MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE
COMMONWEALTH OF KENTUCKY
For the Year Ended June 30, 2017
with Report of Independent Auditors

CONTENTS

DEANDORTON
DEAN DORTON ALLEN FORD, PLLC

Report of Independent Auditors

Board of Regents
Murray State University
Murray, Kentucky

Secretary of Finance and Administration
Cabinet of the Commonwealth of Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Murray State University (the University), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2017, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 opinion.

106 W. Vine Street, Suite 600 ▪ Lexington, KY 40507 ▪ 859-255-2341 **phone** ▪ 859-255-0125 **fax**
500 W. Jefferson Street, Suite 1400 ▪ Louisville, KY 40202 ▪ 502-589-6050 **phone** ▪ 502-581-9016 **fax** deandorton.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of Murray State University as of June 30, 2017, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 - 20 and the pension information on pages 68 - 70 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.

Prior Year Auditors

The financial statements of the University, as of and for the year ended June 30, 2016, were audited by other auditors, Rubin Brown, whose report, dated October 3, 2016, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2017 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Dean Dorton Allen Ford, PLLC

October 2, 2017
Lexington, Kentucky

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Murray State University (University) for the year ended June 30, 2017. 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. Founded in 1922, 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 10,500 students. For the 2016-17 academic year, tuition and fees increased by $198 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 27 consecutive years with the release of the 2018 *U.S. News Best Colleges* list. The 2018 edition of *U.S. News Best Colleges* ranks the University 32nd of all regional universities in the South, in addition to 21st for veterans and 53rd in "best value schools."

In addition to the *U.S. News & World Report's* rankings, the University is ranked a "2017 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 2017 *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 28th overall among nearly 200 universities. Forbes magazine named the University as one of America's Top Colleges in 2017. This marks the tenth straight year in which Murray State has garnered this accolade.

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.

	2017	**2016**	**2015**
Beginning net position, no pension adjustment	$ 300,800,699	$ 257,415,254	$ 240,612,199
Change in net position, no pension adjustment	31,451,310	43,385,445	16,803,055
Ending net position before pension adjustment	332,252,009	300,800,699	257,415,254
Pension beginning adjustment	(244,041,269)	(233,568,557)	(230,675,047)
Pension revenue/expense adjustment	(21,989,968)	(10,472,712)	(2,893,510)
Total pension adjustments	(266,031,237)	(244,041,269)	(233,568,557)
Net position after pension adjustments	$ 66,220,772	$ 56,759,430	$ 23,846,697

- In fiscal year 2017 (or 2017), the University had assets of $433.6 million, deferred outflows of $56.5 million, liabilities of $416.9 million and deferred inflows of $7 million. Net position, which represent the University's residual interest in assets and deferred outflows after liabilities and deferred inflows are deducted, was $66.2 million or 14% of total assets and deferred outflows. Net position increased by $9.5 million from fiscal year 2016 (or 2016) to 2017. This increase in net position was the result of a $14 million increase in capital assets net of depreciation, a $28.1 million increase in deferred outflows related to pensions, a $2.9 million increase in cash, and a $2.5 million increase in restricted investments, offset by a $49.2 million increase in net pension liability, a ($5.8) million decrease in accounts payable related to the wrap-up of three major construction projects, and a ($5.1) million decrease in long-term debt. 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 $167.7 million. The University continued to be a strong employer for the region and employed 3,998 individuals, including 628 faculty and 958 staff members and 2,412 students. These totals include 1,309 regular and full-time faculty and staff.

- Total originally enacted operating state appropriations for fiscal year 2017 decreased by 2.5% ($2,161,100), declining to approximately $45.9 million. The University received $960,500 in state appropriations refunds, representing a refund of the amount withheld in 2016. The Kentucky Supreme Court ruled in September of 2016 that a 2% reduction ordered by the Governor was unlawful and required a refund to the universities' general appropriations.

- The University invests approximately 96% of its endowment funds with the Murray State University Foundation, Inc. (Foundation). The value of these funds is as follows:

Historical Value	$18.4 million
Market Value	$21.1 million

  These funds experienced an unrealized gain of $2,078,707 in fiscal year 2017. This allowed for most program spending to remain constant during the fiscal year 2017. The Foundation operated with a 4.0% cap on endowment spending for the fiscal year 2017.

- The University celebrated the opening of its new Breathitt Veterinary Center (BVC) at a May 2017 grand opening. This unique facility will serve the agriculture needs of West Kentucky for years to come, fulfilling its obligation to the many farmers, families, and businesses involved with animals. This is a state-funded facility with a scope of $34.5 million located in Hopkinsville, Kentucky.

  The Murray State University Board of Regents authorized the disposition of the old Breathitt Veterinary Clinic (BVC) facility in February 2017 as a transfer to the Christian County Board of Education to be used for public purposes. The transfer was final in August 2017.

- The Commonwealth of Kentucky funded the construction of a new Engineering and Physics Building at a total cost not to exceed $36.9 million. The Commonwealth has budgeted to fund $31.9 million of the total scope of the project with the University contributing up to $5 million from future fundraising efforts. The building was completed in summer 2017 and was fully occupied for the fall 2017 semester.

- The construction of the new Hollis C. Franklin Residence Hall, with a scope of $27.9 million, opened for occupancy by students in August of 2016. The facility is approximately 114,000 square feet with 380 beds and is currently the residential home of the Honors College.

- The Department of Labor's regulations for the Fair Labor Standards Act (FLSA), originally effective December 1, 2016 and setting the salary threshold of $47,476 for exempting employees from overtime regulations, has been postponed for an indeterminate amount of time.

- 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 were estimated at approximately $1.9 million; and repairs commenced in the spring of 2017. This project was completed during the summer of 2017 and the building was fully occupied for classes in August 2017.

- In July 2015, significant moisture issues, air pressurization 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, 2017, 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 one and two million dollars. Renovation and repairs are expected to commence spring 2018.

- In September 2016, mold issues were discovered in O.B. 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 for the 2017 academic year. The mold was tested and has been identified as non-toxic, allergen type mold. Based on estimates of the cost to repair, the building was approved for razing by the Board of Regents in August 2017.

  In June 2017 the Board of Regents approved renaming old Franklin Hall as Springer Hall II, effective immediately.

- The University Strategic Plan-Achievement, Endeavor and Hope: The Murray State Plan was approved by the Board of Regents on June 5, 2015 and a more targeted plan was presented on September 9, 2016. The plan continues to focus 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.

Performance Funding

In the enacted 2016-17 budget of the Commonwealth of Kentucky, the General Assembly established a Postsecondary Education Working Group to develop a comprehensive funding model to incorporate elements of campus performance, mission, and enrollment, and to provide a report setting forth its recommendations to the Governor and Interim Joint Committee on Education no later than December 1, 2016. On December 1, 2016 a proposed model was delivered to the Governor and legislative leadership which recommended three basic components:

- Student Success: 35% of the model ties the distribution of allocable funding directly to degree production and progression toward a degree or credential;

- Course Completion: 35% of the model ties the distribution of resources to the number of credit hours awarded at each campus;

- Operational Support: 30% of the model ties the distribution of resources to campus services and infrastructure that support student learning and success.

As a result of the working group's recommendations, a performance pool was established for fiscal year 2018 as part of 2017 legislative session Senate Bill 153. This pool has been funded by a 5% reduction of each of the public, post-secondary institutions' state appropriation, excluding Kentucky State University. The portion of pool funding attributable to Murray State University is $2,231,300.

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 presents a financial picture of the University's financial condition at the end of the 2017 and 2016 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.

<u>Assets</u>

Total assets at the end of the fiscal year 2017 were $433.6 million, of which capital assets, net of depreciation, represented the largest portion. Capital assets totaled approximately $250.2 million or 58% of total assets and were primarily comprised of University-owned land, buildings, equipment, and library holdings. Cash and cash equivalents amounted to $139.8 million or 32% of total assets. Total assets increased by $20.5 million during the 2017 fiscal year. This increase in gross total assets is due primarily to the following items:

- $14 million - Increase in net capital assets. Primarily due to $25 million in new additions to construction-in-progress (CIP), comprised mainly of $15.3 million in continued construction of the new Engineering and Physics building, $3.4 million in continued construction of Hollis C. Franklin Hall, $3.1 million in continued construction of the new Breathitt Veterinary Center, and $1.5 million in Chemistry building repairs. The $25 million increase was offset by $11.5 million in current year depreciation.

- $2.9 million - Increase in cash and cash equivalents. This increase was the result of a $9.8 million increase in operating cash explained by increases in Education & General (E&G) net position prior to the pension expense (non-cash) adjustment, and an increase of $767,000 in Auxiliary cash explained by an increase in Auxiliary net position prior to the pension expense (non-cash) adjustment. These increases were offset by decreases in Plant cash of ($6.4 million) explained by a decrease in Plant accounts payable related to the Franklin Hall and new Breathitt Veterinary Center projects and in Restricted cash of ($1.1 million) explained by a $0.6 million increase in Restricted accounts receivable and an overall decrease in Restricted activity.

