kentucky Council on Postsecondary Education	M-05032918	84.367B	37,538
Modeling Watershed Year 3: Northern Kentucky University	Kentucky Council on Postsecondary Education	M-05032918	84.367B	30,088
Modeling Watershed Year 3: Western Kentucky University	Kentucky Council on Postsecondary Education	M-05032918	84.367B	20,609
Modeling Watershed Year 2	Kentucky Council on Postsecondary Education		84.367B	13,067
Investigating Non-Point Source Pollution: Using Math and Science	Kentucky Council on Postsecondary Education	M-06003813	84.367B	10,150
Modeling Watershed Year 2: University of Kentucky	Kentucky Council on Postsecondary Education		84.367B	(20)
National Writing Project 04-05	University of California	92-KY05	84.928A	2,712
National Writing Project 05-06	University of California	92-KY05	84.928A	21,021
				<u>2,052,731</u>
Department of Health and Human Services:				
Area Health Education Center: Federal 04-05	University of Louisville	5U77HP03023-11-00	93.107	16,706
Area Health Education Center: Federal 05-06	University of Louisville	5U77 HP 03023-12-00	93.107	31,848

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A COMPONENT UNIT OF THE STATE OF KENTUCKY
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YEAR ENDED JUNE 30, 2006

Grantor/Program Title	Pass Through Grant Agency	Pass Through Grant Number	Federal CFDA Number	Federal Expenditures
Department of Health and Human Services: (Continued)				
Nurse Anesthetist Traineeships 05-06			93.124	\$ 4,091
HETC Kentucky Population 04-05	University of Louisville Research Foundation	5D39HP00007-15-0	93.189	9,058
Health Education Training Center 05-06	University of Louisville Research Foundation	5 D39 HP 00007-160	93.189	22,156
Kentucky Interdisciplinary Community Screening	University of Louisville Research Foundation	02-0762-5	93.192	928
OSHA: Program Improvement 05-06			93.262	76,759
OSHA: Combined Undergraduate and Graduate Training Program 04-05			93.263	2,119
Professional Nurse Traineeships			93.358	18,268
Training Resource Center: Educational Advocacy 04-05	Eastern Kentucky University	EKU 05-163	93.556	(203)
Kentucky Fatherhood Initiative	University of Kentucky Research Foundation	UKRF 4-69122-06-070	93.556	7,163
Kentucky Transitional Assistance Program 04-05	Cabinet for Health and Family Services	M-04208272	93.558	3,223
Kentucky Transitional Assistance Program 05-06	Cabinet for Health and Family Services	M-04208272	93.558	94,375
Ruby Simpson Center 05-06	Murray Independent Schools		93.600	5,720
Recruitment Response Team	Adoption Exchange Association/Adopt US Kids		93.652	(773)
Recruitment Response Team/Adopt US Kids	Adoption Exchange Association/Adopt US Kids		93.652	29,492
Masters in Social Work 04-05	Eastern Kentucky University	EKU 05-163	93.658	1
Masters in Social Work 05-06	Eastern Kentucky University	EKU 06-325	93.658	79,543
Training Resource Center: Foster Parent Training 04-05	Eastern Kentucky University	EKU 05-163	93.658	(37)
Training Resource Center: TITLE IV 05-06	Eastern Kentucky University	EKU 06-120	93.658	34,199
Training Resource Center: Resource Training Parent 05-06	Eastern Kentucky University	EKU 06-366	93.658	219,148
Public Child Welfare Certification Program 05-06	Eastern Kentucky University	EKU 06-297	93.658	6,350
Training Resource Center: Adoption Promotion and Support	Eastern Kentucky University	EKU 06-366	93.658	5,158
Public Child Welfare Certification Program Tuition 04-05	Eastern Kentucky University	EKU 05-163	93.658	855
Public Child Welfare Certification Program Tuition 05-06	Eastern Kentucky University	EKU 06-297	93.658	41,513

MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE STATE OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Grantor/Program Title	Pass Through Grant Agency	Pass Through Grant Number	Federal CFDA Number	Federal Expenditures
Department of Health and Human Services: (Continued)				
Training Resource Center Program Tuition 05-06	Eastern Kentucky University		93.658	\$ 64,575
Citizens Review Panel	University of Kentucky Research Foundation	UKRF 304691170006300	93.669	3,162
Kentucky Youth Connects 04-05	University of Kentucky Research Foundation	UKRF 4-6813-05-081	93.674	2,192
Kentucky Youth Connects 05-06	University of Kentucky Research Foundation	UKRF 4-69096-06-067	93.674	10,883
West Kentucky Dental Health Project Year 1			93.912	833
West Kentucky Dental Health Project Year 2			93.912	112,279
West Kentucky Dental Health Project Year 3			93.912	15,415
				<u>916,999</u>
Homeland Security:				
Kentucky Community Preparedness Program	Kentucky Justice and Public Safety Cabinet	M-04624979	2004-GE-T4-4011	<u>9,939</u>
National Aeronautics and Space Administration:				
West Kentucky Regional Moonbuggy Competition	Western Kentucky University Research Foundation	WKU 516171-06-15	WKU 516171-06-15	7,380
Teacher Workshop: Satellite Remote Sensing and Geographic Information System	Western Kentucky University Research Foundation	WKURF 516107-04-17	WKURF 516107-04-17	(47)
				<u>7,333</u>
The United States Agency For International Development:				
English Language Teacher Cohort Initiative	Association Liaison Office	HNEA009070005900	HNEA009070005900	<u>29,093</u>
Total Other				<u>\$ 3,642,060</u>
Total Federal Expenditures				<u><u>\$ 43,497,438</u></u>

