MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE
COMMONWEALTH OF KENTUCKY

For the Year Ended June 30, 2018
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 years ended June 30, 2018 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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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, 2018 and 2017, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 21 and the pension and OPEB information on pages 75 - 82 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2018 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 1, 2018
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, 2018. 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 9,450 students. For the 2018-19 academic year, tuition and fees increased by $132 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 28 consecutive years with the release of the 2019 *U.S. News Best Colleges* list. The 2019 edition of *U.S. News Best Colleges* ranks the University 34th of all regional universities in the South, in addition to 11th in "top public schools" in the South and 56th 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 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 2018. This marks the 11th 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*, and again in 2018 with the implementation of GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB).* The effects of implementing GASB Statement Nos. 68 and 75 are summarized in the following table. It is important to note that the implementation of these standards has no effect on past or current cash or cash equivalents.

	2018	2017	2016
Beginning net position, no pension/OPEB adjustment	$ 332,252,009	$ 300,800,699	$ 257,415,254
Change in net position, no pension/OPEB adjustment	4,721,089	31,451,310	43,385,445
Ending net position before pension/OPEB adjustment	336,973,098	332,252,009	300,800,699
Pension beginning adjustment	(266,031,237)	(244,041,269)	(233,568,557)
Pension revenue/(expense) adjustment	8,816,578	(21,989,968)	(10,472,712)
OPEB prior period balance adjustment	(32,141,103)	—	—
OPEB revenue/(expense) adjustment	(1,420,895)	—	—
Total pension/OPEB adjustments	(290,776,657)	(266,031,237)	(244,041,269)
Net position after pension/OPEB adjustments	$ 46,196,441	$ 66,220,772	$ 56,759,430

- In fiscal year 2018 (or 2018), the University had assets of $430.4 million, deferred outflows of $53.8 million, liabilities of $364.8 million and deferred inflows of $73.2 million. Net position, which represents the University's residual interest in assets and deferred outflows after liabilities and deferred inflows are deducted, was $46.2 million or 10% of total assets and deferred outflows. Net position decreased by $20 million from fiscal year 2017 (or 2017) to 2018. This decrease in net position was the result of a ($32 million) decrease in beginning balance due to a prior period adjustment for the implementation of GASB 75, a ($16.6 million) decrease in capital assets primarily related to the $9.5 million impairment of J.H. Richmond Hall as described in the Economic Factors section below, and a $22.3 million net increase in pension/OPEB current year liabilities and deferred inflows, offset by a ($29.4 million) decrease in current year pension/OPEB net expenses, a $10.1 million increase in accounts receivable related to insurance receivables for J.H. Richmond Hall, and ($8.1 million) decrease in liabilities other than pension/OPEB due to decreases in accounts payable ($3.2 million) and long-term debt ($4.5 million). 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 $166.6 million. The University continued to be a strong employer for the region and employed 3,972 individuals, including

665 faculty and 965 staff members and 2,342 students. These totals include 1,332 regular and full-time faculty and staff.

- Total originally enacted operating state appropriations for fiscal year 2018 decreased by 1% ($519,900), declining to $45.3 million, this includes general appropriations of $43.1 million and performance funding pool allocations of $2.2 million.

- The University invests approximately 97% of its endowment funds with the Murray State University Foundation, Inc. (Foundation). The value of these funds is as follows:

Historical Value	$18.0 million
Market Value	$21.4 million

These funds experienced an unrealized gain of $701,265 in fiscal year 2018. This allowed for most program spending to remain constant during the fiscal year 2018. The Foundation operated with a 4.0% cap on endowment spending for the fiscal year 2018.

- 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.

- 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, 2018, 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 summer 2019.

- 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. The building was razed in July 2018.

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

- The University experienced large changes in the pension liability in fiscal year 2018, primarily the result of a reduced liability reported by the Teacher's Retirement System (TRS) of Kentucky. The University's portion of this reduced liability resulted in a ($101.6 million) reduction to the TRS portion of the net pension liability and a ($13.2 million) reduction to expenses. However these results were partially offset by an increase to the Kentucky Employees Retirement System (KERS) liability, which increased the University's liability $20 million and increased expenses $10.2 million. Additionally, the University's liabilities were further increased by the addition of adjustments related to OPEB paid to the retirement systems. This addition resulted in a $37.8 million increase in liabilities and $1.9 million increase in expenses. Overall adjustments related to pensions/OPEB were a ($43.8 million) reduction to liabilities and a ($1.1 million) reduction to operating expenses.

- 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.

- Dining outsourcing was approved by the Board of Regents in June 2018. The process is to issue a request for proposal (RFP) followed by a review of vendor responses and campus visits and presentations, resulting in an evaluation of the dining outsourcing options.

- The University experienced a 4.6% decline in enrollment in fiscal year 2018. The impact of the decrease was addressed by reduced and postponed expenditures in fiscal year 2018.