- $2.5 million - Increase in restricted investments. The result of a $2.8 million increase in endowment market value for funds held by the MSU Foundation offset by a ($0.3 million) decrease in realized earnings.

- $1.2 million - Increase in accounts receivable, net. This increase is the result of a $1.2 million increase in student accounts receivable explained by a 4.5% tuition rate increase and changes in regional economic conditions.

Total assets increased by $41.8 million during the 2016 fiscal year due to the following:

- $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.

- ($7.1 million) - Decrease in cash and cash equivalents. This decrease was the result of spending cash from the sale of bonds for the construction of the new Franklin Hall ($18 million) offset by an increase of $4.2 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. ($2.1 million) decrease 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.

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 $1.9 million for fiscal year 2017, $2.1 million for 2016, and $2.3 million for 2015. 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 2017 and $0.8 million for 2016. Deferred outflows also consisted of $53.8 million for fiscal year 2017, $25.7 million for 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*.

Liabilities

Total liabilities at the end of the 2017 fiscal year were $416.9 million, an increase of $38 million. This change was due to the following:

- $49.2 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.

- ($5.8 million) - Decrease in accounts payable. This decrease is attributed to the net ($6.6 million) decrease in Plant accounts payable related to the new Breathitt Veterinary Center, Franklin Hall and the Engineering and Physics building. Offset by a $0.8 million increase in unrestricted accounts payable attributable to timing differences in routine payables.

- ($4.6 million) - Decrease in long-term debt. This decrease is the result of the 2017 principal payments on bonds and masterleases.

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.

Deferred Inflows 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 requires that certain items are no longer to be reported as a liability. This consisted of $7 million in fiscal year 2017, $6.2 million in 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 represent total equity, of the University were divided into three major categories, defined as follows:

- Invested in capital assets, net of related debt - This category represents the institution's equity in property, buildings, equipment, library holdings and other plant assets owned by the University, less related depreciation and outstanding balances of borrowings used to finance the purchase or construction of those assets.

- Restricted - This category represents those assets which are subject to externally imposed restrictions governing their use and includes classifications of nonexpendable and expendable.

    - Restricted nonexpendable net position - Restricted nonexpendable net position consist solely of permanent endowments owned by the University. The corpus, as specified by the donor, is invested in perpetuity and may not be expended.

    - Restricted expendable net position - Restricted expendable net position consist of those assets that may be expended by the University, but must be spent for purposes as defined by the donors and/or external entities that have placed time or purpose restrictions on the use of the assets.

- Unrestricted - This category represents the net position held by the University that 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, 2017	June 30, 2016	June 30, 2015
Assets			
Current assets	$ 103,706,220	$ 91,608,769	$ 87,921,560
Noncurrent assets	79,651,477	85,228,207	99,747,979
Capital assets	250,242,436	236,282,533	183,642,281
Total assets	433,600,133	413,119,509	371,311,820
Deferred Outflows	56,508,116	28,685,297	12,385,586
Liabilities			
Current liabilities	26,072,558	32,635,586	26,267,195
Noncurrent liabilities	390,780,206	346,173,839	321,532,369
Total liabilities	416,852,764	378,809,425	347,799,564
Deferred Inflows	7,034,713	6,235,951	12,051,145
Net Position			
Invested in capital assets, net of related debt	173,041,810	157,389,810	123,222,276
Restricted for			
Nonexpendable	21,973,233	19,218,207	20,453,677
Expendable			
Scholarships, research, instruction and other	6,271,792	7,164,586	6,426,806
Loans	4,081,721	4,585,441	4,598,682
Capital	2,667,171	—	—
Debt service	236,717	198,988	2,298,843
Unrestricted	(142,051,672)	(131,797,602)	(133,153,587)
Total net position	$ 66,220,772	$ 56,759,430	$ 23,846,697

Statements of Revenues, Expenses and Changes in Net Position

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

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

<u>Revenues</u>

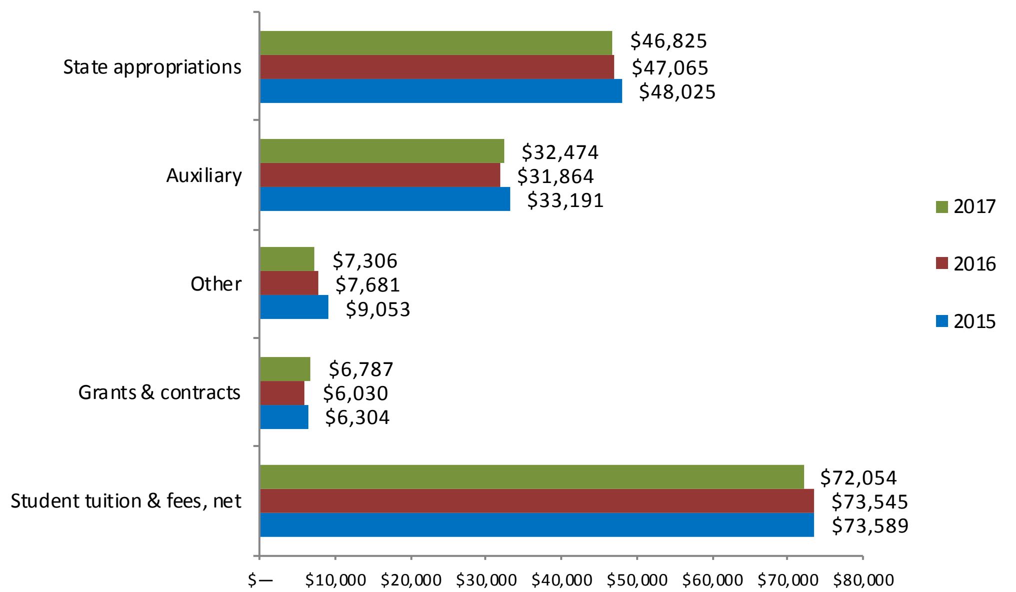
Total operating revenues, which exclude state appropriations, for fiscal year 2017 were $118.6 million, including student tuition and fees, net of related discounts and allowances, of $72.1 million, operating restricted grants and contracts revenues of $6.8 million, sales, services and other revenues of $7.3 million, and auxiliary services net revenues of $32.5 million.

During fiscal year 2017, operating revenues decreased by ($0.5 million). This decrease is comprised primarily of decreases of ($1.5 million) in net tuition and fees, and ($0.4 million) in sales, services, and other revenues, offset by increases of $0.8 million in grants and contracts revenue and $0.6 million in auxiliary services, specifically housing, dining and bookstore.

The University received $45.9 million in state appropriations for operations for 2017 as well as a $1 million return of a prior year reduction, and $47 million for fiscal year 2016. The ($1.2 million) decrease, not including the reduction return, was the result of 2.5% state appropriation rescission enacted in the fourth quarter of 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)



Expenses

Total operating expenses for fiscal year 2017 were $201.9 million. Academic Affairs, which include instruction, research, libraries and academic support, represent the largest portion of the operating expenses totaling $88.1 million or 44%. Student Affairs, which include student services, financial aid and auxiliary services, was $55.4 million or 27% and other expenses which include public service, institutional support, depreciation and operation and maintenance amounted to $58.4 million or 29%. Depreciation for all areas of the University is reported as an operating expense and was not allocated to each program group, except for auxiliary enterprises.

Operating expenses increased for the year ended June 30, 2017, by $11.5 million. The primary reasons for the increase in operating expenses are as follows:

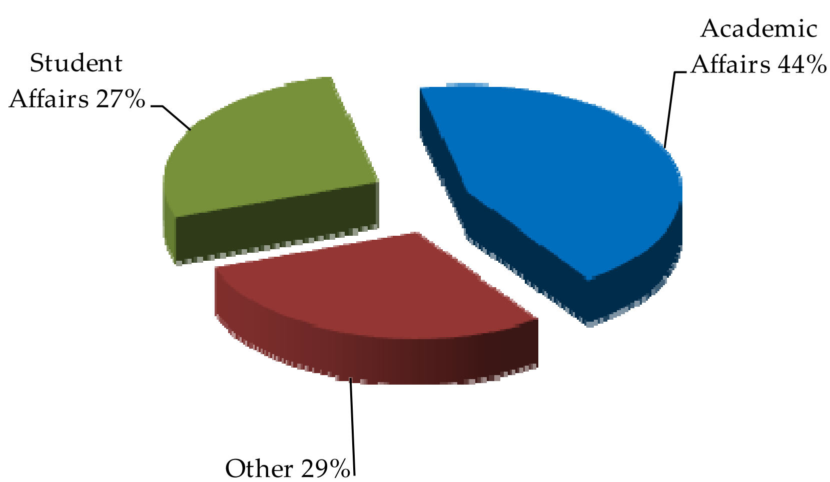
- $11.2 million - Increase in overall operating expenses as the result of the adoption of GASB Statement No. 68. This expense represents the University's proportionate share of expenses related to Kentucky state pension plans. The University's proportionate expenses were $4.6 million in 2017, $4.7 million in 2016, and $1.3 million in 2015 for the Kentucky Employee Retirement System and $18 million in 2017, $6.6 million in 2016, and $2.4 million in 2015 for the Teachers' Retirement System.