Murray State University
A Component Unit of the State of Kentucky
Notes to Schedule of Expenditures of Federal Awards
June 30, 2006

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

1. This schedule includes the federal awards activity of the University and is presented in conformity with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, the amounts presented in this schedule may differ from the presentation of those amounts or their use within the basic financial statements.
2. Of the federal expenditures presented in this schedule, the University provided federal awards to subrecipients as follows:

Program	CFDA Number	Subrecipient	Amount Provided
National Science Foundation			
Collaborative Research on Mechanisms Underlying Salamander Population Fluctuations	47.074	Rocky Mountain Biological Laboratory	\$ 27,177
U. S. Department of Justice			
Simulations of Catastrophic Events Associated with Emergency Response Planning	16.56	University of Kentucky	16,731
Environmental Protection Agency			
EPA Epscor	66.5	University of Louisville	123,672
U.S. Department of Education			
Funding Improvement of Education	84.215K	University of Louisville	47,695
Funding Improvement of Education	84.215K	Morehead State University	641
Funding Improvement of Education 2	84.215K	Eastern Kentucky University	3,368
Funding Improvement of Education 2	84.215K	Kentucky State University	1,306
Funding Improvement of Education 2	84.215K	Morehead State University	5,115
Funding Improvement of Education 2	84.215K	Northern Kentucky University	6,271
Funding Improvement of Education 2	84.215K	University of Louisville	1,752
Funding Improvement of Education 2	84.215K	University of Kentucky	6,038
Funding Improvement of Education 2	84.215K	Western Kentucky University	7,000

Murray State University
A Component Unit of the State of Kentucky
Notes to Schedule of Expenditures of Federal Awards
June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

Program	CFDA Number	Subrecipient	Amount Provided
Modeling Watershed - Improving Educator Quality Grant Year 2	84.367B	University of Kentucky	\$ (20)
Modeling Watershed - Improving Educator Quality Grant Year 2	84.367B	Morehead State University	58,919
Modeling Watershed - Improving Educator Quality Grant Year 2	84.367B	Eastern Kentucky University	51,673
Modeling Watershed - Improving Educator Quality Grant Year 3	84.367B	Eastern Kentucky University	41,193
Modeling Watershed - Improving Educator Quality Grant Year 3	84.367B	Northern Kentucky University	30,088
Modeling Watershed - Improving Educator Quality Grant Year 3	84.367B	University of Louisville	37,538
Modeling Watershed - Improving Educator Quality Grant Year 3	84.367B	Western Kentucky University	<u>20,609</u>
Total			<u>\$ 486,766</u>

Note 2. Facilities and Administrative Cost Rates

Predetermined fixed facilities and administrative cost rates have been approved as follows:

Period covered	07/01/05-06/30/10
Based on financial information for fiscal year	1992
Predetermined rate – on campus	47%
Predetermined rate – off campus	23%

These rates are applied to direct salaries and wages, excluding all fringe benefit costs, for on-campus programs.

Supplementary Information



**Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance with
Government Auditing Standards**

Board of Regents
Murray State University
Murray, Kentucky

We have audited the financial statements of Murray State University (University) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 8, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Regents
Murray State University
Page 2

This report is intended solely for the information and use of the board of regents, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

September 8, 2006



Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs

Board of Regents
Murray State University
Murray, Kentucky

Compliance

We have audited the compliance of Murray State University (University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the compliance of the University based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.


Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of regents, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

September 8, 2006

Murray State University
A Component Unit of the State of Kentucky
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Summary of Auditor's Results

1. The opinion expressed in the independent accountants' report was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

 2. The independent accountants' report on internal control over financial reporting described:
Reportable condition(s) noted considered material weakness(es)? ☐ Yes ☒ No
Reportable condition(s) noted that are not considered to be a material weakness? ☐ Yes ☒ No

 3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

 4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
Reportable condition(s) noted considered material weakness(es)? ☐ Yes ☒ No
Reportable condition(s) noted that are not considered to be a material weakness? ☐ Yes ☒ No

 5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

 6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No
-

Murray State University
A Component Unit of the State of Kentucky
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2006

7. The University's major programs were:

Cluster/Program	CFDA Number
Student Financial Aid	84.007; 84.032; 84.033; 84.038; 84.063; 93.364
TRIO	84.042; 84.044; 84.047; 84.217

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$1,304,923.

9. The University qualified as a low-risk auditee as that term is defined in OMB Circular A-133?

☒ Yes

☐ No

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	Questioned Costs
No matters are reportable.		

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
No matters are reportable.		

