
MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE
COMMONWEALTH OF KENTUCKY
FINANCIAL STATEMENTS
JUNE 30, 2016



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Independent Auditors' Report

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

Report On The Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Murray State University, (the University), a component unit of the State of Kentucky, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility For The Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Murray State University as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Change In Accounting Principle

As discussed in Note 1 to the financial statements, in 2016, the University implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 20 and the Pension Plan Information on pages 70 through 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

RubinBrown LLP

October 3, 2016

MURRAY STATE UNIVERSITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Murray State University (MSU) (University) for the year ended June 30, 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

The University is a comprehensive public institution of higher learning located in western Kentucky and primarily serves students in Kentucky, Illinois, Missouri, Tennessee and Indiana. The University has study centers in four other cities where it offers a diverse range of degree programs from associate to doctoral levels, is composed of four academic colleges and two schools. The University contributes to the region and state through related research and public service programs. The University is a charter member of the Ohio Valley Conference and a Division I member of the NCAA. The University serves as a residential, regional university offering core programs in the liberal arts, humanities, sciences and selected high-quality professional programs for approximately 11,000 students. For the 2015-16 academic year, tuition and fees increased by \$108 per semester for full time resident undergraduate students. Tuition and fees at the University continues to be less than the national average.

Murray State University consistently ranks among the nation's top public universities and has been recognized for the quality and value of its academic programs. Once again, *U.S. News & World Report's Best Colleges* has recognized the University among the top schools in the country. The University's streak of top rankings was extended to 26 consecutive years with the release of the 2017 *U.S. News Best Colleges* list.

In addition to the *U.S. News & World Report's* rankings, the University is ranked a "2016 Military Friendly School" by *Victory Media* and listed for the seventh time in the *Chronicle of Higher Education's* "Great Colleges to Work For." The 2016 *Washington Monthly* college guide and rankings listed Murray State as a best value for students seeking a college degree. Murray State was the top-ranked public university in Kentucky within the Southern Schools category of "Best Bang for the Buck", ranking 24th overall among 100 universities.

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Financial Highlights

- The University's financial net position dramatically changed in 2015 with the implementation of GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The effects of implementing GASB Statement No. 68 are summarized in the following table. It is important to note that the implementation of this standard has no effect on past or current cash or cash equivalents.

| | 2016 | 2015 | 2014 |
|---|----------------|----------------|----------------|
| Beginning net position, no pension adjustment | \$ 257,415,254 | \$ 240,612,199 | \$ 235,768,482 |
| Change in net position, no pension adjustment | 43,385,445 | 16,803,055 | 4,843,717 |
| Ending net position before pension adjustment | 300,800,699 | 257,415,254 | 240,612,199 |
| | | | |
| Pension beginning adjustment | (233,568,557) | (230,675,047) | — |
| Pension revenue / expense adjustment | (10,472,712) | (2,893,510) | — |
| Total pension adjustments | (244,041,269) | (233,568,557) | — |
| | | | |
| Net position after pension adjustments | \$ 56,759,430 | \$ 23,846,697 | \$ 240,612,199 |

- In fiscal year 2016, the University had assets of \$413.1 million, deferred outflows of \$28.7 million, liabilities of \$378.8 million and deferred inflows of \$6.2 million. Net position, which represents the University's residual interest in assets and deferred outflows after liabilities and deferred inflows are deducted, was \$56.8 million or 13% of total assets and deferred outflows. Net position increased by \$32.9 million from fiscal year 2015 to 2016. This increase in net position was the result of a \$52.6 million increase in capital assets net of depreciation, and a \$15.7 million increase in deferred outflows related to pensions, offset by a \$29.9 million increase in net pension liability, and a \$5.5 million increase in accounts payable related to the three major ongoing construction projects. Deferred outflows and inflows are items previously reported as assets or liabilities, respectively, that are required to be reported separately from assets or liabilities by GASB Standard 65.
- Fiscal operations were in accordance with the annual operating budget of approximately \$169.2 million. The University continued to be a strong employer for the region and employed 4,417 individuals, including 641 faculty and 1,009 staff members and 2,767 students. These totals include 1,380 regular and full-time faculty and staff.
- Total operating state appropriations for fiscal year 2016 were reduced by \$960,500 from fiscal year 2015, declining to approximately \$47 million as the result of a 2% reduction to all university general appropriations enacted in the fourth quarter of fiscal year 2016. This action was taken late in fiscal year 2016 by Governor Matt Bevin. In late September 2016, the Kentucky State Supreme Court has overridden the Governor's decision to cut public universities. The university has not accrued the \$960,500; the University will record this as revenue upon receipt.

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Management's Discussion And Analysis (*Continued*)

- The University issued general receipts bonds in March 2016 totaling \$8.3 million for the refunding of 2007 general receipts bonds originally obtained for the construction of a new Richmond Residence Hall.
- The University invests approximately 96 percent of its endowment funds with the Murray State University Foundation, Inc. (Foundation). The value of these funds is as follows:

| | |
|------------------|----------------|
| Historical Value | \$17.8 million |
| Market Value | \$18.4 million |

These funds experienced an unrealized loss of \$1,432,838 in fiscal year 2016. This allowed for most program spending to remain constant during the fiscal year 2016. The Foundation operated with a 4.5% cap on endowment spending for the fiscal year 2016.

- The construction of the new Breathitt Veterinary Center (BVC), with a scope of \$34.5 million continued in 2016. This will be a state of the art veterinary diagnostic center located in Hopkinsville, Kentucky. The new BVC is scheduled for completion in the fall of 2016.
- The Commonwealth of Kentucky authorized the construction of a new Engineering and Physics Building at a total cost not to exceed \$36.9 million. The Commonwealth is funding \$31.9 million of the total scope of the project with the University contributing up to \$5 million from future fundraising efforts. The building is scheduled to be completed in the winter of 2017.
- The construction of the new Hollis C. Franklin Residence Hall, with a scope of \$27.9 million, neared completion in fiscal year 2016. The facility is approximately 114,000 square feet with 380 beds. This facility opened for occupancy by students in August of 2016.
- The University Strategic Plan-Achievement, Endeavor and Hope: The Murray State Plan was approved by the Board of Regents on June 5, 2015. This plan focuses on the four pillars of academic quality, student success, community engagement and research activities. The Plan represents a living document which is being reviewed annually. To assist the University in aligning the metrics with current budgetary needs, the Plan was streamlined and more focused for the next reporting cycle.

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Management's Discussion And Analysis (*Continued*)

Using the Financial Statements

The University's financial statements consist of Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and Notes to the Financial Statements. These financial statements and accompanying notes are prepared in accordance with the appropriate Governmental Accounting Standards Board (GASB) pronouncements.

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

Financial statements have also been included for the MSU Foundation, a component unit, in accordance with the requirements of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Financial statements for this entity consist of Statements of Financial Position and Statements of Activities. These statements are prepared in accordance with the appropriate Financial Accounting Standards Board (FASB) pronouncements.

Statements of Net Position

The Statement of Net Position present a financial picture of the University's financial condition at the end of the 2016 and 2015 fiscal years by reporting assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position. Net position, the difference between total assets plus deferred outflows less total liabilities and deferred inflows, are an important indicator of the current financial condition, while the change in net position is an indicator of whether the overall financial position has improved or declined during the year.

Assets

Total assets at the end of the fiscal year 2016 were \$413.1 million, of which capital assets, net of depreciation, represented the largest portion. Capital assets totaled approximately \$236.3 million or 57% of total assets and were primarily comprised of University-owned land, buildings, equipment, and library holdings. Cash and cash equivalents amounted to \$136.9 million, or 33% of total assets. Total assets increased by \$41.8 million during the 2016 fiscal year. This increase in gross total assets is due primarily to the following items:

- \$52.6 million - Increase in net capital assets. Primarily due to a \$58.8 million net increase in construction-in-progress projects including \$22.2 million for the new Breathitt Veterinary Center, \$22.1 million for the new Franklin Hall, and \$12.9 million for the new Engineering and Physics building, less \$10.2 million in current year depreciation.

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Management's Discussion And Analysis (*Continued*)

- (\$7.1 million) - Decrease in cash and cash equivalents. An (\$18 million) decrease was the result of spending cash from the sale of bonds for the construction of the new Franklin Hall offset by an increase of \$4.0 million for capital project funding from operating cash for Chemistry and Biology building projects and a net increase of \$4.3 million in current operating cash.
- (\$2.9 million) - Decrease in restricted investments. A decrease of (\$2.1 million) in debt reserves, the result of \$1.1 million released for the refunding of 2007 General Receipt bonds and \$0.9 million released to pay 2016 interest on 2015 General Receipt bonds. Also, a (\$1.2 million) decrease in endowment market value offset by a \$0.4 million increase in realized earnings.
- (\$1.4 million) - Decrease in accounts receivable, net. This decrease is primarily a result of the combined effect of a decrease in enrollment coupled with increased collection efforts.

Total assets increased by \$43.4 million during the 2015 fiscal year due to the following:

- \$32.1 million - Increase in cash and cash equivalents. This increase was the result of a \$27.9 million general obligation bond sale for the construction of a new Franklin Hall.
- \$9.1 million - Increase in net capital assets. Primarily due to a \$17.1 million net increase in construction-in-progress projects including \$6.6 million for the new Breathitt Veterinary Center, \$2.6 million for the new Franklin Hall, \$2.1 million for the new Engineering and Physics building, and an additional \$1.9 million for Hester Hall to fully complete renovations for opening in 2015, less \$10.4 million in current year depreciation.
- \$2.0 million - Increase in accounts receivable. This increase in accounts receivable was the result of \$1.7 million increase in unrestricted, education and general receivables. The \$1.7 million increase was attributed to an increase of 5% in student tuition, and average increase of 4% in housing which was a blend of increases in occupancy and in housing rates, and an increase of about \$774,000 due to a delay in payments from foreign governments for international tuition and fees.

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Management's Discussion And Analysis (*Continued*)

Deferred Outflows of Resources

A new section of the Statement of Net Position added in 2014 in compliance with GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. This statement required that the deferred bond refunding loss, previously reported as part of the "Long-term debt" lines, be reported instead as a deferred outflow of resources in fiscal year 2014. GASB statement 65 also required that we restate this deferred outflow for all prior years reported within these financial statements. Deferred outflows consisted of bond refunding loss from the refunding of housing and dining bond series M, N, O, P, and Q which totaled \$2.1 million for fiscal year 2016, \$2.3 million for 2015, and \$2.5 million for 2014. Also included is a bond refunding loss from the refunding of 2007 General Receipts bonds Series A which totaled \$0.8 million for fiscal year 2016. Deferred outflows also consisted of \$25.7 million for fiscal year 2016 and \$10 million for 2015 related to reporting requirements specified in GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. This standard does not require a restatement of previous years; therefore, no outflow related to pensions is reported for 2014.

Liabilities

Total liabilities at the end of the 2016 fiscal year were \$378.8 million, an increase of \$31 million. This change was due to the following:

- \$29.9 million - Increase in net pension liability. GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* required the reporting of the pension liability for the first time in fiscal year 2015. This represents the University's proportionate share of the net pension liability for the Kentucky state retirement plans to which the University makes contributions.
- \$5.5 million - Increase in accounts payable. This increase is attributed to the net \$6.3 million increase in plant accounts payable related to the new Breathitt Veterinary Center, Franklin Hall and Engineering and Physics building. Offset by a (\$0.8 million) decrease in unrestricted accounts payable attributable to timing differences in routine payables.
- (\$5.3) million - Decrease in long-term debt. This decrease is primarily the result of the 2016 principal payments on bonds and masterleases.

Total liabilities at the end of the 2015 fiscal year were \$347.8 million, an increase of \$258 million. This change was due to the following:

- \$233.6 million - Increase in net pension liability. GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* required the reporting of the pension liability for the first time in fiscal year 2015. This represents the University's proportionate share of the net pension liability for the Kentucky state retirement plans to which the University makes contributions.

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Management's Discussion And Analysis (*Continued*)

- \$22.9 million - Increase in long-term debt. This increase is primarily the result of the new 2015 general obligation bonds for the construction of a new Franklin Hall.
- \$1.4 million - Increase in accounts payable. This increase is attributed to the net \$1.3 million increase in plant accounts payable related to the new Breathitt Veterinary Center, Stewart Stadium turf replacement, new Franklin Hall and Engineering and Physics building.

Deferred Inflows of Resources

A new section of the Statement of Net Position added in 2015 in compliance with GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This statement requires that certain items are no longer to be reported as a liability. This consisted of \$6.2 million in fiscal year 2016 and \$10 million in 2015 for deferred inflows of resources related to pensions as specified in GASB Statement No. 68. Also in fiscal year 2015 was \$2 million from State capital 2014-2016 appropriations related to the new Breathitt Veterinary Center (BVC) project which was received and recorded as revenue in fiscal year 2016.

Net Position

Net position which represents total equity, of the University was divided into three major categories, defined as follows:

- Invested in capital assets, net of related debt - This category represents the institution's equity in property, buildings, equipment, library holdings and other plant assets owned by the University, less related depreciation and outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted - This category represents those assets which are subject to externally imposed restrictions governing their use and includes classifications of nonexpendable and expendable.
 - Restricted nonexpendable net position - Restricted nonexpendable net position consist solely of permanent endowments owned by the University. The corpus, as specified by the donor, is invested in perpetuity and may not be expended.
 - Restricted expendable net position - Restricted expendable net position consist of those assets that may be expended by the University, but must be spent for purposes as defined by the donors and/or external entities that have placed time or purpose restrictions on the use of the assets.

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Management's Discussion And Analysis (*Continued*)

- Unrestricted - This category represents the net position held by the University that has no formal restrictions. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the unrestricted net position has been designated for various programs and initiatives, capital projects and working capital requirements.

Condensed Statements of Net Position

| | June 30, 2016 | June 30, 2015 | June 30, 2014 |
|--|----------------------|----------------------|-----------------------|
| Assets | | | |
| Current assets | \$ 91,608,769 | \$ 87,921,560 | \$ 85,004,479 |
| Noncurrent assets | 85,228,207 | 99,747,979 | 68,357,845 |
| Capital assets | 236,282,533 | 183,642,281 | 174,526,454 |
| Total assets | 413,119,509 | 371,311,820 | 327,888,778 |
| Deferred Outflows | 28,685,297 | 12,385,586 | 2,515,426 |
| Liabilities | | | |
| Current liabilities | 32,635,586 | 26,267,195 | 24,504,802 |
| Noncurrent liabilities | 346,173,839 | 321,532,369 | 65,287,203 |
| Total liabilities | 378,809,425 | 347,799,564 | 89,792,005 |
| Deferred Inflows | 6,235,951 | 12,051,145 | — |
| Net position | | | |
| Invested in capital assets, net of related debt | 157,389,810 | 123,222,276 | 117,117,865 |
| Restricted for | | | |
| Nonexpendable | 19,218,207 | 20,453,677 | 21,452,081 |
| Expendable | | | |
| Scholarships, research, instruction and other | 7,164,586 | 6,426,806 | 5,812,240 |
| Loans | 4,585,441 | 4,598,682 | 4,843,824 |
| Debt service | 198,988 | 2,298,843 | 1,553,637 |
| Unrestricted | (131,797,602) | (133,153,587) | 89,832,552 |
| Total net position | \$ 56,759,430 | \$ 23,846,697 | \$ 240,612,199 |

Statements of Revenues, Expenses and Changes in Net Position

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

MURRAY STATE UNIVERSITY
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Management's Discussion And Analysis (*Continued*)

The financial statements are prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. A public university's dependency on state appropriations will result in reported operating losses. The Governmental Accounting Standards Board requires state appropriations to be classified as nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which expenses the costs of an asset over its expected useful life.