- $3.2 million - Increase in operation and maintenance of plant expenses, before pension adjustments, as the result of an increase in attention to deferred maintenance projects. Also, 2016 was low because of a one-time ($1.3 million) decrease related to an adjustment for facilities inventory.

- ($2.9 million) - Decrease in overall operation spending, not including operations and maintenance mentioned above. The primary factor is the continued focus to more closely monitor spending because of the general state appropriation cuts for 2017.

Operating expenses by type are reflected in the following chart:

University Operating Expenses
Year Ended June 30, 2017



The net loss from operations for the year ended June 30, 2017, was $83.2 million. Nonoperating revenues, net of expenses, of $70.7 million, insurance reimbursements of $156,000, capital gifts of $67,000 and endowment gifts of $590,000 resulted in an increase in net position of $9.5 million for the year ended June 30, 2017. This increase in net position is primarily the result of state capital appropriations of $21.1 million related to the new Breathitt Veterinary Center and the Engineering and Physics building projects.

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 Breathitt Veterinary Center and Engineering and Physics building projects.

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

	2017	2016	2015
Operating revenues			
Student tuition and fees, net	$ 72,053,962	$ 73,544,641	$ 73,588,701
Grants and contracts	6,787,113	6,030,275	6,304,331
Other	7,306,302	7,680,689	9,053,462
Auxiliary, net	32,473,936	31,863,895	33,191,335
Total operating revenues	118,621,313	119,119,500	122,137,829
Operating expenses			
Instruction	74,414,980	68,688,820	65,098,722
Other educational and general	92,386,004	88,453,700	86,433,802
Depreciation	8,585,227	8,151,607	8,919,737
Auxiliary enterprises	23,602,184	23,045,892	23,331,199
Auxiliary depreciation	2,872,348	2,035,798	1,440,540
Total operating expenses	201,860,743	190,375,817	185,224,000
Operating loss	(83,239,430)	(71,256,317)	(63,086,171)
Nonoperating revenues			
State appropriations	46,824,500	47,064,600	48,025,100
Other nonoperating revenues	23,916,782	22,388,681	23,418,862
Total nonoperating revenues	70,741,282	69,453,281	71,443,962
Other revenues			
State capital appropriations and other	21,959,490	34,715,769	5,551,754
Increase in net assets	9,461,342	32,912,733	13,909,545
Net position, beginning of year	56,759,430	23,846,697	240,612,199
Restatement of 2015 beginning net position for pension liability	—	—	(230,675,047)
Net position, beginning of year (2015 restated)	56,759,430	23,846,697	9,937,152
Net position, end of year	$ 66,220,772	$ 56,759,430	$ 23,846,697

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.

<u>For the year ended June 30, 2017:</u>
The net cash used in operating activities reflects the net cash used for general operations of the University, which decreased by ($2.3 million) during 2017. This decrease in cash used was primarily due to decreases in cash from net tuition and fees, grants and contracts, and sales and other revenues, offset by decreases in cash used for payments to suppliers.

The cash flows from noncapital financing activities increased by $212,000 during 2017. This change was primarily due to an increase of $590,000 for Endowment proceeds, the result of a one-time payment from the NCAA established as a quasi-endowment, and $961,000 for the state appropriations return of a 2016 reduction, both offset by a ($1.2 million) decrease in state appropriations for 2017 and a ($238,000) decrease in grants and contracts non-operating revenue.

The net cash flows used in capital and related financing activities represent cash used for the acquisition, construction and renovation of capital assets, changed from ($32 million) provided during 2016 to ($16.2 million) used during 2017, a $15.8 million change. Part of this increase is due to $21.6 million less cash used in the purchase of capital assets, attributable to decreased spending on the Breathitt Veterinary Clinic, Engineering and Physics building, and the Hollis C. Franklin Hall, all of which were completed or nearing completion in 2017. Also contributing to the increase was a reduction in cash used for principal paid on capital debt, attributed to $8.4 million of cash used in 2016 for the refunding of 2007 general receipt bonds. These were offset by a ($13 million) decrease in state capital appropriations for the final construction of the Breathitt Veterinary Center and the Engineering and Physics building.

The cash flows provided by investing activities represent the cash activities of investments, which decreased by ($3.9 million) for 2017. This decrease was primarily the result of decreases in proceeds from sales and maturities of investments. Additionally there was a net decrease in investment and interest receipts of ($1.8 million), primarily from decreases in restricted investment income from the MSU Foundation, the result of prior year investment re-positioning which led to higher than usual investment income in fiscal year 2016.

<u>For the year ended June 30, 2016:</u>
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 million) used during 2016, a ($42.1 million) change. Part of this decrease is due to $27.9 million in 2015 Series A general receipt bonds issued for the construction of Hollis C. 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.

Condensed Statements of Cash Flows

	2017	2016	2015
Cash provided/(used by):			
Operating activities	$ (50,689,875)	$ (48,433,051)	$ (49,741,490)
Noncapital financing activities	68,789,385	68,577,099	70,466,385
Capital and related financing activities	(16,174,554)	(32,009,512)	10,071,879
Investing activities	949,730	4,808,278	1,300,696
Net increase in cash	2,874,686	(7,057,186)	32,097,470
Cash and cash equivalents, beginning of year	136,881,226	143,938,412	111,840,942
Cash and cash equivalents, end of year	$ 139,755,912	$ 136,881,226	$ 143,938,412

Capital Assets and Debt Administration

The University had a $5.2 million increase in capital assets, before accumulated depreciation, during the fiscal year ended June 30, 2017. This change is primarily due to a $25 million increase in construction-in-progress offset by an ($18.9 million) adjustment to library inventory. This adjustment was the result of a revaluation of the libraries assets.

Construction-in-progress decreased ($40.6 million) in 2017. This decrease was the result of the completion of the Franklin Hall and Breathitt Veterinary Center projects which were transferred out of construction-in-progress and put in service.

Capital assets as of June 30, 2017, and changes during the year are as follows:

	Balance June 30, 2017	Balance June 30, 2016	Net Change 2016-17
Land	$ 9,920,222	$ 9,920,222	$ —
Construction in progress	36,057,601	76,632,426	(40,574,826)
Museum and collectibles	692,546	677,635	14,911
Buildings	341,536,804	278,366,153	63,170,651
Non-building improvements	16,819,564	16,464,827	354,737
Equipment	32,329,496	31,208,716	1,120,779
Software	1,932,019	1,932,019	—
Library holdings	11,221,448	30,122,072	(18,900,624)
Livestock	151,749	165,750	(14,001)
Accumulated depreciation	(200,419,013)	(209,207,287)	8,788,275
Total	$ 250,242,436	$ 236,282,533	$ 13,959,902

Debt as of June 30, 2017, and changes during the year are as follows:

	Balance June 30, 2017	Balance June 30, 2016	Net Change 2016-17
General receipts bonds	$ 72,150,000	$ 75,835,000	$ (3,685,000)
Bond discount	(55,463)	(60,085)	4,622
Bond premium	2,068,053	2,188,815	(120,762)
City of Murray	7,764,999	8,124,999	(360,000)
Master lease payable	346,620	1,252,868	(906,248)
Total	$ 82,274,209	$ 87,341,597	$ (5,067,388)

Infrastructure Assets

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

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

Economic Factors Affecting Future Periods

- In fiscal year 2017, Kentucky's General Fund receipts rose for the seventh consecutive year. Final 2017 General Fund revenues were $10,477.8 million, or 1.3%, more than 2016 collections. However, General Fund revenues were $138.5 million or 1.3% less than the official revenue estimate which had projected 2.7% growth.

  The national economic outlook for the US economy heading into 2018 continues with a slow economic expansion. Kentucky appears poised to continue its recent run of positive economic growth in the areas of wages and income.

  The above was reported in the 2017 annual edition of Commonwealth of Kentucky Quarterly Economic & Revenue Report.

- 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.

- 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. The University implemented a stronger step-therapy program with additional management controls on specialty drugs to help manage pharmacy costs.

- Murray State has contracted with The Segal Company (Sibson Consulting) for a comprehensive compensation review for all faculty and staff positions. The first phase of the review will be focused on faculty positions, and will be followed by exempt staff and non-exempt staff. The faculty portion of the study is expected to be completed for budget consideration for fiscal year 2019.

- 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 estimated to be completed in August 2018.

- In June 2017, there was a natural gas explosion in the J. H. Richmond Residence Hall. Outside law enforcement agencies, the Kentucky State Fire Marshall along with several insurance representatives and legal counsels have been investigating the incident. No primal cause has been identified to date, deconstruction of the portion of the building impacted by the incident began in September 2017 to better understand the cause.