Performance Funding

The enacted 2017-18 Commonwealth of Kentucky budget included implementation of the performance funding model and included a performance pool. The pool was funded with 5% of the net adjusted appropriations of each of the four year institutions and Kentucky Community and Technical College System (KCTCS). Murray State University contributed $2,293,200 to the pool and received $2,231,000 in the 2017-18 budget from the funding pool. The three basic components of the funding model include:

- 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.

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 2018 and 2017 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 2018 were $430.4 million, of which capital assets, net of depreciation, represented the largest portion. Capital assets totaled approximately $233.7 million or 54% of total assets and were primarily comprised of University-owned land, buildings, equipment, and library holdings. Cash and cash equivalents amounted to $143.2 million or 34% of total assets. Total assets decreased by $3.2 million during the 2018 fiscal year. This decrease in gross total assets is due primarily to the following items:

- ($16.6 million) - Decrease in net capital assets. Primarily due to ($12 million) in current year depreciation combined with the ($9.5 million) decrease due to the J. H. Richmond impairment. This combined ($21.5 million) decrease was offset by $3.6 million increase in equipment, $2.1 million of which was related to equipping the new Engineering and Physics building as well as $0.3 million in land purchases, $0.4 non-building improvements with the remaining $0.6 increase related to the reduction in construction-in-progress and related increase in buildings for the capitalization of Breathitt Veterinary Center, H.C. Franklin Hall and the Engineering and Physics building.

- $3.4 million - Increase in cash and cash equivalents. This increase was the result of a $1.7 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 $1.4 in Auxiliary cash explained by an increase in Auxiliary net position prior to the pension expense (non-cash) adjustment as well as an increase in restricted net position of $0.7 million. These increases were offset by an increase in collection expenses of $0.4 million.

- $10.1 million - Increase in accounts receivable, net. This increase is the result of a $10.5 million increase in an insurance receivable related to the J. H. Richmond Hall incident offset by a ($0.4 million) decrease related to the effects of the decline in enrollment.

Total assets increased by $20.5 million during the 2017 fiscal year due to the following:

- $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.

Deferred Outflows of Resources

A new section of the Statement of Net Position was added in 2014 in compliance with GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. This statement required that the deferred bond refunding loss, previously reported as part of the "Long-term debt" lines, be reported instead as a deferred outflow of resources in fiscal year 2014. GASB statement 65 also required that we restate this deferred outflow for all prior years reported within these financial statements. Deferred outflows consisted of bond refunding loss from the refunding of housing and dining bond series M, N, O, P, and Q which totaled $2.2 million for fiscal year 2018, $1.7 million for 2017, and $1.9 million for 2016. Also included is a bond refunding loss from the refunding of 2007 General Receipts bonds Series A which totaled $0.7 million for fiscal year 2018, $0.8 million for 2017 and $0.8 million for 2016. Deferred outflows also consisted of $51.3 million for fiscal year 2018, $53.8 million for 2017, and $25.7 million for 2016 related to reporting requirements specified in GASB Statements No. 68 - *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27* and No. 75 - *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*.

Liabilities

Total liabilities at the end of the 2018 fiscal year were $364.8 million, a decrease of ($52.1 million). This change was due to the following:

- ($43.8 million) – Net decrease in pension/OPEB 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. GASB Statement No. 75 – *Accounting and Financial Reports for Postemployment Benefits Other than Pensions (OPEB)* requires the reporting of the related liability for the first time in fiscal year 2018. This represents the University's proportionate share of the net pension/OPEB liability for the Kentucky state retirement plans to which the University makes contributions. The liability related to pensions decreased ($81.6 million), while the liability related to OPEB increased by $37.8 million.

- ($3.2 million) - Decrease in accounts payable. This decrease is attributed to the net ($3 million) decrease in Plant accounts payable related to the Breathitt Veterinary Center, Franklin Hall and the Engineering and Physics building, and offset by a ($0.2 million) decrease in restricted accounts payable attributable to timing differences in routine payables.

- ($0.4 million) – Decrease in unearned revenue. This decrease is the result of reductions in E&G ($0.2 million) and Restricted ($0.2 million) unearned revenues.

- ($4.7 million) - Decrease in long-term debt. This decrease is the result of the 2018 principal payments on bonds and master leases.

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.

<u>Deferred Inflows of Resources</u>

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 $73.2 million in fiscal year 2018, $7 million in 2017, and $6.2 million in 2016 for deferred inflows of resources related to pensions/OPEB as specified in GASB Statement Nos. 68 and 75.

<u>Net Position</u>

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

- <u>Invested in capital assets, net of related debt</u> - 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.

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

    - <u>Restricted nonexpendable net position</u> - 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.