Revenues

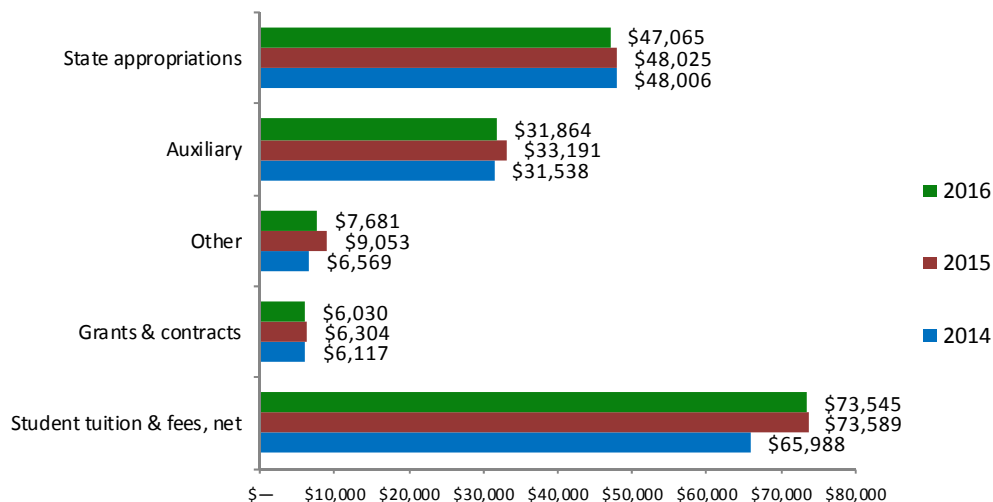
Total operating revenues, which exclude state appropriations, for the 2016 fiscal year were \$119.1 million, including student tuition and fees, net of related discounts and allowances, of \$73.5 million, operating restricted grants and contracts revenues of \$6.0 million, sales, services and other revenues of \$7.7 million, and auxiliary services net revenue of \$31.9 million.

During fiscal year 2016, operating revenues decreased by (\$3.0 million). This decrease is comprised primarily of a decrease of (\$1.4 million) from sales, services, and other revenues, and (\$1.3 million) in auxiliary services, specifically housing, dining and bookstore.

The University received \$47.1 million in state appropriations for operations for 2016 and \$48 million for 2015. The (\$1 million) decrease was the result of a mid-year 2% state appropriation rescission enacted in the fourth quarter of fiscal year 2016. State appropriations are required to be classified as nonoperating revenues; however, these funds were used to support University operating activities.

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

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



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Management's Discussion And Analysis (*Continued*)

Expenses

Total operating expenses for the 2016 fiscal year were \$190.4 million. Academic Affairs, which include instruction, research, libraries and academic support, represent the largest portion of the operating expenses totaling \$81.9 million or 43%. Student Affairs, which include student services, financial aid and auxiliary services, was \$54.5 million or 29% and other expenses which include public service, institutional support, depreciation and operation and maintenance amounted to \$54.0 million or 28%. 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, 2016, by \$5.2 million. The primary reasons for the increase in operating expenses are as follows:

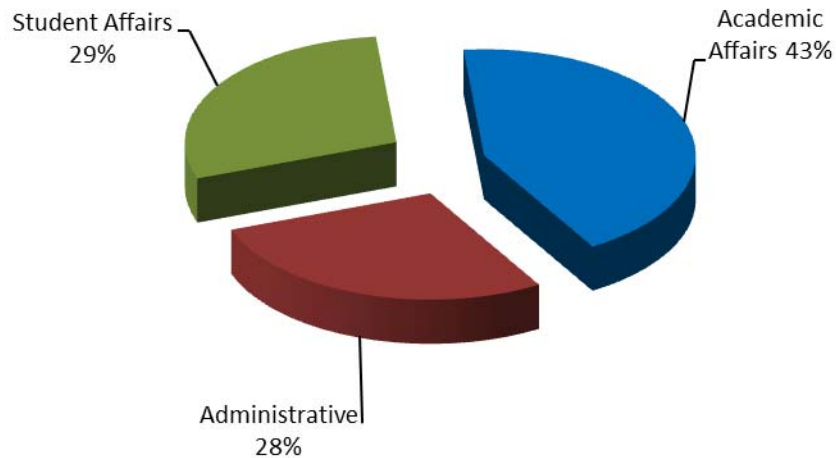
- \$7.6 million - Increase in overall operating expenses as the result of the adoption of GASB Statement No. 68. This expense represents the University's proportionate share of expenses related to Kentucky state pension plans. The University's proportionate expenses were \$4.7 million in 2016 and \$1.3 million in 2015 for the Kentucky Employee Retirement System and \$6.6 million in 2016 and \$2.4 million in 2015 for the Kentucky Teachers' Retirement System.
- (\$1.2 million) - Decrease in operation and maintenance of plant expenses, before pension adjustments, as the result of a one-time \$1.3 million inventory adjustment for facilities management. Individual areas within facilities management, such as plumbing, HVAC, and electrical, had been acquiring specific parts outside the warehouse inventory. This accumulation of parts has reached a level that requires inventory tracking and reporting.
- (\$1.1 million) - Decrease in overall operation spending, not including salaries, benefits, or inventory mentioned above. The primary factor in this decrease was a directive to departments to more closely monitor spending because of the pending general appropriation cuts enacted by the Governor.

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Management's Discussion And Analysis (*Continued*)

Operating expenses by type are reflected in the following chart:

University Operating Expenses
Year Ended June 30, 2016



The net loss from operations for the year ended June 30, 2016, was \$71.3 million. Nonoperating revenues, net of expenses, of \$69.5 million, insurance reimbursements of \$302,000, capital gifts of \$189,000 and endowment gifts of \$101,000 resulted in an increase in net position of \$32.9 million for the year ended June 30, 2016. This increase in net position is primarily the result of an increase in state capital appropriations of \$29.8 million related to the new BVC and Engineering and Physics building projects.

The net loss from operations for the year ended June 30, 2015, was \$63.1 million. Nonoperating revenues, net of expenses, of \$71.4 million, insurance reimbursements of \$654,000, capital gifts of \$588,000 and endowment gifts of \$35,000 resulted in an increase in net position of \$13.9 million for the year ended June 30, 2015. This increase in net position is the result of an increase in operating revenues of \$11.9 million and an increase in state capital appropriations of \$4.3 million.

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Management's Discussion And Analysis (*Continued*)

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

| | 2016 | 2015 | 2014 |
|---|---------------|---------------|----------------|
| Operating revenues | | | |
| Student tuition and fees, net | \$ 73,544,641 | \$ 73,588,701 | \$ 65,988,011 |
| Grants and contracts | 6,030,275 | 6,304,331 | 6,117,059 |
| Other | 7,680,689 | 9,053,462 | 6,569,393 |
| Auxiliary, net | 31,863,895 | 33,191,335 | 31,538,445 |
| Total operating revenues | 119,119,500 | 122,137,829 | 110,212,908 |
| Operating expenses | | | |
| Instruction | 68,688,820 | 65,098,722 | 61,028,117 |
| Other educational and general | 88,453,700 | 86,433,802 | 86,079,615 |
| Depreciation | 8,151,607 | 8,919,737 | 8,244,719 |
| Auxiliary enterprises | 23,045,892 | 23,331,199 | 21,947,340 |
| Auxiliary depreciation | 2,035,798 | 1,440,540 | 1,277,967 |
| Total operating expenses | 190,375,817 | 185,224,000 | 178,577,758 |
| Operating loss | (71,256,317) | (63,086,171) | (68,364,850) |
| Nonoperating revenues | | | |
| State appropriations | 47,064,600 | 48,025,100 | 48,005,800 |
| Other nonoperating revenues | 22,388,681 | 23,418,862 | 25,120,252 |
| Total nonoperating revenues | 69,453,281 | 71,443,962 | 73,126,052 |
| Other revenues | | | |
| State capital appropriations and other | 34,715,769 | 5,551,754 | 82,515 |
| Increase in net assets | 32,912,733 | 13,909,545 | 4,843,717 |
| Net position, beginning of year | 23,846,697 | 240,612,199 | 235,768,482 |
| Restatement of beginning net position for pension liability | — | (230,675,047) | — |
| Net position, beginning of year (restated) | 23,846,697 | 9,937,152 | 235,768,482 |
| Net position, end of year | \$ 56,759,430 | \$ 23,846,697 | \$ 240,612,199 |

Statements of Cash Flows

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

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Management's Discussion And Analysis (*Continued*)

For the year ended June 30, 2016:

The net cash used in operating activities reflects the net cash used for general operations of the University, which decreased by (\$1.3 million) during 2016. This decrease in cash used was primarily due to increases in net tuition and fees, grants and contracts, and sales and other revenues, as well as decreases in payments to suppliers, offset by decreases in auxiliary revenues.

The cash flows from noncapital financing activities decreased by (\$1.8 million) during 2016. This change was primarily due to the decreases in non-operating grants and contracts of (\$1.3 million) from Pell grants and other various federal grants.

The net cash flows provided by/(used in) capital and related financing activities represent cash used for the acquisition, construction and renovation of capital assets, changed from \$10.1 million provided during 2015 to (\$32.0 million) used during 2016, a (\$42.1 million) decrease. Part of this decrease is due to \$27.9 million in 2015 Series A general receipt bonds issued for the construction of a new Franklin Hall. Also contributing to the decrease were \$8.4 million of cash used for principal payments on capital debt attributable to the refunding of 2007 general receipt bonds. There was also net cash used for the purchase of capital assets of \$17.8 million.

The cash flows provided by investing activities represent the cash activities of investments, which increased by \$3.5 million for 2016. This increase was primarily the result of increases in proceeds from sales and maturities of investments. The refunding of the 2007 general receipts bonds resulted in the liquidation of debt service investments of \$1.1 million. Also, the \$909,000 for the 2015 general receipts bond purchase to be used towards the first two semi-annual interest payments on the bond obligation was liquidated during 2016. Additionally, there was a net increase in investment and interest receipts of \$536,000, primarily from increases in restricted interest from the MSU Foundation.

For the year ended June 30, 2015:

The net cash used in operating activities reflects the net cash used for general operations of the University, which decreased by (\$6.1 million) during 2015. This decrease in cash used was primarily due to increases in net tuition and fees and decreases in payments to suppliers offset by increases in payments for wages and fringes.

The cash flows from noncapital financing activities decreased by \$1.1 million during 2015. This change was primarily due to the decreases in endowment investments. The change in endowment proceeds invested with MSU Foundation was \$455,000. The decrease in endowment income, which represents the increase of unrealized losses in the market value of endowments, was \$1.5 million. Also, there was an increase in non-operating grants and contracts of \$964,000 from increases in Pell grants, increases in KEES funds, and a new grant for the acquisition of an MRI analyzer.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Management's Discussion And Analysis (*Continued*)

The net cash flows provided by/(used in) capital and related financing activities represent cash used for the acquisition, construction and renovation of capital assets, changed from (\$18.1 million) used during 2014 to \$10.1 million provided during 2015, a \$28.2 million change. \$27.9 million of this increase is due to the 2015 issuance of Series A general receipt bonds issued for the construction of a new Franklin Hall. Also contributing to the increase were a \$4.3 million increase in state capital appropriations received for the new BVC and Engineering and Physics buildings offset by a \$3.3 million increase in cash used for capital construction costs, primarily contributed to those same two projects.

The cash flows provided by investing activities represent the cash activities of investments, which increased by \$796,000 for 2015. This increase was primarily the result of increases in investment and interest receipts, which were up \$1.7 million. This increase was partially offset by a (\$914,000) decrease in purchases of investments related to additional cash used to set up a \$909,000 investment pool related to the 2015 general obligation bond purchase to be used towards the first two semi-annual interest payments on the bond obligation.

Condensed Statements of Cash Flows

| | 2016 | 2015 | 2014 |
|---|--------------------|--------------------|--------------------|
| Cash provided/(used by): | | | |
| Operating activities | \$ (48,433,051) | \$ (49,741,490) | \$ (55,799,306) |
| Noncapital financing activities | 68,577,099 | 70,466,385 | 71,598,909 |
| Capital and related financing activities | (32,009,512) | 10,071,879 | (18,094,311) |
| Investing activities | 4,808,278 | 1,300,696 | 504,301 |
| Net increase in cash | (7,057,186) | 32,097,470 | (1,790,407) |
| Cash and cash equivalents, beginning of year | 143,938,412 | 111,840,942 | 113,631,349 |
| Cash and cash equivalents, end of year | \$ 136,881,226 | \$ 143,938,412 | \$ 111,840,942 |

Capital Assets and Debt Administration

The University had a \$61.9 million increase in capital assets, before accumulated depreciation, during the fiscal year ended June 30, 2016. This change is primarily due to \$22.2 million spent in 2016 for construction of the new BVC, \$23.2 million for the construction of the new Franklin Hall, and \$12.9 million for construction of the Engineering and Physics building.