  Renovation and repair of other buildings and grounds impacted by this event were completed by August 2017. J. H. Richmond Resident Hall was constructed in 2009 and while there are no estimates of repair or perhaps replacement cost known at this time, the University carries full insurance coverage to repair or replace the building back to its original condition.

- 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 two years, 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 needs of the campus electrical infrastructure are critical and the University is requesting funding from the Commonwealth in the 2018-2020 Capital Budget.

- For the fall 2017 semester, Murray State University is experiencing a decreased enrollment of approximately 4.5%. The international student declines are a result of the political landscape currently taking place throughout the country. Universities across the nation are experiencing very similar issues regarding international student enrollments. This decrease is related to several factors, but primarily a declining population in our 18 county service region, the political landscape for international students, and more relaxed admission standards prior to Fall 2016.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Statements of Net Position

June 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 89,167,632	$ 78,458,889
Accounts receivable, net	8,666,971	7,493,005
Inventories	3,372,508	3,519,856
Loans to students, net	628,911	674,245
Prepaid expenses	1,870,198	1,462,774
Total Current Assets	103,706,220	91,608,769
Noncurrent Assets		
Restricted cash and cash equivalents	50,588,280	58,422,337
Restricted investments	26,237,364	23,741,201
Loans to students, net	2,825,833	3,064,669
Capital assets	450,661,449	445,489,820
Accumulated depreciation	(200,419,013)	(209,207,287)
Total Noncurrent Assets	329,893,913	321,510,740
Total Assets	433,600,133	413,119,509
Deferred Outflows of Resources		
Bond refunding loss	2,727,334	2,962,875
Deferred outflows related to pension contributions	53,780,782	25,722,422
Total Deferred Outflows of Resources	56,508,116	28,685,297

See accompanying notes.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Statements of Net Position

June 30, 2017 and 2016

	2017	2016
Liabilities		
Current Liabilities		
Accounts payable	$ 9,799,016	$ 15,636,985
Accrued payroll	6,721,821	6,443,956
Self-insured health liability	574,953	627,097
Interest payable	859,015	902,817
Unearned revenue	3,165,594	3,650,875
Deposits - current portion	314,399	312,807
Long-term debt - current portion	4,637,760	5,061,049
Total Current Liabilities	26,072,558	32,635,586
Noncurrent Liabilities		
Deposits	366,450	365,550
Long-term debt	77,636,449	82,280,548
Net pension liability, state pension plans	312,777,307	263,527,741
Total Noncurrent Liabilities	390,780,206	346,173,839
Total Liabilities	416,852,764	378,809,425
Deferred Inflows of Resources		
Deferred inflows related to net pension liability	7,034,713	6,235,951
Total Deferred Inflows of Resources	7,034,713	6,235,951
Net Position		
Net investment in capital assets	173,041,810	157,389,810
Restricted for:		
Nonexpendable:		
Endowment	21,973,233	19,218,207
Expendable:		
Scholarships, research, instruction and other	6,271,792	7,164,586
Loans	4,081,721	4,585,441
Capital projects	2,667,171	—
Debt service	236,717	198,988
Unrestricted	(142,051,672)	(131,797,602)
Total Net Position	$ 66,220,772	$ 56,759,430

See accompanying notes.

MURRAY STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position

June 30, 2017 and 2016

Assets

	2017	2016
Cash and cash equivalents	$ 2,772,417	$ 2,271,009
Accounts receivable	64,049	59,232
Note receivable from land sale	—	241,202
Investments	111,563,622	98,862,084
Real estate held for investment	4,646,309	1,742,586
Prepaid and other current assets	74,194	66,790
Contributions receivable, net	847,578	1,062,323
Property and equipment, net	4,260,557	4,350,945
Total Assets	$ 124,228,726	$ 108,656,171

Liabilities And Net Assets

	2017	2016
Liabilities		
Accounts payable	$ 108,175	$ 114,128
Due to Murray State University	265,114	298,651
Accrued expenses	61,999	53,746
Deferred revenue	61,970	54,517
Assets held for others	27,167,297	24,574,303
Capital lease obligation	94,681	151,935
Annuities and trusts payable	5,592,312	5,624,371
Other liabilities	669,629	322,454
Total Liabilities	34,021,177	31,194,105
Net Assets		
Unrestricted	16,641,518	13,560,243
Temporarily restricted	27,551,255	22,045,154
Permanently restricted	46,014,776	41,856,669
Total Net Assets	90,207,549	77,462,066
Total Liabilities and Net Assets	$ 124,228,726	$ 108,656,171

See accompanying notes.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2017 and 2016

	2017	2016
Operating Revenues		
Tuition and fees	$ 115,006,235	$ 116,551,683
Less: Discounts and allowances	(42,952,273)	(43,007,042)
Net tuition and fees	72,053,962	73,544,641
Federal grants and contracts	4,993,405	4,343,655
State grants and contracts	1,395,807	1,381,932
Private grants and contracts	397,901	304,688
Total grants and contracts	6,787,113	6,030,275
Sales and services of educational activities	4,936,631	3,513,390
Other operating revenues	2,369,671	4,167,299
Total sales, services, and other revenues	7,306,302	7,680,689
Auxiliary enterprises	32,992,256	32,571,656
Less: Discounts and allowances	(518,320)	(707,761)
Net auxiliary revenue	32,473,936	31,863,895
Total Operating Revenues	118,621,313	119,119,500
Operating Expenses		
Instruction	74,414,980	68,688,820
Research	2,288,416	1,995,122
Public service	8,601,413	7,737,975
Libraries	3,743,775	3,833,459
Academic support	7,674,313	7,373,974
Student services	16,808,823	16,678,323
Institutional support	22,340,304	22,369,649
Operation and maintenance of plant	18,848,211	15,711,777
Student financial aid	12,080,749	12,753,421
Depreciation	8,585,227	8,151,607
Auxiliary enterprises	23,602,184	23,045,892
Auxiliary depreciation	2,872,348	2,035,798
Total Operating Expenses	201,860,743	190,375,817
Operating Loss	(83,239,430)	(71,256,317)

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

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

Years ended June 30, 2017 and 2016

		2017		2016
Nonoperating Revenues (Expenses)				
State appropriations		45,864,000		47,064,600
State appropriations return of prior year reduction		960,500		—
Restricted student fees (revenues are pledged as security for the City of Murray debt agreement)		658,385		688,057
Federal grants and contracts		12,149,103		12,684,076
State grants and contracts		8,164,321		7,837,173
Local and private grants and contracts		445,649		475,863
Gifts		1,220,027		1,239,140
Investment income		3,288,456		1,539,489
Interest on capital asset-related debt		(1,762,317)		(1,814,708)
Loss on deletion and disposal of capital assets		(127,441)		(23,459)
Bond amortization		(119,401)		(236,950)
Nonoperating Revenues (Expenses), Net		70,741,282		69,453,281
Income Before Other Revenues, Expenses Gains and Losses		(12,498,148)		(1,803,036)
State Capital Appropriations		21,144,514		34,123,728
Insurance Proceeds		155,824		301,681
Capital Gifts		69,635		189,160
Additions to Permanent Endowments		589,517		101,200
Change in Net Position		9,461,342		32,912,733
Net Position - Beginning of Year		56,759,430		23,846,697
Net Position - End of Year	$	66,220,772	$	56,759,430

See accompanying notes.

MURRAY STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains/(Losses) And Other Support				
Contributions	$ 302,225	$ 3,957,271	$ 1,545,339	$ 5,804,835
Revenues from operations of the Frances E. Miller Memorial Golf Course	455,471	—	—	455,471
Fees and rental income	449,284	45,192	—	494,476
Investment return, net	3,991,631	6,987,314	29,564	11,008,509
Other	8,757	11,634	10,814	31,205
Change in value of annuities payable	—	—	(131,757)	(131,757)
Net assets released from restrictions	2,922,732	(2,922,732)	—	—
Total Revenues, Gains/(Losses) And Other Support	8,130,100	8,078,679	1,453,960	17,662,739
Expenses And Losses				
Payments made on behalf of Murray State University	2,851,027	—	—	2,851,027
Frances E. Miller Memorial Golf Course	639,856	—	—	639,856
General and administrative	1,426,373	—	—	1,426,373
Total Expenses And Losses	4,917,256	—	—	4,917,256
Transfers between Foundation fund groups	(131,569)	(2,572,578)	2,704,147	—
Change in Net Assets	3,081,275	5,506,101	4,158,107	12,745,483
Net Assets - Beginning of Year	13,560,243	22,045,154	41,856,669	77,462,066
Net Assets - End of Year	$ 16,641,518	$ 27,551,255	$ 46,014,776	$ 90,207,549

See accompanying notes.