    - <u>Restricted expendable net position</u> - 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, 2018	June 30, 2017	June 30, 2016
Assets			
Current assets	$ 116,557,371	$ 103,706,220	$ 91,608,769
Noncurrent assets	80,169,828	79,651,477	85,228,207
Capital assets	233,647,333	250,242,436	236,282,533
Total assets	430,374,532	433,600,133	413,119,509
Deferred Outflows	53,839,367	56,508,116	28,685,297
Liabilities			
Current liabilities	22,447,918	26,072,558	32,635,586
Noncurrent liabilities	342,364,235	390,780,206	346,173,839
Total liabilities	364,812,153	416,852,764	378,809,425
Deferred Inflows	73,205,305	7,034,713	6,235,951
Net Position			
Invested in capital assets, net of related debt	159,215,284	173,041,810	157,389,810
Restricted for			
Nonexpendable	22,285,087	21,973,233	19,218,207
Expendable			
Scholarships, research, instruction and other	6,979,462	6,271,792	7,164,586
Loans	3,469,792	4,081,721	4,585,441
Capital	17,812,615	2,667,171	—
Debt service	287,315	236,717	198,988
Unrestricted	(163,853,114)	(142,051,672)	(131,797,602)
Total net position	$ 46,196,441	$ 66,220,772	$ 56,759,430

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 non-operating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which expenses the costs of an asset over its expected useful life.

Revenues

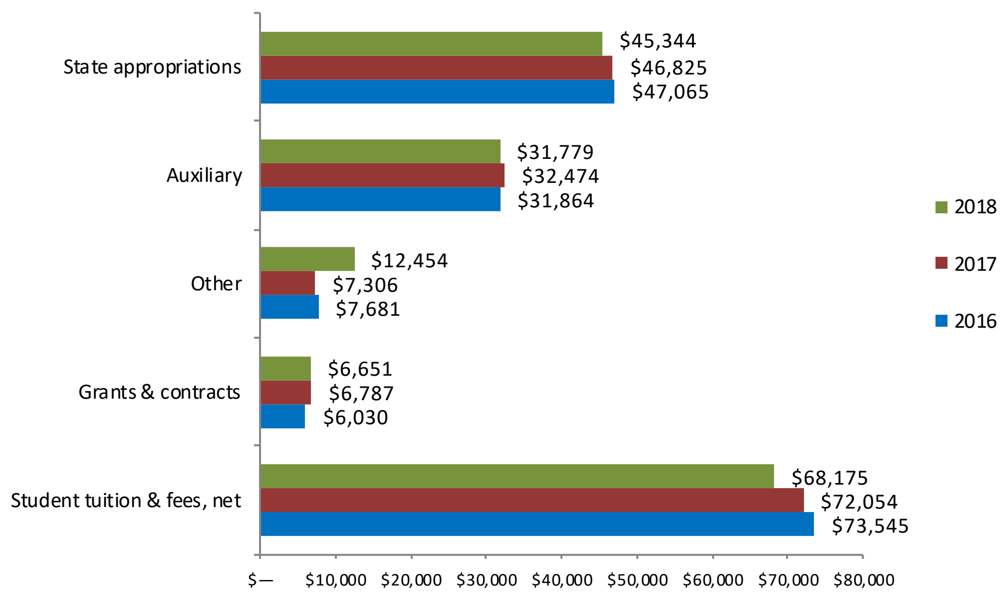
Total operating revenues, which exclude state appropriations, for fiscal year 2018 were $119.1 million, including student tuition and fees, net of related discounts and allowances, of $68.2 million, operating restricted grants and contracts revenues of $6.7 million, sales, services and other revenues of $12.5 million, and auxiliary services net revenues of $31.8 million.

During fiscal year 2018, operating revenues decreased by ($0.4 million). This decrease from the prior year is comprised primarily of ($3.9 million) in actual net tuition and fees, and ($0.1 million) in grants and contracts revenue , offset by increases of $5.1 million in sales, services, and other revenues and ($0.7 million) decrease in auxiliary services, specifically housing, dining and bookstore.

The University received $45.3 million in state appropriations for operations, including performance pool funding, for fiscal year 2018, and $45.9 million for fiscal year 2017 as well as a $1 million return of a prior year reduction received in fiscal year 2017. The ($0.6 million) decrease was the result of 1% decrease in state appropriations. State appropriations are required to be classified as nonoperating revenues; however, these funds were used to support University operating activities.