Construction-in-progress increased \$58.8 million in 2016. This increase was the result of the above mentioned construction and renovation projects, offset by completing the Stewart Stadium turf project at a cost of \$553,000, and the Reagan Field lighting project of \$385,000.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Management's Discussion And Analysis (*Continued*)

Capital assets as of June 30, 2016, and changes during the year are as follows:

| | Balance | Net Change |
|---------------------------|-----------------------|----------------------|
| | June 30, 2016 | 2015-16 |
| Land | \$ 9,920,222 | \$ 191,635 |
| Construction in progress | 76,632,426 | 58,787,179 |
| Museum and collectibles | 677,635 | 1,550 |
| Buildings | 278,366,153 | 857,542 |
| Non-building improvements | 16,464,827 | 1,092,256 |
| Equipment | 31,208,716 | 1,183,847 |
| Software | 1,932,019 | — |
| Library holdings | 30,122,072 | (216,541) |
| Livestock | 165,750 | — |
| Accumulated depreciation | (209,207,287) | (9,257,216) |
| Total | <u>\$ 236,282,533</u> | <u>\$ 52,640,252</u> |

Debt as of June 30, 2016, and changes during the year are as follows:

| | Balance | Net Change |
|------------------------|----------------------|-----------------------|
| | June 30, 2016 | 2015-16 |
| General receipts bonds | \$ 75,835,000 | \$ (3,815,000) |
| Bond discount | (60,085) | 153,302 |
| Bond premium | 2,188,815 | 75,700 |
| City of Murray | 8,124,999 | (340,000) |
| Master lease payable | 1,252,868 | (873,959) |
| Total | <u>\$ 87,341,597</u> | <u>\$ (4,799,957)</u> |

Infrastructure Assets

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

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Management's Discussion And Analysis (*Continued*)

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

Economic Factors Affecting Future Periods

- In fiscal year 2016, Kentucky's General Fund receipts rose for the sixth consecutive year and exceeded \$10 billion for the first time ever. Final 2016 General Fund revenues were \$10,338.9 million, or 3.7%, more than 2015 collections. General Fund revenues were \$49.0 million or 0.5% more than the official revenue estimate which had projected 3.2% growth.

The national economic outlook for the U.S. economy heading into 2017 is less positive than was anticipated at the beginning of 2016. Going forward, there is increasing uncertainty about the state's outlook considering the national conditions.

The above was reported in the 2016 annual edition of Commonwealth of Kentucky Quarterly Economic & Revenue Report.

- In 2015, the University extended the five minute response (5MR) contract with the Tennessee Valley Authority (TVA) through September 30, 2017. This contract allows TVA to conserve and redirect energy during crisis situations by requiring the University to shut down power to the main campus within five minutes of contact from TVA. This contract represents annual savings for the University of approximately \$325,000. Due to other regulatory restrictions, on October 1, 2016, the University intends to request TVA to begin the termination of the contract. The termination process will take four to six weeks to enact.
- The University continues to manage ongoing deferred maintenance issues. This backlog is being addressed through a combination of an annual allocation of university funds restricted to deferred maintenance projects, one-time funding, capital renewal funding from State resources, funding from potential energy savings projects, and the use of reserves as appropriate. With aging buildings and infrastructure, deferred maintenance will continue to be a funding focus for the University. However, the development of more preventative maintenance programs is a priority.
- The University continues to provide health insurance to employees through a self-funded program. As reflected in national trends, the costs of health claims continue to be a major expense for the University. To help manage these costs, the University redesigned their health and wellness options for 2016. Plan design changes included a tobacco premium surcharge and a wellness premium discount. Although actual plan data is only available through the mid-point of 2016, early estimates indicate that the redesign will significantly help manage the plan's cost.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Management's Discussion And Analysis (*Continued*)

- The overtime changes as outlined in the Department of Labor's final regulations for the Fair Labor Standards Act (FLSA) overtime changes will have a significant impact on University financial resources. The final regulations, which will be effective December 1, 2016, set the salary threshold of \$47,476 (\$913 per week) and will impact approximately 200 positions currently classified as exempt from the overtime regulations. In addition to the ongoing cost of additional overtime, implementing these changes has a significant impact for Human Resources, as well as the Payroll Office. There are additional challenges that have to be addressed concurrently, including salary compression, as well as a comprehensive review of the structure of the institutional compensation system.
- Madisonville Community College (MCC) is constructing a new \$20 million Postsecondary Education Center on their campus in Madisonville, Kentucky. MCC has worked closely with Murray State University in regard to the fundraising and development of this building since 50% of this building will be exclusively leased for university education space. MCC will use the remaining 50% for their educational purposes. MCC will receive \$15 million from the state and \$5 million has been raised in private funds. The project is under construction and is expected to be completed in early 2018.
- In June 2015, the Jones Chemistry Building's annual inspection revealed approximately 80 fume hoods that were deemed inoperable due to improper air handling which resulted in an instructional emergency. Later in the summer of 2015 the Jones Chemistry Building began to exhibit significant moisture issues as well. Total cost of the repairs and renovation are still estimated to be between one million and two million dollars. Progress continues, as of June 30, 2016, to develop a proposed settlement among the parties, so that renovation work can begin.
- In July 2015, significant moisture issues and the discovery of hidden water damages were identified in the Biology Building. The University is continuing to work with construction companies, architects, design firms and consultants to identify the source of the problem. As of June 30, 2016, no comprehensive solution has been determined, although the University is close to identifying several interrelated causes. Total cost of the repairs and renovations are estimated to be between \$1 - \$2 million.
- In September 2016, mold issues were discovered in Springer Residence Hall as a result of an unusually rainy July and August and an aging facility. As a result, all residents were moved to other residence halls. The mold was tested and has been identified as non-toxic, allergen type mold. Estimates of the cost to repair are being developed now. The residence hall is not expected to reopen during fall 2016.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Management's Discussion And Analysis (*Continued*)

- The University's electrical distribution infrastructure is aging and not adequate to meet the demands of the current campus footprint and its electrical needs. With the exception of two recently rebuilt transformers, the primary electrical infrastructure is 40+ years old. As new and expanded buildings have been built and electrical demand has increased, the electrical infrastructure has not been modified. Electrical systems within older buildings have also not been upgraded to meet current needs; therefore, more stress is placed on each of these systems. Instructional and administrative facilities are more and more dependent upon electrical systems to service necessary technology, HVAC, emergency systems and laboratories within these buildings.

Over the past several months, the campus began experiencing segmented and campus-wide power interruptions. As a result of extensive internal analysis, the university has contracted with a high voltage electrical contractor and an engineering firm to make emergency repairs and to assist the university with the development of a multi-year plan to address this significant infrastructure problem. The comprehensive project is expected to cost \$15 - \$20 million.

- The University's 2016 enrollment remained stable with a slight, 3% decrease. During fiscal year 2016, a new enrollment management model was developed focusing on tuition rate structures, scholarships models and recruitment initiatives. This new model has been implemented for newly enrolled students for fall 2016.
- Even though the University is not under a mandate to increase the minimum wage, due to the number of employees at the lowest end of the pay scale, a multi-year non-exempt compensation adjustment model was developed for fiscal year 2017, the first year of implementation.

The goal of the model is to reach a University minimum hourly rate of \$10.10 over the three-year model period.

- In an effort to maximize financial resources for operations and facility renovation and replacement, the University has contracted MGT of America to perform an auxiliary review during the fall 2016. The purpose of the review is to identify opportunities across all auxiliary units which may benefit the University and still provide high quality services/facilities to our students.

Contacting the University's Financial Management

This financial report is designed to provide a general overview of the University's finances and to show the University's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Vice President for Finance and Administrative Services, 322 Sparks Hall, Murray, KY 42071.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF NET POSITION

Page 1 of 2

| | June 30, | |
|--|----------------------|----------------------|
| | 2016 | 2015 |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 78,458,889 | \$ 74,197,070 |
| Accounts receivable, net | 7,493,005 | 8,911,720 |
| Inventories | 3,519,856 | 2,169,852 |
| Loans to students, net | 674,245 | 728,720 |
| Prepaid expenses | 1,462,774 | 1,914,198 |
| Total Current Assets | 91,608,769 | 87,921,560 |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | 58,422,337 | 69,741,342 |
| Restricted investments | 23,741,201 | 26,679,991 |
| Loans to students, net | 3,064,669 | 3,326,646 |
| Capital assets | 445,489,820 | 383,592,351 |
| Accumulated depreciation | (209,207,287) | (199,950,070) |
| Total Noncurrent Assets | 321,510,740 | 283,390,260 |
| Total Assets | 413,119,509 | 371,311,820 |
| Deferred Outflows of Resources | | |
| Bond refunding loss | 2,962,875 | 2,322,279 |
| Deferred outflows related to pension contributions | 25,722,422 | 10,063,307 |
| Total Deferred Outflows of Resources | \$ 28,685,297 | \$ 12,385,586 |

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF NET POSITION

Page 2 of 2

| Liabilities | June 30, | |
|---|----------------------|----------------------|
| | 2016 | 2015 |
| Current Liabilities | | |
| Accounts payable | \$ 15,636,985 | \$ 10,175,383 |
| Accrued payroll | 6,443,956 | 6,425,029 |
| Self-insured health liability | 627,097 | 617,000 |
| Interest payable | 902,817 | 862,884 |
| Unearned revenue | 3,650,875 | 3,330,293 |
| Deposits - current portion | 312,807 | 318,402 |
| Long-term debt - current portion | 5,061,049 | 4,538,204 |
| Total Current Liabilities | 32,635,586 | 26,267,195 |
| Noncurrent Liabilities | | |
| Deposits | 365,550 | 348,300 |
| Long-term debt | 82,280,548 | 87,603,350 |
| Net pension liability, state pension plans | 263,527,741 | 233,580,719 |
| Total Noncurrent Liabilities | 346,173,839 | 321,532,369 |
| Total Liabilities | 378,809,425 | 347,799,564 |
| Deferred Inflows of Resources | | |
| Outside support, state project funding | — | 2,000,000 |
| Deferred inflows related to net pension liability | 6,235,951 | 10,051,145 |
| Total Deferred Inflows of Resources | 6,235,951 | 12,051,145 |
| Net Position | | |
| Net investment in capital assets | 157,389,810 | 123,222,276 |
| Restricted for: | | |
| Nonexpendable: | | |
| Endowment | 19,218,207 | 20,453,677 |
| Expendable: | | |
| Scholarships, research, instruction and other | 7,164,586 | 6,426,806 |
| Loans | 4,585,441 | 4,598,682 |
| Debt service | 198,988 | 2,298,843 |
| Unrestricted | (131,797,602) | (133,153,587) |
| Total Net Position | \$ 56,759,430 | \$ 23,846,697 |

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

Page 1 of 2

Assets

| | June 30, | |
|----------------------------------|-----------------------|-----------------------|
| | 2016 | 2015 |
| Cash and cash equivalents | \$ 2,271,009 | \$ 2,766,505 |
| Accounts receivable | 59,232 | 398,003 |
| Receivable from land sale | 241,202 | — |
| Receivable from annuitant | — | 654,973 |
| Investments | 98,862,084 | 98,543,931 |
| Real estate held for investment | 1,742,586 | 2,243,586 |
| Prepaid and other current assets | 66,790 | 81,238 |
| Contributions receivable, net | 1,062,323 | 1,426,462 |
| Property and equipment, net | 4,350,945 | 4,453,200 |
| Total Assets | \$ 108,656,171 | \$ 110,567,898 |

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

Page 2 of 2

Liabilities And Net Assets

| | June 30, | |
|---|-----------------------|-----------------------|
| | 2016 | 2015 |
| Liabilities | | |
| Accounts payable | \$ 114,128 | \$ 97,576 |
| Amount due to related parties | 298,651 | 295,699 |
| Accrued expenses | 53,746 | 50,316 |
| Deferred revenue | 54,517 | 102,339 |
| Assets held for others | 24,574,303 | 25,555,399 |
| Capital lease obligation | 151,935 | 207,795 |
| Annuities payable | 5,624,371 | 5,840,584 |
| Refundable advances | 322,454 | 350,593 |
| Total Liabilities | 31,194,105 | 32,500,301 |
| Net Assets | | |
| Unrestricted | 13,560,243 | 14,326,704 |
| Temporarily restricted | 22,045,154 | 24,411,079 |
| Permanently restricted | 41,856,669 | 39,329,814 |
| Total Net Assets | 77,462,066 | 78,067,597 |
| Total Liabilities and Net Assets | \$ 108,656,171 | \$ 110,567,898 |

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

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

| | For The Years Ended June 30, | |
|--|---|------------------------|
| | 2016 | 2015 |
| Operating Revenues | | |
| Tuition and fees | \$ 116,551,683 | \$ 116,401,368 |
| Less: Discounts and allowances | (43,007,042) | (42,812,667) |
| Net tuition and fees | 73,544,641 | 73,588,701 |
| Federal grants and contracts | 4,343,655 | 4,583,464 |
| State grants and contracts | 1,381,932 | 1,242,360 |
| Private grants and contracts | 304,688 | 478,507 |
| Total grants and contracts | 6,030,275 | 6,304,331 |
| Sales and services of educational activities | 3,513,390 | 3,825,514 |
| Other operating revenues | 4,167,299 | 5,227,948 |
| Total sales, services, and other revenues | 7,680,689 | 9,053,462 |
| Auxiliary enterprises revenue | 32,571,656 | 33,853,864 |
| Less: Discounts and allowances | (707,761) | (662,529) |
| Net auxiliary revenue | 31,863,895 | 33,191,335 |
| Total Operating Revenues | 119,119,500 | 122,137,829 |
| Operating Expenses | | |
| Instruction | 68,688,820 | 65,098,722 |
| Research | 1,995,122 | 1,977,827 |
| Public service | 7,737,975 | 7,873,887 |
| Libraries | 3,833,459 | 2,877,268 |
| Academic support | 7,373,974 | 7,252,704 |
| Student services | 16,678,323 | 16,085,691 |
| Institutional support | 22,369,649 | 21,011,951 |
| Operation and maintenance of plant | 15,711,777 | 16,122,820 |
| Student financial aid | 12,753,421 | 13,231,654 |
| Depreciation | 8,151,607 | 8,919,737 |
| Auxiliary enterprises | 23,045,892 | 23,331,199 |
| Auxiliary depreciation | 2,035,798 | 1,440,540 |
| Total Operating Expenses | 190,375,817 | 185,224,000 |
| Operating Loss | \$ (71,256,317) | \$ (63,086,171) |

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Page 2 of 2

| | For The Years Ended June 30, | |
|---|---------------------------------|----------------------|
| | 2016 | 2015 |
| Nonoperating Revenues (Expenses) | | |
| State appropriations | \$ 47,064,600 | \$ 48,025,100 |
| Restricted student fees (revenues are pledged as security for the City of Murray debt agreement) | 688,057 | 710,791 |
| Federal grants and contracts | 12,684,076 | 14,109,439 |
| State grants and contracts | 7,837,173 | 7,725,635 |
| Local and private grants and contracts | 475,863 | 511,173 |
| Gifts | 1,239,140 | 1,230,421 |
| Investment income | 1,539,489 | 1,285,586 |
| Interest on capital asset-related debt | (1,814,708) | (1,587,708) |
| Loss on deletion and disposal of capital assets | (23,459) | (394,605) |
| Bond amortization | (236,950) | (171,870) |
| Nonoperating Revenues (Expenses), Net | 69,453,281 | 71,443,962 |
| Income Before Other Revenues, Expenses Gains and Losses | (1,803,036) | 8,357,791 |
| State Capital Appropriations | 34,123,728 | 4,274,360 |
| Insurance Proceeds | 301,681 | 654,206 |
| Capital Gifts | 189,160 | 587,920 |
| Additions to Permanent Endowments | 101,200 | 35,268 |
| Change in Net Position | 32,912,733 | 13,909,545 |
| Net Position - Beginning of Year (as previously reported) | 23,846,697 | 240,612,199 |
| Restatement of beginning net position for pension liability | — | (230,675,047) |
| Net Position - Beginning of Year (As Restated) | 23,846,697 | 9,937,152 |
| Net Position - End of Year | \$ 56,759,430 | \$ 23,846,697 |