MURRAY STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains/(Losses) And Other Support				
Contributions	$ 825	$ 1,249,795	$ 2,355,168	$ 3,605,788
Revenues from operations of the Frances E. Miller Memorial Golf Course	433,744	—	—	433,744
Fees and rental income	423,242	95,363	—	518,605
Investment return, net	819,061	(305,680)	24,128	537,509
Other	—	7,019	11,272	18,291
Change in value of annuities payable	—	—	(53,019)	(53,019)
Net assets released from restrictions	3,423,922	(3,423,922)	—	—
Total Revenues, Gains/(Losses) And Other Support	5,100,794	(2,377,425)	2,337,549	5,060,918
Expenses And Losses				
Payments made on behalf of Murray State University	3,423,922	—	—	3,423,922
Frances E. Miller Memorial Golf Course	616,410	—	—	616,410
General and administrative	1,626,117	—	—	1,626,117
Total Expenses And Losses	5,666,449	—	—	5,666,449
Transfers between Foundation fund groups	(200,806)	11,500	189,306	—
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

See accompanying notes.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Tuition and fees	$ 71,644,078	$ 74,552,225
Grants and contracts	5,868,517	6,291,911
Payments for salaries, wages and fringes	(102,453,270)	(104,257,115)
Payments to suppliers	(30,280,063)	(29,451,495)
Payments for student financial aid	(12,080,749)	(12,753,421)
Loans issued to employees	(15,921)	(14,837)
Collections of loans to employees	20,429	22,160
Loans issued to students	(78,877)	(452,457)
Collections of loans to students	363,047	768,909
Sales and services of educational activities	4,545,668	3,997,503
Other operating revenues	1,752,904	4,055,962
Auxiliary revenues:		
Food service	11,993,655	12,130,108
Housing	14,758,807	13,791,838
Bookstore	5,569,715	5,817,995
Other	196,001	113,555
Auxiliary payments:		
Payments for salaries, wages and fringes	(7,607,957)	(8,483,629)
Payments to suppliers	(14,747,901)	(14,331,789)
Payments for student financial aid	(137,958)	(230,474)
Net Cash Used in Operating Activities	(50,689,875)	(48,433,051)
Cash Flows From Noncapital Financing Activities		
State appropriations	45,864,000	47,064,600
State appropriations-return of prior year reduction	960,500	—
Endowment proceeds forwarded to MSU Foundation for investment	163,243	(452,148)
Grants and contracts	20,759,073	20,997,112
Endowment income	250,273	223,350
Gifts for other than capital purposes	783,630	744,833
Agency transactions	8,666	(648)
Net Cash Provided by Noncapital Financing Activities	68,789,385	68,577,099
Cash Flows From Capital and Related Financing Activities		
Restricted student fees pledged for debt service	658,385	688,057
Insurance proceeds	155,824	301,681
State capital appropriations	21,143,772	34,122,620
Purchases of capital assets	(30,341,383)	(51,903,798)
Capital gifts	17,944	71,180
Principal paid on capital debt and leases	(4,951,248)	(13,338,960)
Interest paid on capital debt and leases	(2,857,848)	(1,950,292)
Net Cash Used in Capital and Related Financing Activities	(16,174,554)	(32,009,512)

See accompanying notes.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	(9,282)	2,057,834
Purchases of investments	(464)	(86)
Investment receipts	959,476	2,750,530
Net Cash Provided by Investing Activities	949,730	4,808,278
Net Increase (Decrease) in Cash and Cash Equivalents	2,874,686	(7,057,186)
Cash and Cash Equivalents - Beginning of Year	136,881,226	143,938,412
Cash and Cash Equivalents - End of Year	$ 139,755,912	$ 136,881,226
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	$ 89,167,632	$ 78,458,889
Restricted cash and cash equivalents	50,588,280	58,422,337
Total Cash and Cash Equivalents	$ 139,755,912	$ 136,881,226
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (83,239,430)	$ (71,256,317)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	11,457,575	10,187,405
Bad debt (recovery) expense	(366,623)	907,014
Net pension expense, proportionate share	21,989,968	11,349,903
Net in-kind expenses	161,296	—
Changes in assets and liabilities:		
Accounts and loans receivable, net	(889,796)	1,735,167
Inventories	147,348	(1,350,004)
Prepaid expenses	(407,424)	451,424
Accounts payable	717,870	(820,660)
Self-insured health liability	(52,144)	10,097
Accrued payroll	277,865	18,927
Deposits	(1,841)	12,303
Unearned revenue	(484,539)	321,690
Net Cash Used in Operating Activities	$ (50,689,875)	$ (48,433,051)
Supplemental Disclosure of Cash Flow Information		
Gifts of capital assets	$ 51,691	$ 117,980
Accounts payable incurred for capital asset purchases	3,609,762	10,357,707
Changes in fair value of investments	2,078,707	(1,434,391)

See accompanying notes.

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.

Restricted Cash, Cash Equivalents and Investments

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

Investments

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

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

Accounts Receivable

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

Inventories

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

Capital Assets

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

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

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

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowing. Total interest capitalized was $1,051,729 and $1,084,807 for the years ended June 30, 2017 and 2016, 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 Teachers' Retirement System (TRS), 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 TRS 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 contributions 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 contributions represent 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 obligations 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 includes resources in which the University is legally or contractually obligated to spend in accordance with time or purpose restrictions imposed by external third parties.

Unrestricted net position: Unrestricted net position represents 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

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*.

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 Teachers' Retirement System (TRS) 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 TRS. 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.

2. Accounts Receivable

Accounts receivable as of June 30 consisted of:

	2017	2016
Current accounts receivable:		
Student tuition and fees	$ 8,438,342	$ 7,820,473
Grants and contracts	1,768,773	1,184,628
Auxiliary fees	2,394,656	2,590,092
MSU Foundation	265,114	298,650
Employee computer and bicycle loans	5,205	6,694
Outside sales	522,067	831,253
Capital construction receivable – vendors	142	42
Allowance for doubtful accounts	(4,727,328)	(5,238,827)
Total current accounts receivable	$ 8,666,971	$ 7,493,005

3. Inventories

Inventories as of June 30 consisted of:

	2017	2016
University bookstore - resale	$ 1,602,024	$ 1,656,708
Physical plant - supplies	1,548,146	1,611,136
Food services - resale and supplies	159,038	161,551
Art supplies	50,380	49,130
CFSB concessions	12,920	18,880
Central stores - supplies	-	22,451
Total inventories	$ 3,372,508	$ 3,519,856

4. Loans Receivable

Student loans made through the Federal Perkins Loan Program (Program) comprise substantially all of the loans receivable at June 30, 2017 and 2016. The Program provides for service cancellation of a loan at rates of 12.5% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. The allowance for uncollectible loans at June 30, 2017 and 2016 was $242,170 and $246,589, respectively.

Loans receivable as of June 30 consisted of:

	2017	2016
Current loans receivable:		
University loan programs	$ 58,395	$ 58,605
Federal nursing program	83,809	84,454
Federal Perkins program	486,707	531,186
Total current loans receivable, net	628,911	674,245
Noncurrent loans receivable:		
University loan programs	19,673	17,789
Federal nursing program	358,204	354,258
Federal Perkins program	2,447,956	2,692,622
Total noncurrent loans receivable, net	2,825,833	3,064,669
Total loans receivable, net	$ 3,454,744	$ 3,738,914

5. Deposits, Investments and Investment Income

Deposits

At June 30, 2017 and 2016, the carrying amounts of the University's bank balances and deposits were $139,755,912 and $136,881,226, respectively.

Currently the University maintains its deposits, outside of those held by the Commonwealth of Kentucky, in interest-bearing accounts at FDIC-insured institutions. All accounts are insured up to $250,000. The deposits in these interest-bearing accounts are covered by an irrevocable, unconditional, and nontransferable letter of credit issued by Federal Home Loan Bank of Cincinnati maturing July 3, 2017, at which time a new letter of credit was issued maturing August 1, 2017.