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

Operating Revenues and State Appropriations
(In Thousands)



Expenses

Total operating expenses for fiscal year 2018 were $186.6 million. Academic Affairs, which include instruction, research, libraries and academic support, represent the largest portion of the operating expenses totaling $68.8 million or 37%. Student Affairs, which include student services, financial aid and auxiliary services, was $56.3 million or 30% and other expenses which include public service, institutional support, depreciation and operation and maintenance amounted to $61.5 million or 33%. 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 decreased for the year ended June 30, 2018, by $15.2 million. The primary reasons for the decrease in operating expenses are as follows:

- ($25.5 million) - Decrease in overall operating expenses as the result of the University's proportionate share of expenses related to Kentucky state pension plans. The University's proportionate expenses were $10.2 million in 2018, $4.6 million in 2017, and $4.7 million in 2016 for the Kentucky Employee Retirement System and a $13.2 million credit to expenses in 2018, $18 million charge to expenses in 2017, and $6.6 million charge to expenses in 2016 for the Teachers' Retirement System.

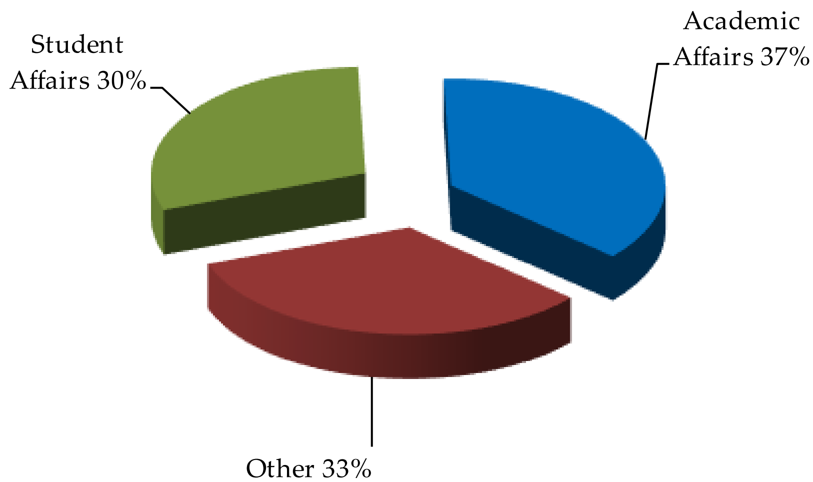
- $1.9 million – Increase in overall operating expenses as the result of the adoption of GASB Statement No. 75. This expense represents the University's proportionate share of expenses related to Kentucky state OPEB plans. The University's proportionate expenses were $1.2 million in 2018 Kentucky Employee Retirement System and a $0.7 million in 2018 for the Teachers' Retirement System.

- $6 million - Increase in operation and maintenance of plant expenses, before pension adjustments, as the result of the New BVC and Engineering and Physics buildings being placed in service. When this occurs several expenses held as construction-in-progress are released as plant expenses related to the construction of the building but not capitalized as part of the building.

- $1.7 million - Increase in overall operation spending, not including operations and maintenance mentioned above. This includes a $0.9 million increase in overall salaries and benefits not including the pension/OPEB expenses above and an $0.6 million increase in overall operating expenditures.

Operating expenses by type are reflected in the following chart:

University Operating Expenses
Year Ended June 30, 2018



The net loss from operations for the year ended June 30, 2018, was ($67.6 million). Nonoperating revenues, net of expenses, of $70.8 million, state capital appropriations of $4.4 million related to the Breathitt Veterinary Center and the Engineering and Physics building projects, insurance reimbursement related to the impairment of J. H. Richmond Hall and surrounding buildings which were impacted of $3.9 million, other insurance reimbursements of $1.1 million, and capital gifts of $0.4 million resulted in an increase in net position of $12.1 million for the year ended June 30, 2018. This increase in net position is primarily the result of state capital appropriations of $4.4 million related to the new Breathitt Veterinary Center and the Engineering and Physics building projects, $3.9 million gain on the insurance proceeds from the impairment of J. H. Richmond Hall and $23.6 million related to pension/OPEB.

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.

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

	2018	2017	2016
Operating revenues			
Student tuition and fees, net	$ 68,175,108	$ 72,053,962	$ 73,544,641
Grants and contracts	6,650,616	6,787,113	6,030,275
Other	12,453,726	7,306,302	7,680,689
Auxiliary, net	31,779,351	32,473,936	31,863,895
Total operating revenues	119,058,801	118,621,313	119,119,500
Operating expenses			
Instruction	56,419,272	74,414,980	68,688,820
Other educational and general	93,849,737	92,386,004	88,453,700
Depreciation	9,330,382	8,585,227	8,151,607
Auxiliary enterprises	24,256,797	23,602,184	23,045,892
Auxiliary depreciation	2,757,883	2,872,348	2,035,798
Total operating expenses	186,614,071	201,860,743	190,375,817
Operating loss	(67,555,270)	(83,239,430)	(71,256,317)
Nonoperating revenues			
State appropriations	45,344,100	46,824,500	47,064,600
Other nonoperating revenues	25,496,375	23,916,782	22,388,681
Total nonoperating revenues	70,840,475	70,741,282	69,453,281
Other revenues			
State capital appropriations and other	8,831,567	21,959,490	34,715,769
Increase in net assets	12,116,772	9,461,342	32,912,733
Net position, beginning of year	66,220,772	56,759,430	23,846,697
Restatement of 2018 beginning net position for OPEB liability	(32,141,103)	—	—
Net position, beginning of year	34,079,669	56,759,430	23,846,697
Net position, end of year	$ 46,196,441	$ 66,220,772	$ 56,759,430