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES For The Year Ended June 30, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Totals</u> |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Revenues, Gains And Other Support | | | | |
| Contributions | \$ 825 | \$ 1,249,795 | \$ 2,302,149 | \$ 3,552,769 |
| Revenues from operations of the Frances E. Miller Memorial Golf Course | 433,744 | — | — | 433,744 |
| Fees | 423,242 | 95,363 | — | 518,605 |
| Investment return, net | 819,061 | (308,310) | 24,128 | 534,879 |
| Other | — | 205,865 | 200,578 | 406,443 |
| Net assets released from restrictions | 3,608,638 | (3,608,638) | — | — |
| Total Revenues, Gains And Other Support | 5,285,510 | (2,365,925) | 2,526,855 | 5,446,440 |
| Expenses And Losses | | | | |
| Payments made on behalf of Murray State University | 3,608,638 | — | — | 3,608,638 |
| Frances E. Miller Memorial Golf Course | 616,410 | — | — | 616,410 |
| General and administrative | 1,826,923 | — | — | 1,826,923 |
| Total Expenses And Losses | 6,051,971 | — | — | 6,051,971 |
| Change in Net Assets | (766,461) | (2,365,925) | 2,526,855 | (605,531) |
| Net Assets - Beginning of Year | 14,326,704 | 24,411,079 | 39,329,814 | 78,067,597 |
| Net Assets - End of Year | \$ 13,560,243 | \$ 22,045,154 | \$ 41,856,669 | \$ 77,462,066 |

MURRAY STATE UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES For The Year Ended June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals |
|---|----------------------|---------------------------|---------------------------|----------------------|
| Revenues, Gains And Other Support | | | | |
| Contributions | \$ 750 | \$ 1,445,141 | \$ 1,585,289 | \$ 3,031,180 |
| Revenues from operations of the Frances E. Miller Memorial Golf Course | 431,222 | — | — | 431,222 |
| Fees | 443,159 | 33,187 | — | 476,346 |
| Investment return, net | 1,811,100 | 1,044,499 | 23,125 | 2,878,724 |
| Other | — | 173,079 | 76,565 | 249,644 |
| Change in value of annuities payable | — | — | (137,964) | (137,964) |
| Net assets released from restrictions | 3,108,767 | (3,108,767) | — | — |
| Total Revenues, Gains And Other Support | 5,794,998 | (412,861) | 1,547,015 | 6,929,152 |
| Expenses And Losses | | | | |
| Payments made on behalf of Murray State University | 3,108,767 | — | — | 3,108,767 |
| Frances E. Miller Memorial Golf Course | 461,782 | — | — | 461,782 |
| General and administrative | 1,505,230 | — | — | 1,505,230 |
| Total Expenses And Losses | 5,075,779 | — | — | 5,075,779 |
| Change In Net Assets | 719,219 | (412,861) | 1,547,015 | 1,853,373 |
| Net Assets - Beginning Of Year | 13,607,485 | 24,823,940 | 37,782,799 | 76,214,224 |
| Net Assets - End Of Year | \$ 14,326,704 | \$ 24,411,079 | \$ 39,329,814 | \$ 78,067,597 |

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF CASH FLOWS

Page 1 of 2

| | For The Years Ended June 30, | |
|--|---------------------------------|----------------------|
| | 2016 | 2015 |
| Cash Flows From Operating Activities | | |
| Tuition and fees | \$ 74,552,225 | \$ 73,449,656 |
| Grants and contracts | 6,291,911 | 5,857,490 |
| Payments for salaries, wages and fringes | (104,257,115) | (104,063,955) |
| Payments to suppliers | (29,451,495) | (29,373,611) |
| Payments for student financial aid | (12,753,421) | (13,231,654) |
| Loans issued to employees | (14,837) | (4,695) |
| Collections of loans to employees | 22,160 | 1,707 |
| Loans issued to students | (452,457) | (649,876) |
| Collections of loans to students | 768,909 | 898,535 |
| Sales and services of educational activities | 3,997,503 | 2,557,609 |
| Other operating revenues | 4,055,962 | 5,124,618 |
| Auxiliary revenues: | | |
| Food service | 12,130,108 | 12,569,524 |
| Housing | 13,791,838 | 14,304,484 |
| Bookstore | 5,817,995 | 5,888,148 |
| Other | 113,555 | 261,729 |
| Auxiliary payments: | | |
| Payments for salaries, wages and fringes | (8,483,629) | (8,081,510) |
| Payments to suppliers | (14,331,789) | (15,029,252) |
| Payments for student financial aid | (230,474) | (220,437) |
| Net Cash Used in Operating Activities | (48,433,051) | (49,741,490) |
| Cash Flows From Noncapital Financing Activities | | |
| State appropriations | 47,064,600 | 48,025,100 |
| Endowment proceeds forwarded to MSU Foundation for investment | (452,148) | (780,510) |
| Grants and contracts | 20,997,112 | 22,346,247 |
| Endowment income | 223,350 | 184,264 |
| Gifts for other than capital purposes | 744,833 | 714,159 |
| Agency transactions | (648) | (22,875) |
| Net Cash Provided by Noncapital Financing Activities | 68,577,099 | 70,466,385 |
| Cash Flows From Capital and Related Financing Activities | | |
| Proceeds from capital debt | — | 27,871,242 |
| Restricted student fees pledged for debt service | 688,057 | 710,791 |
| Insurance proceeds | 301,681 | 654,206 |
| State capital appropriations | 34,122,620 | 4,274,819 |
| Purchases of capital assets | (51,903,798) | (16,244,106) |
| Capital gifts | 71,180 | — |
| Principal paid on capital debt and leases | (13,338,960) | (4,946,842) |
| Interest paid on capital debt and leases | (1,950,292) | (2,248,231) |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | \$ (32,009,512) | \$ 10,071,879 |

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

STATEMENTS OF CASH FLOWS

Page 2 of 2

| | For The Years Ended June 30, | |
|---|---|------------------------|
| | 2016 | 2015 |
| Cash Flows From Investing Activities | | |
| Proceeds from sales and maturities of investments | \$ 2,057,834 | \$ 4,286 |
| Purchases of investments | (86) | (918,584) |
| Investment receipts | 1,083,730 | 2,335,245 |
| Interest receipts on investments | 1,666,800 | (120,251) |
| Net Cash Provided by Investing Activities | 4,808,278 | 1,300,696 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (7,057,186) | 32,097,470 |
| Cash and Cash Equivalents - Beginning of Year | 143,938,412 | 111,840,942 |
| Cash and Cash Equivalents - End of Year | \$ 136,881,226 | \$ 143,938,412 |
| Reconciliation of Cash and Cash Equivalents to the Statement of Net Position | | |
| Cash and cash equivalents | \$ 78,458,889 | \$ 74,197,070 |
| Restricted cash and cash equivalents | 58,422,337 | 69,741,342 |
| Total Cash and Cash Equivalents | \$ 136,881,226 | \$ 143,938,412 |
| Reconciliation of Operating Loss to Net Cash Used in Operating Activities | | |
| Operating loss | \$ (71,256,317) | \$ (63,086,171) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization expense | 10,187,405 | 10,360,277 |
| Bad debt | 907,014 | 707,487 |
| Pension expense, proportionate share | 11,349,903 | 3,746,377 |
| Changes in assets and liabilities: | | |
| Accounts and loans receivable, net | 1,735,167 | (1,735,434) |
| Inventories | (1,350,004) | 20,577 |
| Prepaid expenses | 451,424 | 121,515 |
| Accounts payable | (820,660) | 157,527 |
| Self-insured health liability | 10,097 | (43,000) |
| Accrued payroll | 18,927 | 48,281 |
| Deposits | 12,303 | 2,623 |
| Unearned revenue | 321,690 | (41,549) |
| Net Cash Used in Operating Activities | \$ (48,433,051) | \$ (49,741,490) |
| Supplemental Disclosure of Cash Flow Information | | |
| Gifts of capital assets | \$ 117,980 | \$ 587,920 |
| Accounts payable incurred for capital asset purchases | 10,357,707 | 4,048,895 |
| Changes in fair value of investments | (1,434,391) | (1,113,672) |

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies

Nature of Operations

Murray State University (University) is a state-supported institution of higher education located in Murray, Kentucky, and is accredited by the Southern Association of Colleges and Schools. The University awards graduate and undergraduate degrees from five colleges and two schools and serves a student population of approximately 11,000. The University is a component unit of the Commonwealth of Kentucky and is included in the general purpose financial statements of the Commonwealth.

Reporting Entity

In accordance with the provisions of Governmental Accounting Standards Board (GASB), certain organizations are to be reported as component units of a primary government based on the nature and significance of that organization's relationship to the primary government. Application of this statement results in including Murray State University Foundation, Inc. (the Foundation) as a discretely presented component unit of the University. The Foundation is a private nonprofit organization that reports under generally accepted accounting principles set forth by Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial report for these differences.

Basis of Accounting and Financial Statement Presentation

The University prepares its financial statements as a business type activity in conformity with applicable pronouncements of the GASB.

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

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.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

Restricted Cash, Cash Equivalents and Investments

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

Investments

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

Assets held by the Foundation represent those gifts and donations made directly to the University, which are held by the Foundation for investment purposes. The net appreciation and income of donor restricted endowments are available to the University for expenditure to the extent permitted by Kentucky law and the spending policy of the Foundation.

Accounts Receivable

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

Inventories

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

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.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

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

| Asset | Estimated Life |
|--------------------------|-----------------------|
| Buildings | 40 years |
| Nonbuilding improvements | 8-20 years |
| Equipment | 5-15 years |
| Library holdings | 10 years |
| Livestock | 12 years |
| Software | 8 years |

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowing. Total interest capitalized was \$1,084,807 and \$825,167 for the years ended June 30, 2016 and 2015, respectively.

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

Compensated Absences

For employees participating in the Kentucky Teachers Retirement System (KTRS), vacation pay is accrued at year end for financial statement purposes. The liability and expense incurred are included at year end with accrued payroll, and as a component of compensation and benefit expense. Sick leave benefits are expected to be realized as paid time off or used to purchase service credits upon retirement. These are recognized as expense when the time off occurs or when service credit payments are incurred. No liability is accrued for such benefits employees have earned while participating in the KTRS plan, but not yet realized. For employees participating in optional retirement plans (ORP), sick time is accrued as it is earned.

Unearned Revenue

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

Deferred Outflow of Resources and Deferred Inflow of Resources

In addition to assets, financial statements may report a separate section for deferred outflows of resources. Deferred outflows of resources consist of the consumption of net position that is applicable to a future reporting period and so will not be recognized as an outflow of resources until then. Deferred outflows of resources related to refunding long-term debt and certain pension related items are reported in the statement of net position. The deferred bond refunding amount results from the difference in the carrying value of refunded debt and its reacquisition price, and is amortized over the shorter of the life of the refunded or refunding debt. The pension related items represent certain changes in pension related items and contributions made to the plan between the measurement date of the pension obligations and the end of the fiscal year.

In addition to liabilities, financial statements may report a separate section for deferred inflows of resources. Deferred inflows of resources consist of the acquisition of net position that is applicable to a future reporting period and so will not be recognized as inflow of resources until then. Deferred inflows of resources include state reimbursements as well as certain changes in pension related items that are amortized over future periods.

Net Position

The University's net position is classified as follows:

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

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

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

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

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

New Accounting Standard Implemented

During the year, the University implemented GASB Statement No. 72, *Fair Value Measurement and Application* (GASB No. 72). See Note 17 below for detail regarding this new standard.

Release of Restricted Net Position

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

Classification of Revenues

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

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of discounts and allowances, (2) federal, state and local grants and contracts (excluding Pell and similarly funded federal and state grants for student financial aid) and (3) sales and services of auxiliary enterprises, net of discounts and allowances.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. In a nonexchange transaction, the University receives value without directly giving equal value back, such as a gift or grant for which there is no return requirement. Additionally, certain significant revenues relied upon for operations, such as state appropriations, Pell and similarly funding federal and state grants for student financial aid, investment income and endowment income, are recorded as nonoperating revenues, in accordance with GASB No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities - an Amendment of GASB Statement 34*.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

Tuition Discounts and Allowances

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

Income Taxes

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky Employees' Retirement System (KERS) and Kentucky Teachers' Retirement System (KTRS) plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by KERS and KTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

2. Accounts Receivable

Accounts receivable as of June 30 consisted of:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Current accounts receivable: | | |
| Student tuition and fees | \$ 7,820,473 | \$ 8,604,939 |
| Grants and contracts | 1,184,628 | 1,343,054 |
| Auxiliary fees | 2,590,092 | 2,414,144 |
| MSU and Racer Foundations | 298,650 | 295,699 |
| Employee computer and bicycle loans | 6,694 | 11,376 |
| Outside sales | 831,253 | 850,938 |
| Capital construction receivable - vendors | 42 | 53,835 |
| Allowance for doubtful accounts | <u>(5,238,827)</u> | <u>(4,662,265)</u> |
| Total current accounts receivable | <u>\$ 7,493,005</u> | <u>\$ 8,911,720</u> |

3. Inventories

Inventories as of June 30 consisted of:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------------|---------------------|---------------------|
| University bookstore - resale | \$ 1,656,708 | \$ 1,583,854 |
| Physical plant - supplies | 1,611,136 | 324,575 |
| Food services - resale and supplies | 161,551 | 186,703 |
| Art supplies | 49,130 | 44,562 |
| CFSB concessions | 18,880 | 13,017 |
| Central stores - supplies | <u>22,451</u> | <u>17,141</u> |
| Total inventories | <u>\$ 3,519,856</u> | <u>\$ 2,169,852</u> |

4. Loans Receivable

Student loans made through the Federal Perkins Loan Program (Program) comprise substantially all of the loans receivable at June 30, 2016 and 2015. The Program provides for service cancellation of a loan at rates of 12.5% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (Continued)

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. The allowance for uncollectible loans at June 30, 2016 and 2015 was \$246,589 and \$232,784, respectively.

Loans receivable as of June 30 consisted of:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Current loans receivable: | | |
| University loan programs | \$ 58,605 | \$ 52,069 |
| Federal nursing program | 84,454 | 91,807 |
| Federal Perkins program | 531,186 | 584,844 |
| Total current loans receivable, net | <u>674,245</u> | <u>728,720</u> |
| Noncurrent loans receivable: | | |
| University loan programs | 17,789 | 15,158 |
| Federal nursing program | 354,258 | 391,872 |
| Federal Perkins program | 2,692,622 | 2,919,616 |
| Total noncurrent loans receivable, net | <u>3,064,669</u> | <u>3,326,646</u> |
| Total loans receivable, net | <u>\$ 3,738,914</u> | <u>\$ 4,055,366</u> |

5. Deposits, Investments and Investment Income

Deposits

At June 30, 2016 and 2015, the carrying amounts of the University's bank balances and deposits were \$136,881,226 and \$143,938,412, respectively.