Murray State University
A Component Unit of the State of Kentucky
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2006

Reference Number	Summary of Finding	Status
05-01	<p>CFDA No. 84.063, Federal Pell Grant Program, U.S. Department of Education, Program Year 2005</p> <p>Criteria or specific requirement – Special tests and provisions.</p> <p>Condition – Title IV Returns were not returned within 30 days after student withdrawal from the University.</p> <p>Context – From a sample of 30 students who withdrew from the University, eight did not have Title IV Returns returned within the 30 day requirement.</p> <p>Effect – The granting agency did not receive Title IV Returns on a timely basis.</p> <p>Cause – Student Loan Specialist did not comply with Title IV Returns requirements due to increased work load and additional responsibilities.</p> <p>Recommendation – The University has taken corrective action by re-assigning duties to other personnel and educating new personnel as to student financial aid guidelines and requirements. Management should continue to monitor the Title IV Returns process more closely.</p> <p>Views of responsible officials and planned corrective actions – Management concurs with the finding and recommendation. Management has performed the suggested recommendations and has made the appropriate changes.</p>	Resolved

**Murray State University
WKMS-FM Radio**

Accountants' Report and Financial Statements

June 30, 2006 and 2005





**Murray State University
WKMS-FM Radio**

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Regents
Murray State University
Murray, Kentucky

We have audited the accompanying basic financial statements of WKMS-FM Radio (Station), a public telecommunications entity operated by Murray State University, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Stations's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 the Station as of June 30, 2006 and 2005, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis, as listed in the table of contents, are not a required part of the basic financial statements but are 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.

November 7, 2006

BKD, LLP

Murray State University
WKMS-FM Radio
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 WKMS-FM Radio Station (Station) for the years ended June 30, 2006 and 2005. 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 Station is located on the campus of Murray State University (University). WKMS broadcasts National Public Radio and local programs that inform, enrich, and entertain in concert with the mission of the University. WKMS skilled staff, students, and volunteers serve listeners with comprehensive music and information programs that reflect current affairs, history, and cultures.

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.

Balance Sheets

The Balance Sheets present a financial picture of the Station'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 (assets less liabilities).

Assets

Total assets at the end of the fiscal year 2006 were \$723,377, of which cash and cash equivalents represented the largest portion. This group of assets totaled \$576,644 or 80% of total assets. For 2006, total assets increased by \$28,854, primarily due to increased cash from business and industry underwriting revenues.

Total assets increased by \$193,871 for the year ended June 30, 2005, due to increased cash from nonoperating grants and fundraising activities.

Liabilities

Total liabilities at the end of the fiscal year 2006 were \$93,665. Amounts payable to vendors and for payroll related obligations totaled \$45,566 or 48% of total liabilities. For 2006, total liabilities decreased by \$51,227, due to a decrease in payables of \$43,759 primarily from the digital equipment project and a decrease of \$22,509 owed to the University for cash flow purposes.

Liabilities for the year ended June 30, 2005 increased by \$108,250, due to an increase in payables of \$64,000 from the digital equipment project and an increase of \$43,000 owed to the University for cash flow purposes.

Murray State University
WKMS-FM Radio
Management's Discussion and Analysis

Net Assets

Net assets were \$629,712 and were divided into three major categories, defined as follows:

- Invested in capital assets, net of related debt and depreciation - This category represents the Station's equity in equipment.
- Restricted - This category represents those assets restricted by an individual or entity external to the Station. Restricted expendable net assets represent the assets that may be expended by the Station, but must be spent for purposes as defined by the donor or external entity.
- Unrestricted - This category represents the net assets held by the Station that have no formal restrictions placed upon them.

Condensed Balance Sheets

	2006	2005	2004
Assets:			
Current assets	\$272,555	\$212,757	\$146,688
Noncurrent assets	387,270	416,679	352,762
Capital assets	63,552	65,087	1,202
Total assets	<u>\$723,377</u>	<u>\$694,523</u>	<u>\$500,652</u>
Current liabilities	<u>\$93,665</u>	<u>\$ 144,891</u>	<u>\$ 36,641</u>
Net assets:			
Invested in capital assets, net of related debt and depreciation	63,552	65,087	1,202
Restricted for:			
Expendable:			
Instruction and other	357,005	330,954	349,969
Capital	16,205	23,036	-
Unrestricted	192,950	130,555	112,840
Total net assets	<u>629,712</u>	<u>549,632</u>	<u>464,011</u>
Total liabilities and net assets	<u>\$723,377</u>	<u>\$694,523</u>	<u>\$500,652</u>

Murray State University

WKMS-FM Radio

Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets

The Statements of Revenues, Expenses, and Changes in Net Assets, which are generally referred to as the activities statements, present the total revenues (operating and nonoperating) received and earned and expenses (operating and nonoperating) paid and owed and income or loss from operations for the fiscal years ended June 30, 2006 and 2005.

Revenues

Total operating revenues, which exclude University appropriations, for the fiscal year 2006 were \$143,677. The primary source of operating revenues was from business and industry underwriting of \$90,977.

Nonoperating revenues for the fiscal year 2006 which included grants and contracts, totaled \$857,026. The primary source of grant revenues was community service grants from the Corporation for Public Broadcasting. Grant and contract revenues related to nonexchange type agreements are classified as nonoperating revenues. In a nonexchange agreement, the Station receives dollars from another party without directly giving a service or product of equal value in exchange. Total nonoperating revenues decreased by \$51,376 during the year, which was primarily due to decreased funds from CPB for the digital equipment project in 2005.