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, 2018:</u>
The net cash used in operating activities reflects the net cash used for general operations of the University, which decreased by ($10.9 million) during 2018. This decrease in cash used was primarily due to increases in cash used by payments to suppliers and for salaries, wages and fringes, and decreases in cash from net tuition and fees, and sales and other revenues.

The cash flows from noncapital financing activities increased by $323,000 during 2018. This change was primarily due to an increase of $1.4 million for grants and contract revenue, $227,000 for Endowment proceeds and $209,000 for gifts other than capital, offset by a ($520,000) decrease in state appropriations for 2018 and a ($961,000) decrease in state appropriation returns of prior year deductions.

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 ($16.2 million) used during 2017 to ($6.1 million) used during 2018, a $10 million change. Part of this decrease is due to $23.1 million less cash used in the purchase of capital assets, attributable to decreased spending on the Breathitt Veterinary Clinic, and Engineering and Physics building both of which were completed or nearing completion in 2018. Also contributing to the increase was a $3 million receipt of insurance proceeds for James H. Richmond Hall. These were offset by a ($16.8 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 increased by $1.1 million for 2018. This increase was primarily the result of an increase in investment receipts, $900,000 of which is attributed to an increase in interest earned on local bank accounts as well as cash accounts held in Frankfort.

<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.

Condensed Statements of Cash Flows

	2018	2017	2016
Cash provided/(used) by:			
Operating activities	$ (61,621,713)	$ (50,689,875)	$ (48,433,051)
Noncapital financing activities	69,112,066	68,789,385	68,577,099
Capital and related financing activities	(6,105,745)	(16,174,554)	(32,009,512)
Investing activities	2,052,005	949,730	4,808,278
Net increase/(decrease) in cash	3,436,613	2,874,686	(7,057,186)
Cash and cash equivalents, beginning of year	139,755,912	136,881,226	143,938,412
Cash and cash equivalents, end of year	$ 143,192,525	$ 139,755,912	$ 136,881,226

Capital Assets and Debt Administration

The University had a $3.9 million increase in capital assets, before accumulated depreciation, during the fiscal year ended June 30, 2018. This change is primarily due to a $3 million increase in equipment purchases.

Construction-in-progress decreased ($29.8 million) in 2018 and buildings increased $30.6M primarily due to the completion of the Engineering and Physics Building project which was transferred out of construction-in-progress and put in service.

Capital assets as of June 30, 2018, and changes during the year are as follows:

	Balance June 30, 2018	Balance June 30, 2017	Net Change 2017-18
Land	$ 10,176,698	$ 9,920,222	$ 256,476
Construction in progress	6,264,350	36,057,601	(29,793,251)
Museum and collectibles	694,737	692,546	2,191
Buildings	372,149,804	341,536,804	30,613,000
Non-building improvements	17,172,063	16,819,564	352,499
Equipment	35,280,560	32,329,496	2,951,064
Software	1,932,019	1,932,019	—
Library holdings	10,744,204	11,221,448	(477,244)
Livestock	151,749	151,749	—
Accumulated depreciation	(220,918,851)	(200,419,013)	(20,499,838)
Total	$ 233,647,333	$ 250,242,436	$ (16,595,103)

Debt as of June 30, 2018, and changes during the year are as follows:

	Balance June 30, 2018	Balance June 30, 2017	Net Change 2016-17
General receipts bonds	$ 68,290,000	$ 72,150,000	$ (3,860,000)
Bond discount	(50,841)	(55,463)	4,622
Bond premium	1,947,291	2,068,053	(120,762)
City of Murray	7,390,000	7,764,999	(374,999)
Master lease payable	-	346,620	(346,620)
Total	$ 77,576,450	$ 82,274,209	$ (4,697,759)

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 2018, Kentucky's General Fund receipts rose for the eighth consecutive year. Final 2018 General Fund revenues were $10,838.2 million, or 3.4%, more than 2017 collections. Final General Fund revenues were $119.8 million or 1.1% more than the official revenue estimate which had projected 2.3% growth.

  The national outlook over the next three fiscal quarters calls for robust Gross Domestic Product (GDP) growth, continued solid employment gains, and a continued reduction in unemployment rates. Real GDP growth is expected to be 3.1% over the next three fiscal quarters. This is the best growth since the second half of 2015.