Currently the University maintains its deposits, outside of those held by the Commonwealth of Kentucky, in noninterest-bearing accounts at FDIC-insured institutions. All accounts are insured up to \$250,000. The deposits in these noninterest-bearing accounts are covered by an irrevocable, unconditional, and nontransferable letter of credit issued by Federal Home Loan Bank of Cincinnati.

MURRAY STATE UNIVERSITY

A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (Continued)

The University also maintains cash deposits with the Commonwealth of Kentucky, as overseen by the State Investment Commission (Commission). The Commission is charged with the oversight of the Commonwealth's investment programs pursuant to KRS 42.500. The Commonwealth's investments are categorized into two distinct classifications or "pools." The Short-Term Pool consists primarily of General Fund cash balances. The Intermediate-Term Pool and the Limited Term Pool represent Agency fund investments, state held component unit and fiduciary fund accounts held for the benefit of others by the state. Shares of each pool represent a divisible interest in the underlying securities and are not federally insured or guaranteed by the U.S. Government, Federal Deposit Insurance Corporation or any federal agency. The pools have not been approved by the Securities and Exchange Commission. The University's shares within the pools may indirectly expose it to risks associated with fixed income investments; however, specific information about any such transactions is not available to the University.

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

Cash and cash equivalents as of June 30 consisted of:

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------|-----------------------|
| Depository accounts: | | |
| Local bank deposits, letter of credit in the University's name | \$ 6,433,122 | \$ 7,482,275 |
| Cash on hand | 49,983 | 96,192 |
| Foreign currency deposits | 67,740 | 192,218 |
| State Investment Pool - collateral required by KRS 41.240 | <u>130,330,381</u> | <u>136,167,727</u> |
| Total deposits | <u>\$ 136,881,226</u> | <u>\$ 143,938,412</u> |

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

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|-----------------------|-----------------------|
| Cash and cash equivalents, current | \$ 78,458,889 | \$ 74,197,070 |
| Restricted cash and cash equivalents | <u>58,422,337</u> | <u>69,741,342</u> |
| Total deposits | <u>\$ 136,881,226</u> | <u>\$ 143,938,412</u> |

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

Investments

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

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Money market funds restricted for debt service purposes | \$ 319,245 | \$ 2,376,993 |
| Restricted assets held by the Foundation | <u>23,421,956</u> | <u>24,302,998</u> |
| Total investments | <u>\$ 23,741,201</u> | <u>\$ 26,679,991</u> |

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

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

The assets in the Foundation investment pool are invested as of June 30 as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Percentage of pool invested in: | | |
| Certificates of deposit and money market mutual funds | 5% | 7% |
| Mutual funds | 59% | 25% |
| Equity securities | 4% | 39% |
| Fixed income securities | 31% | 28% |
| Other | <u>1%</u> | <u>1%</u> |
| Total investments | <u>100%</u> | <u>100%</u> |

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not, within its investment policy, formally limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The money market mutual funds are investments with a maturity of less than one year because they are redeemable in full immediately. In addition, the funds held in the State Investment Pool have a maturity of less than one year because they are redeemable in full immediately.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires investments to be in compliance with state statute. The University has no further policy that would limit its investment choices. Credit ratings for the money market mutual funds and State Investment Pool are not available and are therefore, considered unrated.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. The University places no limit on the amount that may be invested in any one issuer. The University does not hold more than 5% of its investments with a single issuer.

Investment Income

Investment income for the years ended June 30 consisted of:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Assets held by the University: | | |
| Interest income | \$ 1,666,800 | \$ 993,420 |
| Assets held by MSU Foundation: | | |
| Investment income endowment funds | 1,307,080 | 1,407,238 |
| Net increase/(decrease) in fair value of endowment investments | <u>(1,434,391)</u> | <u>(1,115,072)</u> |
| Total investment income | <u>\$ 1,539,489</u> | <u>\$ 1,285,586</u> |

6. Endowments

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

| | <u>2016</u> | <u>2015</u> |
|-------------------------------------|----------------------|----------------------|
| Endowment assets, beginning of year | \$ 20,453,677 | \$ 21,452,081 |
| Investment return: | | |
| Net depreciation | (1,432,838) | (1,113,672) |
| Contributions | <u>197,368</u> | <u>115,268</u> |
| Endowment assets, end of year | <u>\$ 19,218,207</u> | <u>\$ 20,453,677</u> |

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (*Continued*)

7. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

| | Balance June 30, 2015 | Additions | Transfers | Deletions/ Retirements | Balance June 30, 2016 |
|---|--------------------------|-------------------|--------------------|---------------------------|--------------------------|
| Land | \$ 9,728,586 | \$ — | \$ 191,855 | \$ (219) | \$ 9,920,222 |
| Construction in progress | 17,845,247 | 61,456,927 | (2,159,402) | (510,346) | 76,632,426 |
| Museum and collectibles | 676,085 | 1,550 | — | — | 677,635 |
| Total capital assets not being depreciated | 28,249,918 | 61,458,477 | (1,967,547) | (510,565) | 87,230,283 |
| Buildings | 277,508,611 | — | 857,561 | (19) | 278,366,153 |
| Nonbuilding improvements | 15,372,571 | — | 1,092,256 | — | 16,464,827 |
| Equipment | 30,024,868 | 1,809,720 | 17,730 | (643,602) | 31,208,716 |
| Library holdings | 30,338,614 | 144,881 | — | (361,423) | 30,122,072 |
| Livestock | 165,750 | — | — | — | 165,750 |
| Software | 1,932,019 | — | — | — | 1,932,019 |
| Total other capital assets | 355,342,433 | 1,954,601 | 1,967,547 | (1,005,044) | 358,259,537 |
| Total capital assets before depreciation | 383,592,351 | 63,413,078 | — | (1,515,609) | 445,489,820 |
| Less accumulated depreciation: | | | | | |
| Buildings | 139,649,655 | 6,976,381 | — | — | 146,626,036 |
| Improvements other than buildings | 9,945,533 | 638,658 | — | — | 10,584,191 |
| Equipment | 22,328,964 | 1,716,679 | — | (629,290) | 23,416,353 |
| Library holdings | 26,274,781 | 602,393 | — | (300,898) | 26,576,276 |
| Livestock | 76,708 | 11,792 | — | — | 88,500 |
| Software | 1,674,429 | 241,502 | — | — | 1,915,931 |
| Total accumulated depreciation | 199,950,070 | 10,187,405 | — | (930,188) | 209,207,287 |
| Capital assets, net | \$ 183,642,281 | | | | \$ 236,282,533 |

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes To Financial Statements (Continued)

Capital asset activity for the year ended June 30, 2015 was as follows:

| | Balance June 30, 2014 | Additions | Transfers | Deletions/ Retirements | Balance June 30, 2015 |
|---|--|-------------------|---------------------|-----------------------------------|--|
| Land | \$ 9,966,615 | \$ — | \$ 63,971 | \$ (302,000) | \$ 9,728,586 |
| Construction in progress | 14,635,575 | 18,145,159 | (13,953,434) | (982,053) | 17,845,247 |
| Museum and collectibles | 657,485 | 18,600 | — | — | 676,085 |
| Total capital assets not being depreciated | 25,259,675 | 18,163,759 | (13,889,463) | (1,284,053) | 28,249,918 |
| Buildings | 267,306,268 | — | 13,135,943 | (2,933,600) | 277,508,611 |
| Nonbuilding improvements | 14,699,121 | — | 673,450 | — | 15,372,571 |
| Equipment | 27,756,140 | 2,657,367 | 80,070 | (468,709) | 30,024,868 |
| Library holdings | 29,543,470 | 962,635 | — | (167,491) | 30,338,614 |
| Livestock | 165,750 | — | — | — | 165,750 |
| Software | 1,932,019 | — | — | — | 1,932,019 |
| Total other capital assets | 341,402,768 | 3,620,002 | 13,889,463 | (3,569,800) | 355,342,433 |
| Total capital assets before depreciation | 366,662,443 | 21,783,761 | — | (4,853,853) | 383,592,351 |
| Less accumulated depreciation: | | | | | |
| Buildings | 134,597,096 | 6,998,155 | — | (1,945,596) | 139,649,655 |
| Improvements other than buildings | 9,244,873 | 700,660 | — | — | 9,945,533 |
| Equipment | 21,055,434 | 1,715,014 | — | (441,484) | 22,328,964 |
| Library holdings | 25,740,743 | 693,154 | — | (159,116) | 26,274,781 |
| Livestock | 64,916 | 11,792 | — | — | 76,708 |
| Software | 1,432,927 | 241,502 | — | — | 1,674,429 |
| Total accumulated depreciation | 192,135,989 | 10,360,277 | — | (2,546,196) | 199,950,070 |
| Capital assets, net | \$ 174,526,454 | | | | \$ 183,642,281 |

8. Accounts Payable

Accounts payable at June 30 consisted of:

| | 2016 | 2015 |
|-----------------------------------|----------------------|----------------------|
| Current accounts payable: | | |
| Vendors | \$ 13,261,067 | \$ 7,926,479 |
| Payroll benefits and withholdings | 2,293,731 | 2,170,457 |
| MSU Foundation | 57,144 | 59,996 |
| Loans | 25,043 | 18,451 |
| Total accounts payable | \$ 15,636,985 | \$ 10,175,383 |

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

9. University Health Self-Insurance Program

The University maintains a self-insurance program for employees' health insurance. For the fiscal year ended June 30, 2016, the University paid approximately 86% of total plan expenses for permanent full-time employees and their families. The University's contribution to cover claims paid under the plan for years ended June 30, 2016 and 2015, totaled \$10,042,235 and \$10,636,903, respectively. Stop loss and administrative fees are disclosed in the chart below. The University's stop-loss insurance limits its exposure for claims to \$125,000 per individual for the first half of the fiscal year, increasing to \$200,000 per individual at January 1, 2016 through June 30, 2016.

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

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Liability, beginning of year | \$ 617,000 | \$ 660,000 |
| Accruals for current year claims and changes in estimate (includes employee and employer contributions) | 12,133,583 | 12,540,590 |
| Administrative and stop-loss fees | (1,343,744) | (1,449,503) |
| Claims paid | <u>(10,779,742)</u> | <u>(11,134,087)</u> |
| Liability, end of year | <u>\$ 627,097</u> | <u>\$ 617,000</u> |

10. Unearned Revenue

Unearned revenue as of June 30 consisted of:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|---------------------|---------------------|
| Current unearned revenue: | | |
| Prepaid tuition and fees | \$ 2,726,634 | \$ 2,425,959 |
| Grants and contracts | 891,217 | 804,970 |
| Auxiliary enterprises | <u>33,024</u> | <u>99,364</u> |
| Total current unearned revenue | <u>\$ 3,650,875</u> | <u>\$ 3,330,293</u> |

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Notes To Financial Statements (Continued)

11. Revenue Bonds, Notes Payable and Capital Leases

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2016:

| | Beginning Balance | Additions | Deductions | Ending Balance | Amounts Due Within One Year | Long-Term Portion |
|---|------------------------------|---------------------|------------------------|---------------------------|--|------------------------------|
| Bonds payable | \$ 79,650,000 | \$ 8,310,000 | \$ (12,125,000) | \$ 75,835,000 | \$ 3,685,000 | \$ 72,150,000 |
| Less bond discounts | (213,387) | — | 153,302 | (60,085) | (4,622) | (55,463) |
| Plus bond premiums | 2,113,114 | 190,125 | (114,424) | 2,188,815 | 114,424 | 2,074,391 |
| Bonds payable, net of discounts / premiums | 81,549,727 | 8,500,125 | (12,086,122) | 77,963,730 | 3,794,802 | 74,168,928 |
| City of Murray payable | 8,464,999 | — | (340,000) | 8,124,999 | 360,000 | 7,764,999 |
| Master lease notes payable | 2,126,828 | — | (873,960) | 1,252,868 | 906,247 | 346,621 |
| Total bonds, notes and capital leases | <u>\$ 92,141,554</u> | <u>\$ 8,500,125</u> | <u>\$ (13,300,082)</u> | <u>\$ 87,341,597</u> | <u>\$ 5,061,049</u> | <u>\$ 82,280,548</u> |

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2015:

| | Beginning Balance | Additions | Deductions | Ending Balance | Amounts Due Within One Year | Long-Term Portion |
|---|------------------------------|----------------------|-----------------------|---------------------------|--|------------------------------|
| Bonds payable | \$ 56,800,000 | \$ 26,000,000 | \$ (3,150,000) | \$ 79,650,000 | \$ 3,230,000 | \$ 76,420,000 |
| Less bond discounts | (230,399) | — | 17,012 | (213,387) | (17,012) | (196,375) |
| Plus bond premiums | 280,163 | 1,944,208 | (111,257) | 2,113,114 | 111,256 | 2,001,858 |
| Bonds payable, net of discounts / premiums | 56,849,764 | 27,944,208 | (3,244,245) | 81,549,727 | 3,324,244 | 78,225,483 |
| City of Murray payable | 8,789,999 | — | (325,000) | 8,464,999 | 340,000 | 8,124,999 |
| Master lease notes payable | 2,969,670 | — | (842,842) | 2,126,828 | 873,960 | 1,252,868 |
| Capital leases | 629,000 | — | (629,000) | — | — | — |
| Total bonds, notes and capital leases | <u>\$ 69,238,433</u> | <u>\$ 27,944,208</u> | <u>\$ (5,041,087)</u> | <u>\$ 92,141,554</u> | <u>\$ 4,538,204</u> | <u>\$ 87,603,350</u> |

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

Maturity Information

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

| Years Ending June 30 | Bonds | Notes | Total Principal | Interest | Total Payments |
|-------------------------------------|----------------------|---------------------|----------------------------|----------------------|---------------------------|
| 2017 | \$ 3,685,000 | \$ 1,266,247 | \$ 4,951,247 | \$ 2,833,014 | \$ 7,784,261 |
| 2018 | 3,800,000 | 721,620 | 4,521,620 | 2,721,662 | 7,243,282 |
| 2019 | 3,950,000 | 395,000 | 4,345,000 | 2,586,138 | 6,931,138 |
| 2020 | 4,130,000 | 415,000 | 4,545,000 | 2,464,706 | 7,009,706 |
| 2021 | 3,905,000 | 435,000 | 4,340,000 | 2,338,784 | 6,678,784 |
| 2022-2026 | 21,970,000 | 2,315,000 | 24,285,000 | 9,507,314 | 33,792,314 |
| 2027-2031 | 20,640,000 | 2,650,000 | 23,290,000 | 5,042,139 | 28,332,139 |
| 2032-2035 | 13,755,000 | 1,180,000 | 14,935,000 | 1,278,275 | 16,213,275 |
| Total | \$ 75,835,000 | \$ 9,377,867 | \$ 85,212,867 | \$ 28,772,032 | \$ 113,984,899 |