The Station received \$329,940 of University appropriations and \$184,082 of administrative support for the fiscal year 2006, which are classified as nonoperating revenues. These funds were used to support Station operating activities.

Expenses

Total operating expenses for the fiscal year 2006 were \$920,623. Total program services expenses and supporting services expenses were \$477,224 and \$433,007, respectively. Depreciation expense was not allocated to each program group, but presented as a single expense item representing depreciation for all areas of the Station. Depreciation expense totaled \$10,392 or 1% of total operating expenses.

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

	2006	2005	2004
Operating revenues:			
Business and industry	\$ 90,977	\$ 66,122	\$ 64,740
In-kind contributions	39,052	29,393	32,605
Other	13,648	13,786	11,534
Total operating revenues	<u>143,677</u>	<u>109,301</u>	<u>108,879</u>
Operating expenses:			
Program services	477,224	512,071	469,738
Supporting services	433,007	407,961	378,080
Depreciation	10,392	12,050	1,938
Total operating expenses	<u>920,623</u>	<u>932,082</u>	<u>849,756</u>
Operating loss	<u>(776,946)</u>	<u>(822,781)</u>	<u>(740,877)</u>

**Murray State University
WKMS-FM Radio
Management's Discussion and Analysis**

Condensed Statements of Revenues, Expenses, and Changes in Net Assets (Continued)

	2006	2005	2004
Nonoperating revenues (expenses):			
General appropriations from Murray State University	\$ 329,940	\$ 302,829	\$ 298,400
Donated facilities and administrative support from Murray State University	184,082	175,292	162,702
Community service grants from Corporation for Public Broadcasting	169,246	254,329	174,490
Other nonoperating revenues (expenses)	173,758	175,952	184,571
Total nonoperating revenues (expenses)	<u>857,026</u>	<u>908,402</u>	<u>820,163</u>
Increase in net assets	80,080	85,621	79,286
Net assets - beginning of year	<u>549,632</u>	<u>464,011</u>	<u>384,725</u>
Net assets - end of year	<u>\$ 629,712</u>	<u>\$ 549,632</u>	<u>\$ 464,011</u>

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 Station's cash receipts and payments during the years and to help assess the Station's ability to generate future net cash flows and meet obligations as they become due.

The major source of cash from operating activities was business and industry underwriting of \$89,790. The most significant uses of cash for operating activities were payments for salaries, wages, and benefits of \$479,484 and to vendors for \$268,168.

The cash flows from noncapital financing activities include \$329,940 received as general appropriations from the University, which is the largest source of cash for the fiscal year.

The cash flows from investing activities represent the cash activities of investments related to restricted investments.

**Murray State University
WKMS-FM Radio
Management's Discussion and Analysis**

Capital Assets and Debt Administration

The Station had no significant capital additions to facilities and did not acquire any debt during the fiscal year ended June 30, 2006. For the year ended June 30, 2005, the Station initiated a project converting analog equipment to digital. As a part of this project, approximately \$75,000 in new equipment was acquired.

Economic Factors Affecting Future Periods

- The Corporation for Public Broadcasting has changed its rules regarding qualification for grants and policies regarding the spending of appropriated funds. Future year grant receipts may decrease as a result of these changes.
- Changing economic conditions in the region will continue to have an impact upon the underwriting and fundraising efforts of the Station.

Contacting the Station's Financial Management

This financial report is designed to provide a general overview of the Station's finances and to show the Station's accountability for the money it receives. Additional details can be requested by mail at the following address:

WKMS Radio Station
Kate Lochte, Station Manager
Murray State University
P.O. Box 9
Murray, Kentucky 42071

Murray State University

WKMS – FM Radio

Balance Sheets

June 30, 2006 and 2005

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 189,374	\$ 128,813
Accounts receivable, net of allowance of \$9,215 2006 and 2005	63,628	70,241
Prepaid expenses	19,553	13,703
Total current assets	<u>272,555</u>	<u>212,757</u>
Noncurrent assets:		
Restricted cash and cash equivalents	387,270	415,094
Restricted investments	-	1,585
Capital assets	378,041	369,184
Accumulated depreciation	(314,489)	(304,097)
Total noncurrent assets	<u>450,822</u>	<u>481,766</u>
Total assets	<u>\$ 723,377</u>	<u>\$ 694,523</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 93,665	\$ 135,175
Deferred revenue	-	9,716
Total liabilities	<u>93,665</u>	<u>144,891</u>
NET ASSETS		
Invested in capital assets, net of related debt and depreciation	63,552	65,087
Restricted for:		
Expendable:		
Instruction and other	357,005	330,954
Capital	16,205	23,036
Unrestricted	192,950	130,555
Total net assets	<u>629,712</u>	<u>549,632</u>
Total liabilities and net assets	<u>\$ 723,377</u>	<u>\$ 694,523</u>