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:

	2017	2016
Depository accounts:		
Local bank deposits, letter of credit in the University's name	$ 6,942,857	$ 6,433,122
Cash on hand	40,301	49,983
Foreign currency deposits	39,671	67,740
State Investment Pool - collateral required by KRS 41.240	132,733,083	130,330,381
Total deposits	$ 139,755,912	$ 136,881,226

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

	2017	2016
Cash and cash equivalents, current	$ 89,167,632	$ 78,458,889
Restricted cash and cash equivalents	50,588,280	58,422,337
Total deposits	$ 139,755,912	$ 136,881,226

Investments

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

		2017		2016
Money market funds restricted for debt service purposes	$	310,430	$	319,245
Restricted assets held by the Foundation		25,926,934		23,421,956
Total investments	$	26,237,364	$	23,741,201

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:

	2017	2016
Percentage of pool invested in:		
Certificates of deposit and money market mutual funds	2%	5%
Mutual funds	62%	59%
Equity securities	4%	4%
Fixed income securities	31%	31%
Other	1%	1%
Total investments	100%	100%

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

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

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

Investment Income

Investment income for the years ended June 30 consisted of:

	2017	2016
Assets held by the University:		
Interest income	$ 833,447	$ 1,666,800
Assets held by MSU Foundation:		
Investment income endowment funds	376,302	1,307,080
Net increase/(decrease) in fair value of endowment investments	2,078,707	(1,434,391)
Total investment income	$ 3,288,456	$ 1,539,489

6. Endowments

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

	2017	2016
Endowment assets, beginning of year	$ 19,218,207	$ 20,453,677
Investment return		
Net appreciation/(depreciation)	2,080,381	(1,432,838)
Contributions	674,645	197,368
Endowment assets, end of year	$ 21,973,233	$ 19,218,207

7. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance June 30, 2016	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2017
Land	$ 9,920,222	$ —	$ —	$ —	$ 9,920,222
Construction in progress	76,632,426	24,957,519	(64,344,225)	(1,188,119)	36,057,601
Museum and collectibles	677,635	14,911	—	—	692,546
Total capital assets not being depreciated	87,230,283	24,972,430	(64,344,225)	(1,188,119)	46,670,369
Buildings	278,366,153	555,432	62,615,219	—	341,536,804
Nonbuilding improvements	16,464,827	—	910,169	(555,432)	16,819,564
Equipment	31,208,716	1,911,550	818,837	(1,609,607)	32,329,496
Library holdings	30,122,072	63,465	—	(18,964,089)	11,221,448
Livestock	165,750	18,499	—	(32,500)	151,749
Software	1,932,019	—	—	—	1,932,019
Total other capital assets	358,259,537	2,548,946	64,344,225	(21,161,628)	403,991,080
Total capital assets before depreciation	445,489,820	27,521,376	—	(22,349,747)	450,661,449
Less accumulated depreciation:					
Buildings	146,626,036	8,539,436	—	—	155,165,472
Improvements other than buildings	10,584,191	622,372	—	—	11,206,563
Equipment	23,416,353	1,777,902	—	(1,271,296)	23,922,959
Library holdings	26,576,276	490,320	—	(18,958,303)	8,108,293
Livestock	88,500	11,458	—	(16,250)	83,708
Software	1,915,931	16,087	—	—	1,932,018
Total accumulated depreciation	209,207,287	11,457,575	—	(20,245,849)	200,419,013
Capital assets, net	$ 236,282,533				$ 250,242,436

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

8. Accounts Payable

Accounts payable at June 30 consisted of:

	2017	2016
Current accounts payable:		
Vendors	$ 7,182,082	$ 13,261,067
Payroll benefits and withholdings	2,546,539	2,293,731
MSU Foundation	63,608	57,144
Loans	6,787	25,043
Total accounts payable	$ 9,799,016	$ 15,636,985

9. University Health Self-Insurance Program

The University maintains a self-insurance program for employees' health insurance. For the fiscal year ended June 30, 2017, the University paid approximately 78% 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, 2017 and 2016, totaled $9,410,030 and $10,042,235, respectively. Stop loss and administrative fees are disclosed in the chart below. The University's stop-loss insurance limits its exposure for claims to $200,000 per individual for the first half of the fiscal year increasing to $225,000 per individual at January 1, 2017 thru June 30, 2017.

The University self-insured program operates on a calendar year (January – December) basis and a true picture of the total plan year is not presented in this note.

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

	2017	2016
Liability, beginning of year	$ 627,097	$ 617,000
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	11,570,617	12,133,583
Administrative and stop-loss fees	(1,127,790)	(1,343,744)
Claims paid	(10,494,971)	(10,779,742)
Liability, end of year	$ 574,953	$ 627,097

10. Unearned Revenue

Unearned revenue as of June 30 consisted of:

	2017	2016
Current unearned revenue:		
Prepaid tuition and fees	$ 2,583,129	$ 2,726,634
Grants and contracts	554,046	891,217
Auxiliary enterprises	28,419	33,024
Total current unearned revenue	$ 3,165,594	$ 3,650,875

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, 2017:

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year	Long-Term Portion
Bonds payable	$ 75,835,000	$ —	$ (3,685,000)	$ 72,150,000	$ 3,800,000	$ 68,350,000
Less bond discounts	(60,085)	—	4,622	(55,463)	(4,622)	(50,841)
Plus bond premiums	2,188,815	—	(120,762)	2,068,053	120,762	1,947,291
Bonds payable, net of discounts premiums	77,963,730	—	(3,801,140)	74,162,590	3,916,140	70,246,450
City of Murray payable	8,124,999	—	(360,000)	7,764,999	375,000	7,389,999
Master lease notes payable	1,252,868	—	(906,248)	346,620	346,620	—
Total bonds, notes and capital leases	$ 87,341,597	$ —	$ (5,067,388)	$ 82,274,209	$ 4,637,760	$ 77,636,449

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	$ 92,141,554	$ 8,500,125	$ (13,300,082)	$ 87,341,597	$ 5,061,049	$ 82,280,548

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
2018	$ 3,800,000	$ 721,620	$ 4,521,620	$ 2,712,387	$ 7,234,007
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	4,105,000	440,000	4,545,000	2,206,984	6,751,984
2023-2027	22,875,000	2,375,000	25,250,000	8,630,700	33,880,700
2028-2032	19,345,000	2,725,000	22,070,000	4,243,644	26,313,644
2033-2035	10,040,000	604,999	10,644,999	716,400	11,361,399
Total	$ 72,150,000	$ 8,111,619	$ 80,261,619	$ 25,899,743	$ 106,161,362

Long-term liability activity for the year ended June 30, 2017 was as follows:

	Original Issue	Balance Due June 30, 2017	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2017-2018
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	$ 685,000	$ 43,138	$ 685,000
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	5,410,000	217,514	365,000
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	6,165,000	243,439	315,000
Series B 2011 refunding bonds dated July 26, 2011, with an interest rate of 2.00% to 3.75%; final principal payment date September 1, 2021; refunding of Housing and Dining bonds series M, N, & O	4,670,000	1,680,000	57,026	495,000
Series C 2011 refunding bonds dated July 12, 2011, with an interest rate of 2.00% to 4.00%; final principal payment date September 1, 2027; refunding of Housing and Dining bonds series P & Q	15,620,000	10,595,000	395,750	865,000
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	13,745,000	408,038	655,000
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	26,000,000	25,680,000	1,055,950	385,000
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	8,190,000	181,325	35,000
Total general receipts bonds payable	100,095,000	72,150,000	2,602,180	3,800,000
Bonds payable before discount	100,095,000	72,150,000	2,602,180	3,800,000
Less bond discount	—	(55,463)	—	(4,622)
Plus bond premium	—	2,068,053	—	120,762
Total bonds payable	$ 100,095,000	$ 74,162,590	$ 2,602,180	$ 3,916,140

	Original Issue	Balance Due June 30, 2017	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2017-2018
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	7,764,999	217,888	375,000
Total City of Murray payable	$ 9,250,000	$ 7,764,999	$ 217,888	$ 375,000
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	346,620	33,617	346,620
Energy savings projects - Master lease dated June 29, 2010, with interest of 2.85%; final principal payment due June 29, 2017	1,500,000	—	4,164	—
Total master lease payable	$ 8,207,876	$ 346,620	$ 37,781	$ 346,620
Less: Capitalized Interest	$ —	$ —	$ (1,051,729)	$ —
Total All Bond Issues, Notes Payable and Capital Leases	$ 117,552,876	$ 82,274,209	$ 1,806,120	$ 4,637,760

The revenue bond indentures require the University to maintain a reserve balance as a percentage of outstanding balances. As of June 30, 2017 and 2016, the sinking fund and reserve fund requirements have been funded as required.

12. Deposits

The deposits held as of June 30 consisted of:

	2017	2016
Current:		
Horse stall rentals	$ 21,185	$ 20,510
Racer card declining balances	32,929	35,249
Housing deposits	165,085	166,181
Agency account balances	95,200	90,867
Total current deposits	314,399	312,807
Noncurrent:		
Housing deposits	366,450	365,550
Total deposits	$ 680,849	$ 678,357

Noncurrent housing deposit additions were $136,800 and $151,200 for the years ended June 30, 2017 and 2016, respectively. Noncurrent housing deposit deductions were $135,900 and $133,950 for the years ended June 30, 2017 and 2016, respectively.