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Notes To Financial Statements (Continued)

Long-term liability information for the year ended June 30, 2016 was as follows:

| | Original Issue | Balance Due June 30, 2016 | Interest Expense, Current Year | Bonds/Notes/ Leases Maturing 2016-2017 |
|---|-----------------------|------------------------------|--------------------------------------|--|
| General Receipts Bonds Payable | | | | |
| Series A 2007 bonds dated July 31, 2007, with an interest rate of 4.00% to 4.50%; final principal payment date September 1, 2027; Richmond Hall | \$ 14,550,000 | \$ 1,345,000 | \$ 128,827 | \$ 660,000 |
| Series A 2009 bonds dated April 22, 2009, with an interest rate of 2.50% to 4.20%; final principal payment date September 1, 2028; completion of Richmond Hall and various projects under \$600,000 | 7,665,000 | 5,765,000 | 224,940 | 355,000 |
| Series A 2011 bonds dated July 12, 2011, with an interest rate of 2.00% to 4.50%; final principal payment date September 1, 2031; renovation of Elizabeth Hall | 7,645,000 | 6,475,000 | 247,566 | 310,000 |
| Series B 2011 refunding bonds dated July 26, 2011, with an interest rate of 2.00% to 3.75%; final principal payment date September 1, 2021; refunding of Housing and Dining bonds series M, N and O | 4,670,000 | 2,195,000 | 64,549 | 515,000 |
| Series C 2011 refunding bonds dated July 12, 2011, with an interest rate of 2.00% to 4.00%; final principal payment date September 1, 2027; refunding of Housing and Dining bonds series P and Q | 15,620,000 | 11,440,000 | 407,025 | 845,000 |
| Series A 2013 bonds dated May 29, 2013, with an interest rate of 2.00% to 4.00%; final principal payment date September 1, 2033; renovation of Hester Hall, College Courts sprinklers, and various projects under \$600,000 | 15,635,000 | 14,390,000 | 416,643 | 645,000 |
| Series A 2015 bonds dated March 31, 2015, with an interest rate of 3.00% to 5.00%; final principal payment date March 31, 2035; Franklin Hall construction | 26,000,000 | 26,000,000 | 1,055,799 | 320,000 |
| Series A 2016 bonds dated March 31, 2016, with an interest rate of 1.00% to 3.00%; final principal payment date September 1, 2027; Refunding of Series A 2007 bonds | 8,310,000 | 8,225,000 | 69,809 | 35,000 |
| Total general receipts bonds payable | <u>100,095,000</u> | <u>75,835,000</u> | <u>2,615,158</u> | <u>3,685,000</u> |
| Bonds payable before discount | 100,095,000 | 75,835,000 | 2,615,158 | 3,685,000 |
| Less bond discount | — | (60,085) | — | (4,622) |
| Plus bond premium | — | 2,188,815 | — | 114,424 |
| Total bonds payable | <u>\$ 100,095,000</u> | <u>\$ 77,963,730</u> | <u>\$ 2,615,158</u> | <u>\$ 3,794,802</u> |

MURRAY STATE UNIVERSITY
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Notes To Financial Statements (Continued)

| | <u>Original Issue</u> | <u>Balance Due June 30, 2016</u> | <u>Interest Expense, Current Year</u> | <u>Bonds/Notes/ Leases Maturing 2016-2017</u> |
|--|---------------------------|--------------------------------------|---|---|
| City of Murray Payable | | | | |
| Agreement dated April 17, 2012, with interest of 1.00% to 3.50%; final principal payment due June 1, 2033; Wellness Center refunding of the December 30, 2002 issue. | \$ 9,250,000 | \$ 8,125,000 | \$ 224,129 | \$ 360,000 |
| Master Lease Payable | | | | |
| Campus energy performance upgrade - Master lease dated February 10, 2005, with interest of 3.94%; final principal payment due August 10, 2017 | 6,707,876 | 1,019,901 | 59,421 | 673,280 |
| Energy savings projects - Master lease dated June 29, 2010, with interest of 2.85%; final principal payment due June 29, 2017 | <u>1,500,000</u> | <u>232,966</u> | <u>10,670</u> | <u>232,967</u> |
| Total master lease payable | <u>\$ 8,207,876</u> | <u>\$ 1,252,867</u> | <u>\$ 70,091</u> | <u>\$ 906,247</u> |
| Total All Bond Issues, Notes Payable and Capital Leases | <u>\$ 117,552,876</u> | <u>\$ 87,341,597</u> | <u>\$ 2,909,378</u> | <u>\$ 5,061,049</u> |

The revenue bond indentures require the University to make deposits to sinking and reserve funds in annual amounts to meet the principal and interest payments due within the next 12 months, as well as maintain a reserve balance as a percentage of outstanding balances. As of June 30, 2016 and 2015, the sinking fund and reserve fund requirements have been funded as required.

On March 31, 2016, the Board of Regents issued \$8,310,000 General Receipts Refunding Bonds, 2016 Series A. The 2016 Series A bonds shall pay interest semiannually on March 1 and September 1. The transaction was considered to be a current refunding and the General Receipts Bonds, 2007 Series A were partially refunded on March 31, 2016. The 2016 Series A bonds bear interest at rates varying from 1.00% to 3.00% and mature serially through fiscal year 2028. The 2016 Series A bonds refunded the 2007 Series A bonds, which had an interest rate ranging from 4.00% to 4.50%. The current refunding decreased the University's total debt service payments by \$2.2 million and results in an economic gain (difference between the present values of the old and new debt service payments) of \$846,000.

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

12. Deposits

The deposits held as of June 30 consisted of:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|-------------------|-------------------|
| Current: | | |
| Horse stall rentals | \$ 20,510 | \$ 18,060 |
| Racer card declining balances | 35,249 | 37,558 |
| Housing deposits | 166,181 | 171,269 |
| Agency account balances | <u>90,867</u> | <u>91,515</u> |
| Total current deposits | 312,807 | 318,402 |
| Noncurrent: | | |
| Housing deposits | <u>365,550</u> | <u>348,300</u> |
| Total deposits | <u>\$ 678,357</u> | <u>\$ 666,702</u> |

Noncurrent housing deposit additions were \$151,200 and \$162,350 for the years ended June 30, 2016 and 2015, respectively. Noncurrent housing deposit deductions were \$133,950 and \$182,325 for the years ended June 30, 2016 and 2015, respectively.

13. Unrestricted Net Position

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

| | <u>2016</u> | <u>2015</u> |
|--|-------------------------|-------------------------|
| Unrestricted net position | | |
| Allocated for: | | |
| Departmental operations | \$ 24,480,460 | \$ 28,002,889 |
| Encumbrances | 150,109 | 1,223,102 |
| Board designated projects | 12,354,871 | 7,135,818 |
| Capital projects | 5,369,936 | 4,318,618 |
| Renovation and maintenance | 8,725,584 | 7,500,557 |
| Plant reserves | 9,970,785 | 10,020,977 |
| Working capital | 9,825,242 | 9,683,372 |
| Revenue contingency | 2,401,255 | 2,401,255 |
| General contingency | 38,338,328 | 29,511,382 |
| Self insurance | <u>627,097</u> | <u>617,000</u> |
| Total unrestricted net position before pensions adjustment | 112,243,667 | 100,414,970 |
| Pension adjustments, KERS non-hazardous | (80,157,742) | (75,652,054) |
| Pension adjustments, KERS hazardous | (1,190,901) | (1,004,929) |
| Pension adjustments, KTRS | <u>(162,692,626)</u> | <u>(156,911,574)</u> |
| Total unrestricted net position | <u>\$ (131,797,602)</u> | <u>\$ (133,153,587)</u> |

14. Pension Plans

a) General Information about the Pension Plans

Plan Descriptions

Kentucky Retirement Systems. Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees (the Board) of Kentucky Retirement Systems (KRS) (Systems) administers the Kentucky Employees Retirement System (KERS, listed herein as KERS-nh for “non-hazardous and KERS-h for “hazardous”), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). Although the assets of the systems are invested as a whole, each system’s assets are used only for the payment of benefits to the members of that plan, and a pro rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630. KERS-nh and KERS-h are cost-sharing multiple-employer defined benefit pension plans that cover all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate. KRS issues a publicly available financial report that can be obtained at <https://kyret.ky.gov/about/Publications/Pages/default.aspx>

Kentucky Teachers Retirement System. Under the provisions of Kentucky Revised Statute Section 161.250, the Board of Trustees (the Board) of Kentucky Teachers’ Retirement Systems (KTRS) administers the Kentucky Teachers’ Retirement System (KTRS). 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 KRS 161.567. KTRS, is a cost sharing, multiple-employer, public employee retirement system. KTRS issues a publicly available financial report that can be obtained at http://ktrs.ky.gov/05_publications/index.htm

Benefits Provided

KERS-nh, members before 9/1/2008. Benefits are available with completion of 27 years of service or attainment of age 65 and 4 years of service. Reduced benefits are available at 6.5% per year for the first five years, and 4.5% for the next five years before age 65 or 27 years of service with the attainment of age 55 and 5 years of service or any age with 25 years of service.

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Notes To Financial Statements (*Continued*)

The annual retirement allowance is equal to 1.97% of the average of the five highest years of compensation multiplied by service for members that do not have 13 months credit for 1/1/1998-1/1/1999. The allowance is equal to 2.00% of final compensation multiplied by service for members that have 13 months credit from 1/1/1998-1/1/1999. The allowance is equal to 2.20% of final compensation multiplied by service for members that have 20 or more years of service, including 13 months from 1/1/1998-1/1/1999 and retired by 1/1/2009.

KERS-nh, members on and after 9/1/2008. Benefits are available with attainment of age 65 and five years of service, or attainment of age 57 and age plus years of service are greater than or equal to 87. Reduced benefits are available at 6.5% per year for the first five years, and 4.5% for the next five years before age 65 or age plus years of service are greater than or equal to 87 with the attainment of age 60 and 10 years of service.

The annual retirement allowance is equal to the average of the last complete five years of service multiplied by an increasing percent based on service at retirement plus 2.00% for each year of service over 30. The increasing percent based on service at retirement is 1.10% for 10 years of service or less, 1.30% for 10 to 20 years of service, 1.50% for 20 to 26 years of service, and 1.75% for 26 to 30 years of service.

KERS-nh, Other benefits. If the member is receiving a monthly benefit based on at least four (4) years of creditable service, the retirement system will pay a \$5,000 death benefit payment to the beneficiary named by the member specifically for this benefit. Disability benefits are also provided at various levels depending on participation dates and circumstances.

Insurance benefits are available for members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003 and before September 1, 2008 are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

Upon termination of employment, a refund of member contributions and accumulated interest is available to the member.

Active member accounts have been credited with interest on July 1 of each year at 3% compounded annually through June 30, 1981; 6% thereafter through June 30, 1986; 4% thereafter through June 30, 2003, and 2.5% thereafter. For employees participating prior to September 1, 2008, the interest paid is set by the Board of Trustees and will not be less than 2.0%, for employees participating on or after September 1, 2008 but before January 1, 2014, interest will be credited at a rate of 2.5%. For employees participating on or after January 1, 2014, interest will be credited at a minimum rate of 4.0%.

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Notes To Financial Statements (*Continued*)

KERS-h, members before 9/1/2008. Benefits are available with completion of 20 years of service or attainment of age 55 and five years of service. Reduced benefits are available at 6.5% per year for the first five years, and 4.5% for the next five years before age 55 or 20 years of service with the attainment of age 50 and 15 years of service.

The annual retirement allowance is equal to 2.49% of the average of the three highest years of compensation multiplied by years of service.

KERS-h, members on and after 9/1/2008. Benefits are available with completion of 25 years of service or attainment of age 60 and 5 years of service. Reduced benefits are available at 6.5% per year for the first five years, and 4.5% for the next five years before age 60 or 25 years of service with the attainment of age 50 and 15 years of service.

The annual retirement allowance is equal to an increasing percent, based on service at retirement, of the average of the three highest years of compensation multiplied by years of service for members participating prior to 1/1/2014. The increasing percent is as follows: 1.30% for 10 years or less, 1.50% for 10 to 20 years, 2.25% for 20 to 25 years, and 2.50% for 25 years or more.

For members participating on or after 1/1/2014: Each year that a member is an active contributing member to the System, the member and the member's employer will contribute 8.00% and 7.50% of creditable compensation respectively into an account. This account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the System's geometric average net investment return for the previous five years exceeds 4%, then the account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

KERS-h, Other benefits. If the member is receiving a monthly benefit based on at least four (4) years of creditable service, the retirement system will pay a \$5,000 death benefit payment to the beneficiary named by the member specifically for this benefit. Disability benefits are also provided at various levels depending on participation dates and circumstances.

For both KERS-nh and KERS-h, monthly retirement allowances are increased July 1 each year by one and one-half percent (1.5%). The Kentucky General Assembly has the authority to increase, suspend or reduce Cost of Living Adjustments (COLA). HB 265 of 2012 eliminated the July 1, 2012 and July 1, 2013 COLAs for all retirees. SIB of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (i) the system is over 100% funded or (ii) the Legislature appropriates sufficient funds to pay the increased liability for the COLA.

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Notes To Financial Statements (*Continued*)

For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Hazardous duty members are also eligible for an additional contribution for dependents based upon hazardous service only. Members participating on or after July 1, 2003 and before September 1, 2008 are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$15 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

Upon termination of employment, a refund of member contributions and accumulated interest is available to the member.

Active member accounts have been credited with interest on July 1 of each year at 3% compounded annually through June 30, 1981; 6% thereafter through June 30, 1986; 4% thereafter through June 30, 2003, and 2.5% thereafter. For employees hired prior to September 1, 2008, the interest paid is set by the Board of Trustees and will not be less than 2.0%, for employees hired on or after September 1, 2008, interest will be credited at a rate of 2.5%.

KTRS, members before 7/1/2008. Benefits are available with completion of 27 years of service or attainment of age 55 and five years of service. The annual retirement allowance for non-university members is equal to 2.0% of final average salary multiplied by service before July 1, 1983, plus 2.5% of final average salary multiplied by service after July 1, 1983. For individuals who become members of the Retirement System on or after July 1, 2002 and have less than 10 years of service at retirement, the retirement allowance is 2.0% of final average salary multiplied by service. If, however, they have 10 or more years, they receive a benefit percentage of 2.5% for all years of service up to 30 years. For members retiring on or after July 1, 2004, the retirement allowance formula is 3.0% of final average salary for each year of service credit earned in excess of 30 years.