Murray State University

WKMS – FM Radio

Statements of Revenues, Expenses and Changes in Net Assets Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Operating revenues:		
Business and industry	\$ 90,977	\$ 66,122
In-kind contributions	39,052	29,393
Tower rental income	8,550	12,350
Other	5,098	1,436
Total operating revenues	<u>143,677</u>	<u>109,301</u>
EXPENSES		
Operating expenses:		
Program services:		
Programming and production	355,870	322,120
Broadcasting	95,775	170,683
Program information	25,579	19,268
Total program services	<u>477,224</u>	<u>512,071</u>
Supporting services:		
Management and general	336,922	319,720
Fund-raising	51,001	47,893
Underwriting and grant support	45,084	40,348
Total supporting services	<u>433,007</u>	<u>407,961</u>
Depreciation	<u>10,392</u>	<u>12,050</u>
Total operating expenses	<u>920,623</u>	<u>932,082</u>
Operating loss	<u>\$ (776,946)</u>	<u>\$ (822,781)</u>

Murray State University
WKMS – FM Radio
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
NONOPERATING REVENUES (EXPENSES)		
General appropriation from Murray State University	\$ 329,940	\$ 302,829
Donated facilities and administrative support from Murray State University	184,082	175,292
Community service grants from Corporation for Public Broadcasting	169,246	254,329
Subscriptions and memberships	173,864	176,507
Gifts	729	1,344
Investment income (loss)	<u>(835)</u>	<u>(1,899)</u>
Net nonoperating revenues	<u>857,026</u>	<u>908,402</u>
 Increase in net assets	 <u>80,080</u>	 <u>85,621</u>
 NET ASSETS		
Net assets, beginning of year	<u>549,632</u>	<u>464,011</u>
 Net assets, end of year	 <u>\$ 629,712</u>	 <u>\$ 549,632</u>

See Notes to Financial Statements

Murray State University
WKMS – FM Radio
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities		
Business and industry	\$ 89,790	\$ 64,496
Payments for salaries, wages, and benefits	(479,484)	(436,528)
Payments to suppliers	(268,168)	(214,428)
Tower rental income receipts	8,550	12,350
Other operating revenues	<u>5,098</u>	<u>1,436</u>
Net cash used in operations	<u>(644,214)</u>	<u>(572,674)</u>
Cash Flows from Capital Financing Activities		
Purchases of capital assets	<u>-</u>	<u>(75,935)</u>
Cash Flows from Noncapital Financing Activities		
General appropriation from Murray State University	329,940	302,829
Nonoperating grants and contracts	169,240	254,335
Subscriptions/memberships	176,292	176,197
Gifts	<u>729</u>	<u>1,344</u>
Net cash provided by noncapital financing	<u>676,201</u>	<u>734,705</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	-	69,017
Investment income (loss)	<u>750</u>	<u>(1,899)</u>
Net cash provided by investing activities	<u>750</u>	<u>67,118</u>
Net increase in cash and cash equivalents	32,737	153,214
Cash and cash equivalents, beginning of year	<u>543,907</u>	<u>390,693</u>
Cash and cash equivalents, end of year	<u>\$ 576,644</u>	<u>\$ 543,907</u>

Murray State University
WKMS – FM Radio
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<i>Reconciliation of operating loss to net cash used in operating activities</i>		
Operating loss	\$ (776,946)	\$ (822,781)
Donated facilities and administration	184,082	175,292
Depreciation	10,392	12,050
Changes in assets and liabilities:		
Accounts receivable, net	7,090	(44,315)
Prepaid expenses	(5,850)	(1,170)
Accounts payable	(45,152)	108,031
Accrued compensation	(698)	1,287
Deferred revenue	<u>(17,132)</u>	<u>(1,068)</u>
Net cash used in operating activities	<u>\$ (644,214)</u>	<u>\$ (572,674)</u>
<i>Supplemental cash flows information</i>		
Donated facilities and administrative support from Murray State University	<u>\$ 184,082</u>	<u>\$ 175,292</u>
In-kind contributions	<u>\$ 39,052</u>	<u>\$ 29,393</u>

See Notes to Financial Statements

Murray State University

WKMS - FM Radio Notes to Financial Statements June 30, 2006 and 2005

Note 1. Summary of Significant Accounting Policies

Nature of Organization

WKMS – FM (Station) is operated by and receives support from Murray State University (University). The Station is included in the financial statements of the University.

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 is a fund raising organization which administers certain funds on behalf of the University. The Foundation coordinates the receipt of contributions and disbursements of those receipts by the Station.

Basis of Accounting and Financial Statement Presentation

The Station 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 Station is considered a special-purpose government engaged only in business-type activities. Accordingly, the Station'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.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Station 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 Station considers all highly liquid investments that are immediately available to the Station to be cash equivalents. Funds held by the Commonwealth of Kentucky are considered cash equivalents.

Restricted Cash, Cash Equivalents, and Investments

Cash and investments that are held by both the Station and the Foundation that are externally restricted are classified as restricted assets. These assets are used to purchase capital or other noncurrent assets, or for other restricted purposes. Restricted investments held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

Murray State University

WKMS - FM Radio Notes to Financial Statements June 30, 2006 and 2005

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable consist of business and industry and subscription and membership activities. Accounts receivable are recorded net of uncollectible amounts.

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. 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 Station:

<u>Asset</u>	<u>Estimated Life</u>
Buildings	40 years
Equipment	5-15 years

Deferred Revenue

Deferred revenues include amounts received from grant and contract sponsors for which eligibility requirements have not been fully satisfied or that have not yet been earned.