13. Unrestricted Net Position

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

	2017	2016
Unrestricted net position		
Allocated for:		
Departmental operations	$ 27,911,057	$ 24,480,460
Encumbrances	439,871	150,109
Board designated projects	10,899,378	12,354,871
Capital projects	5,246,316	5,369,936
Renovation and maintenance	10,008,866	8,725,584
Plant reserves	11,074,264	9,970,785
Working capital	11,418,803	9,825,242
Revenue contingency	2,293,200	2,401,255
General contingency	44,112,858	38,338,328
Self-insurance	574,953	627,097
Total unrestricted net position before pension adjustments	123,979,566	112,243,667
Pension adjustments, KERS non-hazardous	(84,685,305)	(80,157,742)
Pension adjustments, KERS hazardous	(1,219,935)	(1,190,901)
Pension adjustments, TRS	(180,125,998)	(162,692,626)
Total unrestricted net position	$ (142,051,672)	$ (131,797,602)

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) 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

Teachers' Retirement System. Under the provisions of Kentucky Revised Statute Section 161.250, the Board of Trustees (the Board) of Teachers' Retirement Systems (TRS) administers the Teachers' Retirement System (TRS). 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 Teachers' Retirement System (TRS) or an optional retirement plan, as allowed by KRS 161.567. TRS, is a cost sharing, multiple-employer, public employee retirement system. TRS issues a publicly available financial report that can be obtained at https://TRS.ky.gov/financial-reports-information/

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 four 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 five years of service or any age with 25 years of service.

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%.

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. SB2 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.

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%.

TRS, 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.

TRS, 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.

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.

TRS, 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 TRS 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:

Number of Children	Annual Allowance
1	$2,400
2	4,080
3	4,800
4+	5,280

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 5% of their annual pay. The participating employers' contractually required contribution rate for the year ended June 30, 2017, was 48.59% 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 $5,464,262 and $4,257,068 for the years ended June 30, 2017 and 2016, 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, 2017, was 23.82% 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 $166,621 and $135,295 for the years ended June 30, 2017 and 2016, respectively.

The University's overall contributions, which include pension, medical, and life insurance contributions, to KERS for the years ended June 30, 2017 and 2016 were $6,782,307 and $5,569,128, respectively, and were equal to the required contributions.

TRS. Per KRS 161.250, contribution requirements of the active employees and the participating employers are established and may be amended by the TRS Board. Employees are required to contribute 8.185% of their annual pay. The participating employers' contractually required contribution rate for the year ended June 30, 2017, 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 $5,473,315 and $5,549,698 for the years ended June 30, 2017 and 2016, respectively.

The University's overall contributions, which include pension, medical, and life insurance contributions, to TRS for the fiscal years ended June 30, 2017 and 2016 were $6,435,422 and $6,536,447, respectively.

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

The University reported a liability of $312,777,307 and $263,527,741 for the years ended June 30, 2017 and 2016, respectively, for its proportionate shares of the net pension liability in the plans. The net pension liability for TRS and KERS plans were measured as of June 30, 2016 and June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date 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, 2016, the University's proportion was 0.698165% for TRS, 0.836194% for KERS-nh, and 0.396922% for KERS-h, and at June 30, 2015 the University's proportion was 0.722622% for TRS, 0.854037% for KERS-nh, and 0.388584 for KERS-h.

For the years ended June 30, 2017 and 2016, the University recognized pension expense of $22,513,537 and $11,349,903. At June 30, 2017 and 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2017				June 30, 2016			
	Deferred Outflows of Resources		Deferred Inflows of Resources		Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	$	139,116	$	4,076,765	$	132,951	$	1,541,756
Change in assumptions		30,220,688		434,937		11,500,367		1,086,515
Net difference between projected and actual earnings on investments		10,336,161		461,600		201,463		2,401,613
Change in proportionate share		1,980,619		2,061,411		3,945,579		1,206,067
Contributions subsequent to the measurement date		11,104,198		—		9,942,062		—
Total	$	53,780,782	$	7,034,713	$	25,722,422	$	6,235,951

In the years ended June 30, 2017 and 2016 deferred outflows of resources of $11,104,198 and $9,942,062, respectively, related to pensions resulting from the University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended June 30, 2018 and 2017, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2017 will be recognized in pension expense as follows:

Year ended June 30:		Deferred Outflows of Resources		Deferred Inflows of Resources
2018	$	12,994,079	$	2,728,190
2019		11,511,697		2,125,156
2020		9,041,624		1,165,167
2021		5,837,725		508,100
2022		3,291,459		508,100
	$	42,676,584	$	7,034,713

Actuarial assumptions. The total pension liability in the June 30, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	June 30, 2016		June 30, 2015	
	KERS	TRS	KERS	TRS
Inflation	3.25%	3.5%	3.25%	3.5%
Salary increases	4.00%, including inflation	4.0% to 8.2%, including inflation	4.00%, including inflation	4.0% to 8.2%, including inflation
Investment rate of return	7.50%	7.50%	7.50%	7.50%

As of June 30, 2016 and 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, 2016 and 2015, mortality rates for TRS 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.

The actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of actuarial experience study for the period July 1, 2008 – June 30, 2013 for KERS and July 1, 2005 – June 30, 2010 for TRS. As a result of the actuarial experience studies, the expectation of life after disability was adjusted in the July 30, 2015 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. 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's investment consultant, are summarized in the following tables:

KERS:	**June 30, 2016**	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	50%	5.30%
Intermediate Duration Fixed Income	11%	1.00%
Custom KRS Fixed Income	11%	3.33%
Real Estate	5%	4.25%
Diversified Hedge Funds	10%	4.00%
Private Equity	2%	8.00%
Diversified Inflation Strategy	8%	3.15%
Cash Equivalent	3%	-0.25%
Total	100%	

KERS:	**June 30, 2015**	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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	100%	

For TRS 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.

TRS:	**June 30, 2016 and 2015**	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 rates used to measure the total pension liability as of the Measurement Date (June 30, 2016) and Prior Measurement Date (June 30, 2015) were 6.75% and 7.50%, respectively, for nonhazardous and 7.50% for both years for 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% for both years. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For TRS the discount rates used to measure the TPL as of the Measurement Date and Prior Measurement Date were 4.20% and 4.88%, 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 2040 plan year 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 4.20% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.01%). This change in the discount rate is considered a change in actuarial assumptions or other inputs 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, 2016		
	1% Decrease	Discount Rate	1% Increase
University's proportionate share - KERS-nh	$ 107,389,598	$ 95,321,852	$ 85,179,607
	5.75%	6.75%	7.75%
University's proportionate share - KERS-h	1,953,070	1,554,497	1,219,969
	6.50%	7.50%	8.50%
University's proportionate share - TRS	264,867,295	215,900,958	175,721,790
	3.20%	4.20%	5.20%

	June 30, 2015		
	1% Decrease	Discount Rate	1% Increase
University's proportionate share - KERS-nh	$ 96,505,515	$ 85,676,061	$ 76,517,290
	6.50%	7.50%	8.50%
University's proportionate share - KERS-h	1,714,394	1,332,707	1,012,458
	6.50%	7.50%	8.50%
University's proportionate share - TRS	219,695,514	176,518,973	140,791,533
	3.88%	4.88%	5.88%

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

15. Component Units

Murray State University Foundation, Inc.

Murray State University Foundation, Inc. (Foundation) is a Kentucky nonprofit corporation formed to receive, invest and expend funds for the enhancement and improvement of the University. It is a legally separate, tax-exempt component unit of the University that manages certain endowments and investments on behalf of the University. The Foundation has a Board of Trustees separate from that of the University. 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, 2017 and 2016, the Foundation made payments of $2,851,027 and $3,423,922, respectively, on behalf of the University from restricted sources. Accounts receivable at June 30, 2017 and 2016, from the Foundation were $265,114 and $298,651, respectively. Accounts payable to the Foundation as of June 30, 2017 and 2016 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:

	2017	2016
Money market mutual funds	$ 1,869,345	$ 860,058
Certificates of deposit	743,958	4,034,340
Equity securities	4,444,073	3,951,459
Cash value of life insurance policies	236,926	227,301
Mutual funds	69,488,357	58,610,736
Asset-backed bonds	482,081	1,346,942
Mortgage-backed bonds	1,866,166	2,544,632
Government bonds	25,531,291	20,129,879
Municipal bonds	408,055	495,984
Corporate bonds	6,154,925	6,294,332
Annuities	338,445	366,421
	$ 111,563,622	$ 98,862,084

Total investment return is comprised of the following:

	2017	2016
Interest and dividend income	$ 1,810,745	$ 1,738,296
Realized gains on investments reported at fair value	581,548	4,091,599
Unrealized losses on investments reported at fair value	8,616,216	(5,292,386)
	$ 11,008,509	$ 537,509

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:

	2017	2016
Murray State University	$ 25,926,934	$ 23,421,956
Murray State University Alumni Association	1,200,638	1,110,308
Others	39,725	42,039
	$ 27,167,297	$ 24,574,303

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 as of June 30, 2017 and 2016, $1,184,832 and $1,238,031, 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%. As of June 30, 2017 and 2016, cash, cash equivalents, and investments relative to charitable gift annuities and other liabilities discussed in Note 11 total $10,273,416 and $7,440,654, respectively.