The annual retirement allowance for university members is equal to 2.0% of final average salary multiplied by all years of service. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.

KTRS, members on and after 7/1/2008. Benefits are available with completion of 27 years of service, attainment of age 60 and five years of service or attainment of age 55 and 10 years of service. The annual retirement allowance for non-university members is equal to 1.7% of final average salary if service is 10 years or less. 2.0% of final average salary if service is greater than 10 years and no more than 20 years. 2.3% of final average salary if service is greater than 20 years but no more than 26 years. 2.5% of final average salary if service is greater than 26 years but no more than 30 years. 3.0% of final average salary for years of service greater than 30 years.

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Notes To Financial Statements (*Continued*)

The annual retirement allowance for university members is equal to 1.5% of final average salary if service is 10 years or less. 1.7% of final average salary if service is greater than 10 years and no more than 20 years. 1.85% of final average salary if service is greater than 20 years but less than 27 years. 2.0% of final average salary if service is greater than or equal to 27 years.

For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

KTRS, Other benefits. Disability benefits are provided for employees totally and permanently incapable of being employed as a teacher and under age 60 but after completing 5 years of service. The disability allowance is equal to the greater of the service retirement allowance or 60% of the member's final average salary. The disability allowance is payable over an entitlement period equal to 25% of the service credited to the member at the date of disability or five years, whichever is longer. After the disability entitlement period has expired and if the member remains disabled, he will be retired under service retirement. The service retirement allowance will be computed with service credit given for the period of disability retirement. The allowance will not be less than \$6,000 per year. The service retirement allowance will not be reduced for commencement of the allowance before age 60 or the completion of 27 years of service.

Any member who ceases to be in service is entitled to receive his contributions with allowable interest. A member who has completed five years of creditable service and leaves his contributions with the System may be continued in the membership of the System after separation from service, and file application for service retirement after the attainment of age 60.

A separate Life Insurance fund has been created as of June 30, 2000 to pay benefits on behalf of deceased KTRS active and retired members.

A surviving spouse of an active member with less than 10 years of service may elect to receive an annual allowance of \$2,880 except that if income from other sources exceeds \$6,600 per year the annual allowance will be \$2,160. A surviving spouse of an active member with 10 or more years of service may elect to receive an allowance which is the actuarial equivalent of the allowance the deceased member would have received upon retirement. The allowance will commence on the date the deceased member would have been eligible for service retirement and will be payable during the life of the spouse. If the deceased member is survived by unmarried children under age 18 the following schedule of annual allowances applies:

| <u>Number of Children</u> | <u>Annual Allowance</u> |
|---------------------------|-------------------------|
| 1 | \$2,400 |
| 2 | 4,080 |
| 3 | 4,800 |
| 4+ | 5,280 |

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The allowances are payable until a child attains age 18, or age 23 if a full-time student. If the member has no eligible survivor, a refund of his accumulated contributions is payable to his estate.

The retirement allowance of each retired member and of each beneficiary shall be increased by 1.50% each July 1.

Contributions

KERS-nh. Per KRS 61.565 and KRS 61.752, contribution requirements of the active employees and the participating employers are established and may be amended by the KRS Board. Employees are required to contribute five percent of their annual pay. The participating employers' contractually required contribution rate for the year ended June 30, 2016, was 38.77% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the University were \$4,257,068 and \$4,316,235 for the years ended June 30, 2016 and 2015, respectively.

KERS-h. Per KRS 61.565 and KRS 61.752, contribution requirements of the active employees and the participating employers are established and may be amended by the KRS Board. Employees are required to contribute 8% of their annual pay. The participating employers' contractually required contribution rate for the year ended June 30, 2016, was 26.34% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the University were \$135,295 and \$139,672 for the years ended June 30, 2016 and 2015, respectively.

The University's overall contributions, which include pension, medical, and life insurance contributions, to KERS for the years ended June 30, 2016 and 2015 were \$5,569,128 and \$5,601,392, respectively, and were equal to the required contributions.

KTRS. Per KRS 161.250, contribution requirements of the active employees and the participating employers are established and may be amended by the KTRS Board. Employees are required to contribute 7.68% of their annual pay. The participating employers' contractually required contribution rate for the year ended June 30, 2016, was 15.865% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the University were \$5,549,698 and \$5,607,399 for the years ended June 30, 2016 and 2015, respectively.

The University's overall contributions, which include pension, medical, and life insurance contributions, to KTRS for the fiscal years ended June 30, 2016 and 2015 were \$6,536,447 and \$6,399,154, respectively.

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (Continued)

b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The University reported a liability of \$263,527,741 and \$233,580,719 for the years ended June 30, 2016 and 2015, respectively, for its proportionate shares of the net pension liability in the plans. The net pension liability for KTRS and KERS plans were measured as of June 30, 2015 and June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates for all plans. The University's proportions of the net pension liabilities were based on projections of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the University's proportion was 0.722622% for KTRS, 0.854037% for KERS-nh, and 0.388584% for KERS-h, and at June 30, 2014 the University's proportion was 0.710400% for KTRS, 0.882259% for KERS-nh, and 0.405301% for KERS-h.

For the years ended June 30, 2016 and 2015, the University recognized pension expense of \$11,349,903 and \$3,746,377, respectively. At June 30, 2016 and 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>June 30, 2016</u> | | <u>June 30, 2015</u> | |
|---|---|--|---|--|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences between expected and actual experience | \$ 132,951 | \$ 1,541,756 | \$ — | \$ — |
| Change in assumptions | 11,500,367 | 1,086,515 | — | 1,729,639 |
| Net difference between projected and actual earnings on investments | 201,463 | 2,401,613 | — | 8,321,506 |
| Change in proportionate share | 3,945,579 | 1,206,067 | — | — |
| Contributions subsequent to the measurement date | 9,942,062 | — | 10,063,307 | — |
| Total | <u>\$ 25,722,422</u> | <u>\$ 6,235,951</u> | <u>\$ 10,063,307</u> | <u>\$ 10,051,145</u> |

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Notes To Financial Statements (Continued)

In the years ended June 30, 2016 and 2015, deferred outflows of resources of \$9,942,062 and \$10,063,307, respectively, related to pensions resulting from the University contributions subsequent to the measurement date will be recognized as reductions of the net pension liability in the years ended June 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2016 will be recognized in pension expense as follows:

| <u>Year Ended June 30:</u> | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> |
|----------------------------|--|---|
| 2017 | \$ 2,380,598 | \$ 4,686,281 |
| 2018 | 2,380,599 | 4,686,281 |
| 2019 | 1,777,565 | 3,203,899 |
| 2020 | (302,811) | 3,203,899 |
| | <u>\$ 6,235,951</u> | <u>\$ 15,780,360</u> |

Actuarial assumptions. The total pension liability in the June 30, 2015 and 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | <u>June 30, 2015</u> | | <u>June 30, 2014</u> | |
|---------------------------|------------------------------|--------------------------------------|------------------------------|--------------------------------------|
| | <u>KERS</u> | <u>KTRS</u> | <u>KERS</u> | <u>KTRS</u> |
| Inflation | 3.25% | 3.50% | 3.5% | 4.0% |
| Salary increases | 4.0%, including inflation | 4.0% to 8.2%, including inflation | 4.5%, including inflation | 4.0% to 8.2%, including inflation |
| Investment rate of return | 7.50% | 7.50% | 7.75% | 7.50% |

As of June 30, 2015, mortality rates for KERS were based on the RP-2000 Combined Mortality Table projected with scale BB to 2013 for all active and healthy retired members and the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 for disabled members.

As of June 30, 2014, mortality rates for KERS were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

As of June 30, 2015 and 2014, mortality rates for KTRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females.

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Notes To Financial Statements (*Continued*)

The actuarial assumptions used in the June 30, 2015 and 2014 valuations were based on the results of actuarial experience study for the periods July 1, 2008 – June 30, 2013, and July 1, 2005 – June 30, 2008, respectively, for KERS and July 1, 2005 – June 30, 2010 for KTRS. As a result of the actuarial experience studies, the expectation of life after disability was adjusted in the July 30, 2015 and 2014 actuarial valuations to more closely reflect actual experience.

For KERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. The previous analysis, used in actuarial valuations for June 30, 2014, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KERS' investment consultant, are summarized in the following tables:

| KERS: | June 30, 2015 | |
|--|--------------------------|---|
| | Target Allocation | Long-Term Expected Real Rate of Return |
| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
| Combined Equity | 44% | 5.40% |
| Combined Fixed Income | 19% | 1.50% |
| Real Return (Diversified Inflation Strategies) | 10% | 3.50% |
| Real Estate | 5% | 4.50% |
| Absolute Return (Diversified Hedge Funds) | 10% | 4.25% |
| Private Equity | 10% | 8.50% |
| Cash Equivalent | 2% | -0.25% |
| Total | <u>100%</u> | |

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Notes To Financial Statements (*Continued*)

| KERS: | | June 30, 2014 | |
|----------------------------|--------------------------|---|--|
| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> | |
| Domestic Equity | 30% | 8.45% | |
| International Equity | 22% | 8.85% | |
| Emerging Market Equity | 5% | 10.50% | |
| Private Equity | 7% | 11.25% | |
| Real Estate | 5% | 7.00% | |
| Core US Fixed Income | 10% | 5.25% | |
| High Yield US Fixed Income | 5% | 7.25% | |
| Non-U.S. Fixed Income | 5% | 5.50% | |
| Commodities | 5% | 7.75% | |
| TIPS | 5% | 5.00% | |
| Cash | 1% | 3.25% | |
| Total | 100% | | |

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

| KTRS: | | June 30, 2015 and 2014 | |
|--------------------|--------------------------|---|--|
| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> | |
| U.S. Equity | 45% | 6.40% | |
| Non-U.S. Equity | 17% | 6.50% | |
| Fixed Income | 24% | 1.60% | |
| High Yield Bonds | 4% | 3.10% | |
| Real Estate | 4% | 5.80% | |
| Alternatives | 4% | 6.80% | |
| Cash | 2% | 1.50% | |
| Total | 100% | | |

Discount rate. For KERS, the discount rate used to measure the total pension liability as of the Measurement Date (June 30, 2015) and Prior Measurement Date (June 30, 2014) were 7.50% and 7.75%, respectively, for both nonhazardous and hazardous. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50% and 7.75%, respectively. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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Notes To Financial Statements (Continued)

For KTRS, the discount rate used to measure the TPL as of the Measurement Date and Prior Measurement Date were 4.88% and 5.23%, respectively. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. It was assumed that Plan member contributions will be made at the current contribution rates and that Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2039 plan year as of the Measurement Date and the 2036 plan year as of the Prior Measurement Date, and, as a result, the Municipal Bond Index Rate was used in the determination of the SEIR. There was a change in the Municipal Bond Index Rate from the Prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at the Measurement Date of 4.88% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.82%). This change in the discount rate is considered a change in actuarial assumptions under GASB 68.

Sensitivity of Murray State University's proportionate share of the net pension liability to changes in the discount rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rates as of the Measurement Date and the Prior Measurement Date:

| | June 30, 2015 | | |
|--|------------------------|------------------------|------------------------|
| | 1% Decrease | Discount Rate | 1% Increase |
| University's proportionate share - KERS-nh | \$ 96,505,515 6.50% | \$ 85,676,061 7.50% | \$ 76,517,290 8.50% |
| University's proportionate share - KERS-h | 1,714,394 6.50% | 1,332,707 7.50% | 1,012,458 8.50% |
| University's proportionate share - KTRS | 219,695,514 3.88% | 176,518,973 4.88% | 140,791,533 5.88% |
| | June 30, 2014 | | |
| | 1% Decrease | Discount Rate | 1% Increase |
| University's proportionate share - KERS-nh | \$ 89,049,025 6.75% | \$ 79,154,689 7.75% | \$ 70,233,956 8.75% |
| University's proportionate share - KERS-h | 1,388,868 6.75% | 1,035,001 7.75% | 731,849 8.75% |
| University's proportionate share - KTRS | 192,674,472 4.23% | 153,391,029 5.23% | 120,964,165 6.23% |

Pension plan fiduciary net position. Detailed information about the pension plans' fiduciary net position is available in the separately issued KERS and KTRS financial reports.

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Notes To Financial Statements (Continued)

15. Component Units

Murray State University Foundation, Inc.

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

During the years ended June 30, 2016 and 2015, the Foundation made payments of \$3,608,638 and \$3,108,767, respectively, on behalf of the University from restricted sources. Accounts receivable at June 30, 2016 and 2015, from the Foundation were \$298,650 and \$295,699, respectively. Accounts payable to the Foundation as of June 30, 2016 and 2015 were not significant. Complete financial statements for the Foundation can be obtained from the MSU Foundation Office, 100 Nash House, Murray, Kentucky 42071.

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

a) Investments and Investment Return

Investments at June 30 consisted of:

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|----------------------|----------------------|
| Money market mutual funds | \$ 860,058 | \$ 2,576,243 |
| Certificates of deposit | 4,034,340 | 4,533,909 |
| Equity securities | 3,951,459 | 38,044,665 |
| Cash value of life insurance policies | 227,301 | 220,895 |
| Mutual funds | 58,610,736 | 24,426,858 |
| Asset-backed bonds | 1,346,942 | 2,389,241 |
| Mortgage-backed bonds | 2,544,632 | 3,193,967 |
| Government bonds | 20,129,879 | 16,158,901 |
| Municipal bonds | 495,984 | 430,987 |
| Corporate bonds | 6,294,332 | 6,121,057 |
| Annuities | 366,421 | 447,208 |
| | <u>\$ 98,862,084</u> | <u>\$ 98,543,931</u> |

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

Total investment return is comprised of the following:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|---------------------|
| Interest and dividend income | \$ 1,735,666 | \$ 1,620,888 |
| Realized gains on investments reported at fair value | 4,091,599 | 4,218,361 |
| Unrealized gains on investments reported at fair value | (5,292,386) | (2,960,525) |
| | <u>\$ 534,879</u> | <u>\$ 2,878,724</u> |

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

b) Assets Held for Others

Assets held for others represent resources in the possession of, but not under the control of, the Foundation. Assets held for others as of June 30 were as follows:

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Murray State University | \$ 23,421,956 | \$ 24,294,607 |
| Murray State University Alumni Association | 1,110,308 | 1,215,400 |
| Others | 42,039 | 45,392 |
| | <u>\$ 24,574,303</u> | <u>\$ 25,555,399</u> |

c) Annuities and Trusts Payable

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from donors are recorded at fair value on the date of the gift. The Foundation has recorded a liability at June 30, 2016 and 2015 of \$1,238,031 and \$1,282,093, respectively, which represents the present value of the future gift annuity obligations. The liability has been determined using discount rates ranging from 1.2% to 7.0%.