Net Assets

The Station's net assets are classified as follows:

Invested in capital assets, net of related debt and depreciation: This represents the Station'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 Station is legally or contractually obligated to spend in accordance with time or purpose restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from underwriting sales and other sources. These resources are used for transactions relating to general operations of the Station, and may be used at the discretion of the governing board to meet current expenses or for any purpose.

Murray State University

WKMS - FM Radio

Notes to Financial Statements

June 30, 2006 and 2005

Note 1. Summary of Significant Accounting Policies (Continued)

Classification of Revenues

The Station 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) business and industry underwriting, (2) in-kind contribution revenues, and (3) tower equipment rentals and other.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions. In a nonexchange transaction, the Station receives value without directly giving equal value back, such as a gift or grant for which there is no return requirement. Additionally, certain significant revenues relied upon for operations, such as state appropriations, donated facilities and administrative support from the University and investment income are recorded as nonoperating revenues, in accordance with GASB No. 35.

Pledges and Contributions

The Station engages in periodic fundraising campaigns evidenced by on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to the Station for enhancement of program offerings and other operating expenses. Financial contributions are frequently made by pledges received from responding listeners. Contributions including unconditional promises to give and membership receipts are recognized as revenue in the period received or given. However, uncollected pledges are not enforceable against contributors. An allowance for uncollectible contributions receivable is provided based upon the Station's judgment including such factors as prior collection history and type of contribution. Contributions and collected pledges are components of nonoperating revenues.

Indirect Administrative Support

The portion of the University's indirect costs attributable to the Station's operations and the value of space provided to the Station by the University are included as revenues and expenses, and are computed in accordance with guidelines established by the Corporation for Public Broadcasting. Total donated facilities and administrative support from the University and in-kind contributions received in the years ended June 30, 2006 and 2005 was \$223,134 and \$204,685, respectively.

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.

Murray State University

WKMS - FM Radio Notes to Financial Statements June 30, 2006 and 2005

Note 1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

Financial statements prepared in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Note 2. Accounts Receivable

Accounts receivable consisted of:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Business and industry	\$ 35,027	\$ 15,800
Subscription and membership pledges	16,566	18,994
CPB grants	21,250	43,754
Other	-	908
Allowance for doubtful accounts	<u>(9,215)</u>	<u>(9,215)</u>
Investment pool	<u>\$ 63,628</u>	<u>\$ 70,241</u>

Note 3. Deposits and Investments

Deposits

For administrative purposes, cash balances of the Station are included in bank accounts maintained by the University and the Foundation. Details of accounting transactions affecting cash are maintained by each entity. At June 30, 2006 and June 30, 2005, the carrying amounts of the Station's deposits were \$576,644 and \$543,907 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.

Murray State University

WKMS - FM Radio

Notes to Financial Statements

June 30, 2006 and 2005

Note 3. Deposits and Investments (Continued)

The University also maintains cash deposits with the Commonwealth of Kentucky, as overseen by the State Investment Commission (the Commission). The Commission is charged with the oversight of the Commonwealth's investment programs pursuant to KRS 42.500. The Commonwealth's investments are categorized into four distinct classifications or "pools". The Short-Term Pool consists primarily of General Fund cash balances and provides liquidity for the remaining pools. The Intermediate-Term Pool represents Agency Fund investments, state held component unit and fiduciary fund accounts held for the benefit of others by the state. The Long-Term Pool invests the Budget Reserve Trust Fund account and any other funds deemed appropriate for the pool where liquidity is not a serious concern. The remaining fund is the Bond Proceeds Pool where capital construction bond proceeds are invested until expended for their intended purpose. Shares of the pool represent a divisible interest in the underlying securities and are not federally insured or guaranteed by the U.S. Government, FDIC, or any federal agency. The pools have not been approved by the Securities and Exchange Commission. The University's shares within the pools may indirectly expose it to risks associated with fixed income investments; however, specific information about any such transactions is not available to the University.

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

Deposits as presented in the balance sheet captions include:

	2006	2005
Current cash and cash equivalents	\$ 189,374	\$ 128,813
Restricted cash and cash equivalents	<u>387,270</u>	<u>415,094</u>
Total deposits	<u>\$ 576,644</u>	<u>\$ 543,907</u>

Murray State University

WKMS - FM Radio Notes to Financial Statements June 30, 2006 and 2005

Note 3. Deposits and Investments (Continued)

Investments

Investments consisted of:

	June 30, 2006 Fair Value	June 30, 2005 Fair Value
Restricted assets held by Murray State University Foundation	\$ -	\$ 1,585
Total investments	\$ -	\$ 1,585

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2006, was:

	Balance June 30, 2005	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2006
Equipment	\$ 369,184	\$ 8,857	\$ -	\$ -	\$ 378,041
Total capital assets before depreciation	369,184	8,857	-	-	378,041
Less accumulated depreciation	304,097	10,392	-	-	314,489
Capital assets, net	\$ 65,087	\$ (1,535)	\$ -	\$ -	\$ 63,552

Murray State University

WKMS - FM Radio Notes to Financial Statements June 30, 2006 and 2005

Note 4. Capital Assets (Continued)

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

	Balance June 30, 2004	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2005
Equipment	\$ 298,387	\$ 75,935	\$ -	\$ (5,138)	\$ 369,184
Total capital assets before depreciation	298,387	75,935	-	(5,138)	369,184
Less accumulated depreciation	297,185	12,050	-	(5,138)	304,097
Capital assets, net	<u>\$ 1,202</u>	<u>\$ 63,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,087</u>

Note 5. Nonfederal Financial Support (NFFS)

The Corporation for Public Broadcasting (CPB) allocates a portion of its funds annually to public broadcasting entities, primarily based on non-federal financial support (NFFS). NFFS is defined as the total value of cash and the fair market value of property and services received as either a contribution or a payment and meeting all of the respective criteria of each.