  The above was reported in the 2018 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, 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 priority 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. Details of funding amounts for the plan can be found in Note 9. The University implemented a stronger utilization management package, with additional controls on specialty drugs to help manage pharmacy costs. The Segal Company (Sibson Consulting) provides guidance for all health and wellness programs.

- 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 was focused on faculty positions, and will be followed by exempt staff and non-exempt staff. The review of all faculty positions has been significantly completed. However, based on budget challenges, Murray State University has made the decision to delay implementation for faculty until the compensation review for both exempt and non-exempt positions has been completed.

- Madisonville Community College (MCC) constructed 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 approximately 50% of this building is exclusively leased to the University for education space. MCC will use the remaining 50% for their educational purposes. MCC received $15 million from the state and $5 million was obtained through private fundraising efforts. MCC celebrated the completion of the building in June 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 Marshal's office along with several insurance representatives and legal counsels have investigated the incident. Renovation and repair of other buildings and grounds impacted by this event were completed in August 2017. J. H. Richmond Hall was constructed in 2010 at a cost of $13,991,313. The University was insured to repair or replace the building back to its original condition. As of June 2018 the damages to J. H. Richmond Hall are expected to cost $12,361,075, with the hope the building will open for occupancy in August 2019.

- 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 needs of the campus electrical infrastructure are critical and the University requested funding from the Commonwealth in the 2018-2020 Capital Budget.

- For the Fall 2018 semester, Murray State University is experiencing an overall enrollment change of approximately (5%). This is due to changing Kentucky resident and regional demographics as well as federal policies that impact international students. The University is modifying recruitment strategies to better align with these changes.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Statements of Net Position

June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 92,230,046	$ 89,167,632
Accounts receivable, net	18,727,240	8,666,971
Interest receivable	197,854	—
Inventories	3,141,909	3,372,508
Loans to students, net	582,137	628,911
Prepaid expenses	1,678,185	1,870,198
Total Current Assets	116,557,371	103,706,220
Noncurrent Assets		
Restricted cash and cash equivalents	50,962,479	50,588,280
Restricted investments	26,555,267	26,237,364
Loans to students, net	2,652,082	2,825,833
Capital assets	454,566,184	450,661,449
Accumulated depreciation	(220,918,851)	(200,419,013)
Total Noncurrent Assets	313,817,161	329,893,913
Total Assets	430,374,532	433,600,133
Deferred Outflows of Resources		
Bond refunding loss	2,491,793	2,727,334
Deferred outflows related to pension/OPEB contributions	51,347,574	53,780,782
Total Deferred Outflows of Resources	53,839,367	56,508,116

See accompanying notes.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Statements of Net Position

June 30, 2018 and 2017

	2018	2017
Liabilities		
Current Liabilities		
Accounts payable	$ 6,646,037	$ 9,799,016
Accrued payroll	6,775,768	6,721,821
Self-insured health liability	624,291	574,953
Interest payable	814,646	859,015
Unearned revenue	2,850,441	3,165,594
Deposits - current portion	275,595	314,399
Long-term debt - current portion	4,461,140	4,637,760
Total Current Liabilities	22,447,918	26,072,558
Noncurrent Liabilities		
Deposits	330,000	366,450
Long-term debt	73,115,310	77,636,449
Net pension/OPEB liability, state pension plans	268,918,925	312,777,307
Total Noncurrent Liabilities	342,364,235	390,780,206
Total Liabilities	364,812,153	416,852,764
Deferred Inflows of Resources		
Deferred inflows related to net pension/OPEB liability	73,205,305	7,034,713
Total Deferred Inflows of Resources	73,205,305	7,034,713
Net Position		
Net investment in capital assets	159,215,284	173,041,810
Restricted for:		
Nonexpendable:		
Endowment	22,285,087	21,973,233
Expendable:		
Scholarships, research, instruction and other	6,979,462	6,271,792
Loans	3,469,792	4,081,721
Capital projects	17,812,615	2,667,171
Debt service	287,315	236,717
Unrestricted	(163,853,114)	(142,051,672)
Total Net Position	$ 46,196,441	$ 66,220,772

See accompanying notes.

MURRAY STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position

June 30, 2018 and 2017

Assets

	2018	2017
Cash and cash equivalents	$ 1,503,097	$ 2,772,417
Accounts receivable	2,765,584	64,049
Investments	118,849,706	111,563,622
Real estate held for investment	2,552,957	4,646,309
Prepaid and other current assets	67,464	74,194
Contributions receivable, net	740,133	847,578
Property and equipment, net	6,563,619	4,260,557
Total Assets	$ 133,042,560	$ 124,228,726