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 statements of activities as temporarily restricted or permanently 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 statements of financial position. The present value of the estimated future payments are $4,407,480 and $4,386,340 as of June 30, 2017 and 2016, respectively, which was calculated using discount rates ranging from 1.8% to 8.0%, and applicable mortality tables.

d) Net Position

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

	2017	2016
Scholarships	$ 14,800,943	$ 9,902,981
Instruction and institutional support	12,068,298	11,359,084
Chairs and professorships	682,014	783,089
	$ 27,551,255	$ 22,045,154

Permanently restricted net position at June 30 are restricted to:

	2017	2016
Investment in perpetuity, the income of which is expendable to support:		
Scholarships	$ 31,194,546	$ 29,749,369
Instruction and institutional support	10,439,390	7,935,121
Chairs and professorships	2,565,385	2,388,601
Operations of the Golf Course	1,342,202	1,316,241
Operating activities of the Foundation	473,253	467,337
	$ 46,014,776	$ 41,856,669

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

	2017	2016
Scholarships	$ 1,497,125	$ 1,863,068
Instruction and institutional support	1,425,607	1,560,854
	$ 2,922,732	$ 3,423,922

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 $7,362,457 and $24,866,260 as of June 30, 2017 and 2016, 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.

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, 2017:

- Cash equivalents with a value of $132,733,083 held by the Commonwealth of Kentucky in an intermediate investment pool; fair value hierarchy level 2.

- Restricted investments for debt reserves with a value of $310,428 held by US Bank in money market accounts; fair value hierarchy level 1.

- Restricted quasi-endowment and endowment investments with a value of $25,926,934 held by the MSU Foundation in an investment pool; fair value hierarchy levels 1, 2, or 3.

18. Natural Expense Classifications with Functional Classifications

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

	Year Ended June 30, 2017					
	Natural Classification					
Fund Classification	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	$ 66,782,489	$ 6,725,589	$ 138,249	$ 768,653	$ —	$ 74,414,980
Research	1,385,385	853,239	215	49,577	—	2,288,416
Public service	6,599,667	1,645,162	265,899	90,685	—	8,601,413
Libraries	2,252,368	1,464,767	84	26,556	—	3,743,775
Academic support	5,463,499	2,040,426	56,139	114,249	—	7,674,313
Student services	11,032,332	5,487,991	83,827	203,863	810	16,808,823
Institutional support	22,759,705	(583,893)	84,112	80,380	—	22,340,304
Operations and maintenance	8,061,523	4,694,004	6,041,511	51,173	—	18,848,211
Financial aid	—	—	—	—	12,080,749	12,080,749
Depreciation	—	8,585,227	—	—	—	8,585,227
Auxiliary	8,716,325	11,687,613	2,957,361	102,927	137,958	23,602,184
Auxiliary depreciation	—	2,872,348	—	—	—	2,872,348
Total expenses	$ 133,053,293	$ 45,472,473	$ 9,627,397	$ 1,488,063	$ 12,219,517	$ 201,860,743

	Year Ended June 30, 2016					
	Natural Classification					
Fund 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	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	$ 124,242,945	$ 42,693,960	$ 9,128,503	$ 1,309,992	$ 13,000,417	$ 190,375,817

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.

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

	2017	2016
Assets		
Current assets	$ 826,078	$ 726,815
Noncurrent assets	1,846,489	1,849,155
Capital assets, net of accumulated depreciation	7,243,937	7,512,652
Total assets	9,916,504	10,088,622
Deferred outflows of resources		
Bond refunding loss	304,554	323,839
Total deferred outflows of resources	304,554	323,839
Liabilities		
Current liabilities	32,146	33,459
Noncurrent liabilities	7,764,999	8,124,999
Total liabilities	7,797,145	8,158,458
Net position		
Invested in capital assets, net of related debt	(216,509)	(288,508)
Restricted		
Expendable capital	1,060,290	1,063,474
Expendable debt service	754,046	749,729
Unrestricted	826,086	729,308
Total net position	$ 2,423,913	$ 2,254,003

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

	2017	2016
Operating revenues	$ 100,865	$ 102,814
Operating expenses	(536,891)	(456,245)
Depreciation expense	(268,715)	(268,715)
Operating loss	(704,741)	(622,146)
Nonoperating revenues	874,651	799,271
Change in net position	169,910	177,125
Net position, beginning of year	2,254,003	2,076,878
Net position, end of year	$ 2,423,913	$ 2,254,003

Wellness Center - Condensed Statements of Cash Flows

	2017	2016
Cash flows from		
Operating activities	$ (510,283)	$ (453,430)
Noncapital financing activities	490,115	481,569
Capital and related financing activities	113,069	88,783
Investing activities	3,747	7,666
Net increase in cash	96,648	124,588
Cash, beginning of year	2,576,819	2,452,231
Cash, end of year	$ 2,673,467	$ 2,576,819

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 statements of net position.

21. Contingency

On June 28, 2017 there was a natural gas explosion in the J. H. Richmond Residence Hall. The hall was constructed in 2010 at a cost of $13,991,313. This building, and surrounding buildings which also suffered some damage, are fully insured by the Commonwealth of Kentucky. As of this date, June 30, 2017, the extent of damages has not been estimated.

22. Current Economic Conditions (unaudited)

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

Proportionate Share Of The Net Pension Liability

KERS-Non-Hazardous Pension Plan

	2017	2016	2015
University's proportion of the net pension liability	0.836194%	0.854037%	0.882259%
University's proportionate share of the net pension liability	$ 95,321,852	$ 85,676,061	$ 79,154,689
University's covered-employee payroll	$ 12,787,487	$ 13,188,333	$ 13,917,604
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	745.43%	649.64%	568.74%
Plan fiduciary net position as a percentage of the total pension liability	14.80%	18.83%	22.32%

KERS-Hazardous Pension Plan

	2017	2016	2015
University's proportion of the net pension liability	0.396922%	0.388584%	0.405301%
University's proportionate share of the net pension liability	$ 1,554,497	$ 1,332,707	$ 1,035,001
University's covered-employee payroll	$ 585,712	$ 492,259	$ 523,146
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	265.40%	270.73%	197.84%
Plan fiduciary net position as a percentage of the total pension liability	57.41%	61.70%	68.74%

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Schedules of Required Supplementary Information

Years ended June 30, 2017, 2016, and 2015

Proportionate Share Of The Net Pension Liability *(Continued)*

TRS Pension Plan

	2017	2016	2015
University's proportion of the net pension liability	0.698165%	0.722622%	0.710400%
University's proportionate share of the net pension liability	$ 215,900,958	$ 176,518,973	$ 153,391,029
University's covered-employee payroll	$ 23,671,557	$ 24,966,648	$ 24,460,052
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	912.07%	707.02%	627.11%
Plan fiduciary net position as a percentage of the total pension liability	35.22%	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

	2017	2016	2015
Contractually required contribution	$ 4,290,378	$ 4,420,027	$ 3,912,372
Contributions in relation to the contractually required contribution	(4,290,378)	(4,420,027)	(3,912,372)
Contribution deficiency	$ -	$ -	$ -
University's covered-employee payroll	$ 12,787,487	$ 13,188,333	$ 13,917,604
Contributions as a percentage of convered-employee payroll	33.55%	33.51%	28.11%

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Schedules of Required Supplementary Information

Years ended June 30, 2017, 2016, and 2015

Schedules of Murray State University Contributions *(Continued)*

KERS-Hazardous Pension Plan

	2017	2016	2015
Contractually required contribution	$ 94,306	$ 115,000	$ 183,317
Contributions in relation to the contractually required contribution	(94,306)	(115,000)	(183,317)
Contribution deficiency	$ -	$ -	$ -
University's covered-employee payroll	$ 585,712	$ 492,259	$ 523,146
Contributions as a percentage of convered-employee payroll	16.10%	23.36%	35.04%

TRS Pension Plan

	2017	2016	2015
Contractually required contribution	$ 5,555,229	$ 5,684,344	$ 5,519,075
Contributions in relation to the contractually required contribution	(5,555,229)	(5,684,344)	(5,519,075)
Contribution deficiency	$ -	$ -	$ -
University's covered-employee payroll	$ 23,671,557	$ 24,966,648	$ 24,460,052
Contributions as a percentage of convered-employee payroll	23.47%	22.77%	22.56%

There were no changes to benefit terms for the plans year ended June 30, 2016. Changes in assumptions did occur for the KERS and TRS plans as the result of a change in the discount rates, which decreased from 7.50% and 4.88%, respectively, in plan year 2015 to 6.75% and 4.20%, respectively, in plan year 2016.

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

See Report of Independent Auditors

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report of Independent Auditors

Board of Regents
Murray State University
Murray, Kentucky

We have audited, in accordance with the 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, the financial statements of Murray State University (the University), as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 2, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

106 W. Vine Street, Suite 600 ▪ Lexington, KY 40507 ▪ 859-255-2341 **phone** ▪ 859-255-0125 **fax**
500 W. Jefferson Street, Suite 1400 ▪ Louisville, KY 40202 ▪ 502-589-6050 **phone** ▪ 502-581-9016 **fax**
deandorton.com

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dorton Allen Ford, PLLC

October 2, 2017
Lexington, Kentucky