A "contribution" is cash, property, or services given to a public broadcasting entity for general operating purposes. Support received as a contribution by a public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source may be an entity except the federal government or any other public broadcasting entity; (2) the contribution may take the form of a gift, grant, bequest, donation, or appropriation; (3) the purpose must be for the construction or operation of a noncommercial, educational public broadcast station or for the production, acquisition, distribution or dissemination of educational public broadcast television or radio program and related activities; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcast station.

Murray State University

WKMS - FM Radio

Notes to Financial Statements

June 30, 2006 and 2005

Note 5. Nonfederal Financial Support (NFFS) (Continued)

A "payment" is cash, property or services received by a public broadcasting entity from specific sources in exchange for specific services or materials. Support received as a payment by a public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source must be a state, any agency or political subdivision of a state, an educational institution or organization or a nonprofit entity; (2) the form of the payment must be appropriations or contract payments in exchange for specific services or materials; (3) the purpose must be for any related activity of the public broadcast station; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcast station.

Reported NFFS for the Station were \$826,125 and \$747,487 for the years ended June 30, 2006 and June 30, 2005, respectively.

Note 6. Community Service Grants (CSGs)

The Station receives a Community Service Grant (CSG) from the Corporation for Public Broadcasting annually. The CSG's awarded and expended during the recent three fiscal years were as follows:

Year of Grant	Grant Awards	Expended			Uncommitted Balance
		6/30/2006	6/30/2005	6/30/2004	
2003-05	\$ 158,035	\$ -	\$ 95,453	\$ 62,582	\$ -
2004-06	\$ 158,580	\$ 88,215	\$ 37,917	\$ -	\$ 32,448
2005-07	\$ 148,900	\$ 46,021	\$ -	\$ -	\$ 102,879

Murray State University

WKMS - FM Radio

Notes to Financial Statements

June 30, 2006 and 2005

Note 7. Natural Expense Classifications

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

	Program Services	Management & General	Fundraising & Membership	Total	
				6/30/2006	6/30/2005
Compensation and benefits	\$ 269,991	\$ 117,627	\$ 90,168	\$ 477,786	\$ 437,818
Operating expenses	207,233	219,295	5,917	432,445	477,035
Noncapitalized equipment	-	-	-	-	5,179
Subtotal - Functional expenses	477,224	336,922	96,085	910,231	920,032
Depreciation	10,392	-	-	10,392	12,050
Total expenses	\$ 487,616	\$ 336,922	\$ 96,085	\$ 920,623	\$ 932,082

Note 8: Lease Agreement

The Station leased its subcarrier channel and certain transmission equipment to an unrelated party under an operating lease agreement having a two-year term which ended June 30, 2006.



Independent Accountants' Report

Board of Regents
Murray State University
Murray, Kentucky

We have examined management's assertion that WKMS-FM Radio (Station), a public broadcasting entity operated by Murray State University, complied with the Corporation for Public Broadcasting's (CPB) fiscal year 2006 *Financial Reporting Guidelines* governing the amounts reported in the attached Schedule of Nonfederal Financial Support during the year ended June 30, 2006. Management is responsible for the compliance of the Station with those requirements. Our responsibility is to express an opinion on the compliance of the Station based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Station's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Station's compliance with specified requirements.

In our opinion, the Station complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2006.

This report is intended solely for the information and use of the board of regents, management of Murray State University and the CPB and is not intended to be and should not be used by anyone other than these specified parties.

November 9, 2006

BKD, LLP

Murray State University
WKMS-FM Radio
Corporation for Public Broadcasting
Schedule of Nonfederal Financial Support
Year Ended June 30, 2006

	<u>2006</u>
Schedule A – Direct Revenue	\$ 626,977
Schedule B – Indirect Administrative Support Provided by Licensee	166,013
Schedule C – In-kind Contributions of Services and Other Assets	33,135
Schedule D – In-kind Contributions of Property and Equipment	<u> </u>
Total nonfederal financial support	\$ <u>826,125</u>

RESOLUTION AND ORDER


WHEREAS, there is a structure known as Building #143 located at 907 Waldrop, and

WHEREAS, the Administration of Murray State University has made written request that the Board of Regents authorize the disposition of the above mentioned structure, and

WHEREAS, said building should, in the judgment of this Board of Regents, pursuant to its duties and functions set out in KRS 164A.575(7), be sold or razed as the structure is not needed and the property on which it is located will then be more suitable for public use.