Liabilities And Net Assets

	2018	2017
Liabilities		
Accounts payable	$ 114,648	$ 108,175
Due to Murray State University	249,045	265,114
Accrued expenses	57,729	61,999
Deferred revenue	60,610	61,970
Assets held for others	27,501,731	27,167,297
Capital lease obligation	130,284	94,681
Annuities and trusts payable	5,378,187	5,592,312
Other liabilities	338,459	669,629
Total Liabilities	33,830,693	34,021,177
Net Assets		
Unrestricted	20,638,045	16,641,518
Temporarily restricted	26,724,762	27,551,255
Permanently restricted	51,849,060	46,014,776
Total Net Assets	99,211,867	90,207,549
Total Liabilities and Net Assets	$ 133,042,560	$ 124,228,726

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, 2018 and 2017

	2018	2017
Operating Revenues		
Tuition and fees	$ 111,009,473	$ 115,006,235
Less: Discounts and allowances	(42,834,365)	(42,952,273)
Net tuition and fees	68,175,108	72,053,962
Federal grants and contracts	5,358,956	4,993,405
State grants and contracts	924,241	1,395,807
Private grants and contracts	367,419	397,901
Total grants and contracts	6,650,616	6,787,113
Sales and services of educational activities	5,548,567	4,936,631
Other operating revenues	6,905,159	2,369,671
Total sales, services, and other revenues	12,453,726	7,306,302
Auxiliary enterprises	32,268,637	32,992,256
Less: Discounts and allowances	(489,286)	(518,320)
Net auxiliary revenue	31,779,351	32,473,936
Total Operating Revenues	119,058,801	118,621,313
Operating Expenses		
Instruction	56,419,272	74,414,980
Research	2,415,697	2,288,416
Public service	6,570,379	8,601,413
Libraries	3,613,999	3,743,775
Academic support	6,339,326	7,674,313
Student services	16,563,970	16,808,823
Institutional support	19,094,877	22,340,304
Operation and maintenance of plant	26,515,669	18,848,211
Student financial aid	12,735,820	12,080,749
Depreciation	9,330,382	8,585,227
Auxiliary enterprises	24,256,797	23,602,184
Auxiliary depreciation	2,757,883	2,872,348
Total Operating Expenses	186,614,071	201,860,743
Operating Loss	(67,555,270)	(83,239,430)

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, 2018 and 2017

	2018	2017
Nonoperating Revenues (Expenses)		
State appropriations	$ 45,344,100	$ 45,864,000
State appropriations return of prior year reduction	—	960,500
Restricted student fees (revenues are pledged as security for the City of Murray debt agreement)	620,681	658,385
Federal grants and contracts	12,878,368	12,149,103
State grants and contracts	8,663,326	8,164,321
Local and private grants and contracts	602,347	445,649
Gifts	1,369,510	1,220,027
Investment income	3,191,632	3,288,456
Interest on capital asset-related debt	(1,630,671)	(1,762,317)
Loss on deletion and disposal of capital assets	(79,417)	(127,441)
Bond amortization	(119,401)	(119,401)
Nonoperating Revenues (Expenses), Net	70,840,475	70,741,282
Income Before Other Revenues, Expenses Gains and Losses	3,285,205	(12,498,148)
State Capital Appropriations	4,378,656	21,144,514
Gain on the Insurance Proceeds from the Impairment of JH Richmond Hall	2,845,855	—
Other Insurance Proceeds	1,194,604	155,824
Capital Gifts	403,899	69,635
Additions to Permanent Endowments	8,553	589,517
Change in Net Position	12,116,772	9,461,342
Net Position - Beginning of Year	66,220,772	56,759,430
Restatement of beginning net position for OPEB liability	(32,141,103)	—
Net Position - Beginning of Year (adjusted)	34,079,669	56,759,430
Net Position - End of Year	$ 46,196,441	$ 66,220,772

See accompanying notes.

MURRAY STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains/(Losses) And Other Support				
Contributions	$ —	$ 1,405,953	$ 4,013,947	$ 5,419,900
Revenues from operations of the Frances E. Miller Memorial Golf Course	420,310	—	—	420,310
Fees and rental income	518,666	41,258	—	559,924
Investment return, net	2,687,532	4,649,819	65,754	7,403,105
Other	9,082	689	41,847	51,618
Change in value of annuities payable	—	—	(164,342)	(164,342)
Net assets released from restrictions	2,879,078	(2,879,078)	—	—
Total Revenues, Gains/(Losses) And Other Support	6,514,668	3,218,641	3,957,206	13,690,515
Expenses And Losses				
Payments made on behalf of Murray State University	2,827,770	—	—	2,827,770
Frances E. Miller Memorial Golf Course	598,570	—	—	598,570
General and administrative	1,259,857	—	—	1,259,857
Total Expenses And Losses	4,686,197	—	—	4,686,197
Transfers between Foundation fund groups	2,168,056	(2,672,510)	504,454	—
Change in Net Assets	3,996,527	546,131	4,461,660	9,004,318
Net Assets - Beginning of Year	16,641,518	27,551,255	46,014,776	90,207,549
Net asset reclassification	—	(1,372,624)	1,372,624	—
Net Assets - End of Year	$ 20,638,045	$ 26,724,762	$ 51,849,060	$ 99,211,867