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (Continued)

The Foundation administers several charitable remainder unitrusts and annuity trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime), either in the form of a percentage of the fair value of the trust's assets (unitrust) or in the form of a specified dollar amount (annuity trust). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the future interest of the Foundation is recorded in the statement of activities as temporarily restricted contributions in the period the trust is established. Assets (investments) held in the charitable remainder trusts are recorded at fair value in the Foundation's statement of financial position. The present value of the estimated future payments were \$4,386,340 and \$4,558,492 at June 30, 2016 and 2015, respectively, which was calculated using discount rates ranging from 1.8% to 8%, and applicable mortality tables.

d) Net Position

Temporarily Restricted Net Position

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

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|----------------------|----------------------|
| Scholarships | \$ 9,902,981 | \$ 12,612,123 |
| Instruction and institutional support | 11,359,084 | 11,131,793 |
| Chairs and professorships | 783,089 | 667,163 |
| | <u>\$ 22,045,154</u> | <u>\$ 24,411,079</u> |

Permanently restricted net assets at June 30 are restricted to:

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Investment in perpetuity, the income of which is expendable to support: | | |
| Scholarships | \$ 29,749,369 | \$ 28,873,018 |
| Instruction and institutional support | 7,935,121 | 7,610,187 |
| Chairs and professorships | 2,388,601 | 2,263,095 |
| Operations of the Golf Course | 1,316,241 | 191,890 |
| Operating activities of the Foundation | 467,337 | 391,624 |
| | <u>\$ 41,856,669</u> | <u>\$ 39,329,814</u> |

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (Continued)

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

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|---------------------|---------------------|
| Scholarships | \$ 1,863,068 | \$ 1,438,093 |
| Instruction and institutional support | 1,745,570 | 1,670,674 |
| | <u>\$ 3,608,638</u> | <u>\$ 3,108,767</u> |

16. Risk Management

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

Claims and Litigation

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

Commitments

The University has outstanding commitments under construction contracts of approximately \$24,866,260 and \$75,349,102 as of June 30, 2016 and 2015, respectively.

Government Grants

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

MURRAY STATE UNIVERSITY

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Notes To Financial Statements (*Continued*)

Perkins Loan Program

The University participates in the Federal Perkins Loan Program, under which loans are provided to eligible students and repayments are made directly to the University to provide funding for future eligible participants in the program. Effective October 1, 2015, the Department of Education has stipulated that new loans may not be disbursed under the program (some limited exceptions to continue to award new loans have been made, but are not expected to be applicable for the University). Pursuant to GASB accounting standards, the University has recorded previous contributions from the Federal Government for this program as revenue (and related restricted net position) in the period that the funds were received. The closure of this program, while not certain or determinable at this point, could result in the University recording an obligation to refund previous Federal contributions received under this program to the Department of Education.

17. Fair Value Measurement

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles (GAAP). The hierarchy is based on the valuation inputs (sources of information for calculating fair value) used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The University has the following recurring fair value measurements as of June 30, 2016:

- Cash and investments with a value of \$131,116,375 held by the Commonwealth of Kentucky in investment pools represent a divisible interest in the underlying securities, which is equivalent to net asset value and, therefore, the cash and investments within the investment pools are not categorized as being Level 1, 2, or 3.
- Restricted investments for debt reserves with a value of \$319,246 held by US Bank in money market accounts; fair value hierarchy level 2.
- Restricted quasi-endowment and endowment investments with a value of \$23,421,956 held by the MSU Foundation in an investment pool also represent a divisible interest in the underlying securities, which is equivalent to net asset value and, therefore, the cash and investments within the investment pools are not categorized as being Level 1, 2, or 3.

MURRAY STATE UNIVERSITY**A Component Unit of the Commonwealth of Kentucky**Notes To Financial Statements (*Continued*)**18. Natural Expense Classifications with Functional Classifications**

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

| Fund Classification | Year Ended June 30, 2016 | | | | | |
|----------------------------|---------------------------|----------------------|---------------------|--------------------------|----------------------|-----------------------|
| | Natural Classification | | | | | |
| | Compensation and Benefits | Operations | Utilities | Noncapitalized Equipment | Scholarships | Total |
| Instruction | \$ 61,659,974 | \$ 6,311,850 | \$ 155,044 | \$ 561,952 | \$ — | \$ 68,688,820 |
| Research | 1,437,294 | 530,488 | 170 | 27,170 | — | 1,995,122 |
| Public service | 5,994,141 | 1,514,258 | 164,233 | 65,343 | — | 7,737,975 |
| Libraries | 2,196,276 | 1,583,093 | 79 | 54,011 | — | 3,833,459 |
| Academic support | 4,893,172 | 2,330,370 | 74,375 | 76,057 | — | 7,373,974 |
| Student services | 10,852,144 | 5,519,273 | 79,887 | 210,497 | 16,522 | 16,678,323 |
| Institutional support | 21,085,927 | 983,786 | 78,726 | 221,210 | — | 22,369,649 |
| Operations and maintenance | 7,640,388 | 2,264,419 | 5,741,656 | 65,314 | — | 15,711,777 |
| Financial aid | — | — | — | — | 12,753,421 | 12,753,421 |
| Depreciation | — | 8,151,607 | — | — | — | 8,151,607 |
| Auxiliary enterprises | 8,483,629 | 11,469,018 | 2,834,333 | 28,438 | 230,474 | 23,045,892 |
| Auxiliary depreciation | — | 2,035,798 | — | — | — | 2,035,798 |
| Total expenses | <u>\$ 124,242,945</u> | <u>\$ 42,693,960</u> | <u>\$ 9,128,503</u> | <u>\$ 1,309,992</u> | <u>\$ 13,000,417</u> | <u>\$ 190,375,817</u> |

| Fund Classification | Year Ended June 30, 2015 | | | | | |
|----------------------------|---------------------------|----------------------|---------------------|--------------------------|----------------------|-----------------------|
| | Natural Classification | | | | | |
| | Compensation and Benefits | Operations | Utilities | Noncapitalized Equipment | Scholarships | Total |
| Instruction | \$ 57,581,464 | \$ 6,146,296 | \$ 180,559 | \$ 1,190,403 | \$ — | \$ 65,098,722 |
| Research | 1,466,925 | 455,398 | 270 | 55,234 | — | 1,977,827 |
| Public service | 5,895,890 | 1,735,418 | 190,241 | 52,338 | — | 7,873,887 |
| Libraries | 2,026,397 | 788,895 | 93 | 61,883 | — | 2,877,268 |
| Academic support | 4,532,006 | 2,385,405 | 86,895 | 248,398 | — | 7,252,704 |
| Student services | 10,028,910 | 5,858,511 | 61,867 | 119,925 | 16,478 | 16,085,691 |
| Institutional support | 18,997,644 | 1,765,466 | 69,346 | 179,495 | — | 21,011,951 |
| Operations and maintenance | 7,347,851 | 3,043,843 | 5,700,808 | 30,318 | — | 16,122,820 |
| Financial aid | — | — | — | — | 13,231,654 | 13,231,654 |
| Depreciation | — | 8,919,737 | — | — | — | 8,919,737 |
| Auxiliary enterprises | 8,081,510 | 12,337,468 | 2,841,207 | 71,014 | — | 23,331,199 |
| Auxiliary depreciation | — | 1,440,540 | — | — | — | 1,440,540 |
| Total expenses | <u>\$ 115,958,597</u> | <u>\$ 44,876,977</u> | <u>\$ 9,131,286</u> | <u>\$ 2,009,008</u> | <u>\$ 13,248,132</u> | <u>\$ 185,224,000</u> |

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Notes To Financial Statements (*Continued*)

19. Segment Information

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

Susan E. Bauernfeind Student Recreation and Wellness Center

The University entered into an agreement with the City of Murray, Kentucky on December 30, 2002, to finance the construction of a student recreation/wellness center. The University established a \$3.00 per credit hour student fee, effective for the Fall 2002 semester, to be designated as the Wellness Center Fee. A portion of the revenues from this fee will be used to fund all debt and debt related expenses according to the terms and provisions of the Memorandum of Agreement between the University and the City of Murray.

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

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Notes To Financial Statements (*Continued*)

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

Wellness Center - Condensed Statements of Net Position

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Assets | | |
| Current assets | \$ 726,815 | \$ 629,198 |
| Noncurrent assets | 1,849,155 | 1,823,292 |
| Capital assets, net of accumulated depreciation | <u>7,512,652</u> | <u>7,781,368</u> |
| Total assets | <u>10,088,622</u> | <u>10,233,858</u> |
| Deferred outflows of resources | | |
| Bond refunding loss | <u>323,839</u> | <u>343,125</u> |
| Total deferred outflows of resources | <u>323,839</u> | <u>343,125</u> |
| Liabilities | | |
| Current liabilities | 33,459 | 35,106 |
| Noncurrent liabilities | <u>8,124,999</u> | <u>8,464,999</u> |
| Total liabilities | <u>8,158,458</u> | <u>8,500,105</u> |
| Net position | | |
| Net investment in capital assets | (288,508) | (340,507) |
| Restricted | | |
| Expendable capital | 1,063,474 | 1,046,921 |
| Expendable debt service | 749,729 | 741,524 |
| Unrestricted | <u>729,308</u> | <u>628,940</u> |
| Total net position | <u>\$ 2,254,003</u> | <u>\$ 2,076,878</u> |

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

| | <u>2016</u> | <u>2015</u> |
|---------------------------------|---------------------|---------------------|
| Operating revenues | \$ 102,814 | \$ 110,030 |
| Operating expenses | (456,245) | (430,482) |
| Depreciation expense | <u>(268,715)</u> | <u>(268,715)</u> |
| Operating loss | (622,146) | (589,167) |
| Nonoperating revenues | <u>799,271</u> | <u>790,476</u> |
| Change in net position | 177,125 | 201,309 |
| Net position, beginning of year | <u>2,076,878</u> | <u>1,875,569</u> |
| Net position, end of year | <u>\$ 2,254,003</u> | <u>\$ 2,076,878</u> |

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Notes To Financial Statements (*Continued*)

Wellness Center - Condensed Statements of Cash Flows

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Cash flows from: | | |
| Operating activities | \$ (453,430) | \$ (420,452) |
| Noncapital financing activities | 481,569 | 451,116 |
| Capital and related financing activities | 88,783 | 128,258 |
| Investing activities | <u>7,666</u> | <u>5,042</u> |
| Net increase in cash | 124,588 | 163,964 |
| Cash, beginning of year | <u>2,452,231</u> | <u>2,288,267</u> |
| Cash, end of year | <u>\$ 2,576,819</u> | <u>\$ 2,452,231</u> |

20. Risk and Uncertainties

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such change could materially affect the investment amounts reported in the balance sheets.

21. Current Economic Conditions

The current economic environment presents the University with unprecedented circumstances and challenges which, in some cases, have resulted in declines in contributions, governmental support and grant revenue. The financial statements have been prepared using values and information currently available to the University.

MURRAY STATE UNIVERSITY
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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2016

Proportionate Share Of The Net Pension Liability

KERS-Non-Hazardous Pension Plan

| Actuarial Valuation Data | <u>2016</u> | <u>2015</u> |
|---|--------------------|--------------------|
| University's proportion of the net pension liability | 0.854037% | 0.882259% |
| University's proportionate share of the net pension liability | \$ 85,676,061 | \$ 79,154,689 |
| University's covered-employee payroll | \$ 13,188,333 | \$ 13,917,604 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 649.64% | 568.74% |
| Plan fiduciary net position as a percentage of the total pension liability | 18.83% | 22.32% |

KERS-Hazardous Pension Plan

| Actuarial Valuation Data | <u>2016</u> | <u>2015</u> |
|---|--------------------|--------------------|
| University's proportion of the net pension liability | 0.388584% | 0.405301% |
| University's proportionate share of the net pension liability | \$ 1,332,707 | \$ 1,035,001 |
| University's covered-employee payroll | \$ 492,259 | \$ 523,146 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 270.73% | 197.84% |
| Plan fiduciary net position as a percentage of the total pension liability | 61.70% | 68.74% |

MURRAY STATE UNIVERSITY

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION (Continued) For The Year Ended June 30, 2016

Proportionate Share Of The Net Pension Liability (Continued)

KTRS Pension Plan

| | <u>2016</u> | <u>2015</u> |
|---|----------------|----------------|
| Actuarial Valuation Data | | |
| University's proportion of the net pension liability | 0.722622% | 0.710400% |
| University's proportionate share of the net pension liability | \$ 176,518,973 | \$ 153,391,029 |
| University's covered-employee payroll | \$ 24,966,648 | \$ 24,460,052 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 707.02% | 627.11% |
| Plan fiduciary net position as a percentage of the total pension liability | 42.49% | 45.59% |

These schedules will ultimately present ten years of data when available.

Schedules of Murray State University Contributions

KERS-Non-Hazardous Pension Plan

| | <u>2016</u> | <u>2015</u> |
|--|--------------------|--------------------|
| Fixed Year | | |
| Contractually required contribution | \$ 4,420,027 | \$ 3,912,372 |
| Contributions in relation to the contractually required contribution | <u>(4,420,027)</u> | <u>(3,912,372)</u> |
| Contribution deficiency | <u>\$ —</u> | <u>\$ —</u> |
| University's covered-employee payroll | 13,188,333 | 13,917,604 |
| Contributions as a percentage of covered-employee payroll | 33.51% | 28.11% |

MURRAY STATE UNIVERSITY

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION (Continued) For The Year Ended June 30, 2016

Schedules of Murray State University Contributions (Continued)

KERS-Hazardous Pension Plan

| | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|
| Fixed Year | | |
| Contractually required contribution | \$ 115,000 | \$ 183,317 |
| Contributions in relation to the contractually required contribution | <u>(115,000)</u> | <u>(183,317)</u> |
| Contribution deficiency | <u>\$ —</u> | <u>\$ —</u> |
| University's covered-employee payroll | 492,259 | 523,146 |
| Contributions as a percentage of covered-employee payroll | 23.36% | 35.04% |

KTRS Pension Plan

| | <u>2016</u> | <u>2015</u> |
|--|--------------------|--------------------|
| Fixed Year | | |
| Contractually required contribution | \$ 5,684,344 | \$ 5,519,075 |
| Contributions in relation to the contractually required contribution | <u>(5,684,344)</u> | <u>(5,519,075)</u> |
| Contribution deficiency | <u>\$ —</u> | <u>\$ —</u> |
| University's covered-employee payroll | 24,966,648 | 24,460,052 |
| Contributions as a percentage of covered-employee payroll | 22.77% | 22.56% |

There were no changes to benefit terms for the plans year ended June 30, 2015. Changes in assumptions did occur for the KERS and KTRS plans as the result of a change in the discount rates, which decreased from 7.75% and 5.23%, respectively, in plan year 2014 to 7.50% and 4.88%, respectively, in plan year 2015.

These schedules will ultimately present ten years of data when available.