NOW, THEREFORE, it is hereby determined that said building be disposed of, in the manner deemed in the best interest of the University by the Interim President, for the reasons as indicated above and in the recommendation of the Administration and the background thereto.

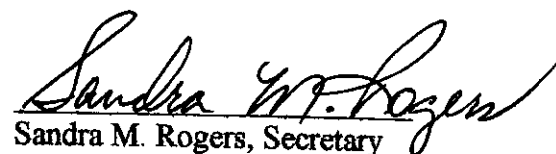
THIS, the 8th day of December, 2006.


Marilyn Buchanon, Chair
Board of Regents
Murray State University

Certification

I, Sandra M. Rogers, Secretary of the Board of Regents of Murray State University, hereby certify that the above resolution was adopted by the Board of Regents at its meeting held on December 8, 2006.

Witness my hand and seal, this 8th day of December, 2006.


Sandra M. Rogers, Secretary
Board of Regents
Murray State University
Murray, KY 42071

MURRAY STATE UNIVERSITY**BUDGET PREPARATION GUIDELINES****FY 07/08****December 8, 2006****REVENUE INCREASES****Appropriations:**

For the fiscal year ended June 30, 2007, Murray State University will receive a 5.1 percent in its net base appropriation. The Budget of the Commonwealth provides \$68 million in FY 07-08 for Higher Education which represents a 6.4 percent system-wide increase of net appropriations excluding debt service. Of that amount, Murray State would receive \$2,699,200, a 5.1 percent increase in net appropriations.

Tuition:

The Council for Postsecondary Education (CPE) has recently reasserted an active role in tuition rate setting for the public universities and will have the final word on approving changes in tuition rates for each of the institutions for the 2006-08 Biennium. Each university will make a formal presentation of its tuition rate proposal for 2007-08 at a public hearing in Frankfort in January. The CPE is strongly encouraging the public universities to set aside a portion of new tuition revenues resulting from rate increases to help fund need based scholarships. Of the \$62 million in gross tuition for 2006-07, the University budgeted scholarships and waivers of \$24 million. Therefore, only 62 percent of the gross tuition was budgeted for university operations.

EXPENDITURE PRIORITIES**1. Fixed Costs:**

Certain unavoidable or mandated costs will increase and these increased costs will have to be funded. Examples include utilities, maintenance contracts, technology upgrades, and health, property, and liability insurance. Although the university was able to realize minimal health cost savings in the most recent calendar year, the general trend is for these costs to continue to increase, according to national trends. In addition, workman's compensation costs are scheduled to increase, and both of the Kentucky retirement systems may request a rate increase in order to stabilize their unfunded liabilities.

2. Salaries for Faculty and Staff:

To maintain and enhance the quality of instruction and service to the region and to be competitive in the market place, salaries for faculty and staff will remain high on the institution's list of priorities. In spite of the probability that state revenue funding in the long run will be

minimal, or average, every effort will be made to keep salaries and benefits as competitive as possible.

3. Recruitment and Retention:

The university is committed to improving efforts at recruitment of new students and retention of current students.

A major factor in recruitment and retention is the availability of scholarships and tuition waivers. Various initiatives implemented over the past several fiscal years will continue to require increases in scholarship and tuition waiver programs. In addition, annual tuition and fee increases require funding for existing general, minority and athletic scholarships. As the university develops its plans for managing minimal increases in its appropriations, every effort will be made to diminish the impact on scholarships and tuition waivers.

4. Technology:

Murray State is undertaking two major initiatives in 2006-2008. These include: a) a Vo/IP (Voice Over Internet Protocol) phone system upgrade and b) an Enterprise Resource Planning System (ERP).

The first major technology initiative involves replacement of MSU's 15-year old telephone system. It has come to the end of its useful life, with no available vendor support and no room for growth. When the new residential college opens, the current phone system will be unable to accommodate the hundreds of additional students needing service. Purchase of a new Vo/IP phone system will allow Murray State to leverage benefits from state-of-the-art equipment, enabling us to expand and implement emerging delivery and life safety measures.

Secondly, a review of the University's administrative and student information computing environments suggests multiple benefits from installation of ERP software. Full implementation of an ERP system will take approximately three to four years to complete. It is expected to provide better service to faculty, students, and staff, and enable the integration and automation of many administrative business office and academic processes.

5. Other Priorities:

Funding requests from Academic Affairs, Student Affairs, Institutional Advancement, Finance and Administrative Services and the President's areas will be identified in the budget priority review process. Further review will allow for prioritization of specific requests to be included for possible funding. Given the current fiscal environment, only the most essential priorities are likely to receive consideration.

SALARY GUIDELINES:

1. Base/Merit Increases:

The previous Board of Regents policy on allocating salary increases between base salary increments and merit increments was changed at the June 18, 1999 meeting to stipulate that in the future the structure of the allocation will be determined by the Board on a year-by-year basis. Salary pool allocations for 2007-08 may include components for base salary and merit increments.

2. Promotions and Reclassifications:

Funds will be allocated for promotion stipends for professors, associate professors, assistant professors and non-exempt position reclassifications for the 2007-08 fiscal year.

3. Equity Increases above Base/Merit Increases:

The university will continue to provide funding to remedy salary inequities or to reflect major changes in responsibilities to the extent possible.