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
A Component Unit of the Commonwealth of Kentucky

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Tuition and fees	$ 66,266,582	$ 71,644,078
Grants and contracts	6,549,597	5,868,517
Payments for salaries, wages and fringes	(104,057,020)	(102,453,270)
Payments to suppliers	(35,143,546)	(30,280,063)
Payments for student financial aid	(12,735,820)	(12,080,749)
Loans issued to employees	(26,546)	(15,921)
Collections of loans to employees	11,437	20,429
Loans issued to students	(373,440)	(78,877)
Collections of loans to students	593,965	363,047
Sales and services of educational activities	7,880,793	4,545,668
Other operating revenues	639,481	1,752,904
Auxiliary revenues:		
Food service	11,677,672	11,993,655
Housing	14,428,979	14,758,807
Bookstore	5,097,721	5,569,715
Other	175,357	196,001
Auxiliary payments:		
Payments for salaries, wages and fringes	(7,661,947)	(7,607,957)
Payments to suppliers	(14,944,978)	(14,747,901)
Payments for student financial aid	—	(137,958)
Net Cash Used in Operating Activities	(61,621,713)	(50,689,875)
Cash Flows From Noncapital Financing Activities		
State appropriations	45,344,100	45,864,000
State appropriations-return of prior year reduction	—	960,500
Endowment proceeds forwarded to MSU Foundation for investment	390,535	163,243
Grants and contracts	22,144,041	20,759,073
Endowment income	241,888	250,273
Gifts for other than capital purposes	992,437	783,630
Agency transactions	(935)	8,666
Net Cash Provided by Noncapital Financing Activities	69,112,066	68,789,385
Cash Flows From Capital and Related Financing Activities		
Restricted student fees pledged for debt service	620,681	658,385
Insurance proceeds - J.H. Richmond Hall	2,999,000	—
Insurance proceeds - other	91,496	155,824
State capital appropriations	4,376,453	21,143,772
Purchases of capital assets	(7,240,859)	(30,341,383)
Capital gifts	341,491	17,944
Principal paid on capital debt and leases	(4,581,619)	(4,951,248)
Interest paid on capital debt and leases	(2,712,388)	(2,857,848)
Net Cash Used in Capital and Related Financing Activities	(6,105,745)	(16,174,554)

See accompanying notes.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	$ 8,512	$ (9,282)
Purchases of investments	(3,156)	(464)
Investment receipts	2,046,649	959,476
Net Cash Provided by Investing Activities	2,052,005	949,730
Net Increase in Cash and Cash Equivalents	3,436,613	2,874,686
Cash and Cash Equivalents - Beginning of Year	139,755,912	136,881,226
Cash and Cash Equivalents - End of Year	$ 143,192,525	$ 139,755,912
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	$ 92,230,046	$ 89,167,632
Restricted cash and cash equivalents	50,962,479	50,588,280
Total Cash and Cash Equivalents	$ 143,192,525	$ 139,755,912
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (67,555,270)	$ (83,239,430)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	12,088,265	11,457,575
Bad debt expense/(recovery)	319,939	(366,623)
Net pension (gain)/expense, proportionate share	(7,395,683)	21,989,968
Net in-kind expenses	244,938	161,296
Changes in assets and liabilities:		
Accounts and loans receivable, net	625,439	(889,796)
Inventories	230,599	147,348
Prepaid expenses	192,013	(407,424)
Accounts payable	(87,969)	717,870
Self-insured health liability	49,338	(52,144)
Accrued payroll	53,947	277,865
Deposits	(74,319)	(1,841)
Unearned revenue	(312,950)	(484,539)
Net Cash Used in Operating Activities	$ (61,621,713)	$ (50,689,875)
Supplemental Disclosure of Cash Flow Information		
Gifts of capital assets	$ 62,408	$ 51,691
Accounts payable incurred for capital asset purchases	819,003	3,609,762
Changes in fair value of investments	705,241	2,078,707

See accompanying notes.

1. Summary of Significant Accounting Policies

Change in Accounting Principle

Effective July 1, 2017, Murray State University (University) was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*" (Statement 75). Statement 75 replaces the requirements of Statements No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*", for OPEB. GASB 75 is applicable for government agencies that provide defined benefit OPEB to recognize their long-term obligation for OPEB as a liability to more comprehensively and comparably measure the annual cost. The University participates in the Kentucky Employees Retirement System (KERS) OPEB plan administered by the Board of Trustees of the Kentucky Retirement Systems as well as the Teachers' Retirement System (TRS) of Kentucky. These are cost sharing, multiple employer defined benefit OPEB plans, which cover all eligible full-time employees and provides health insurance benefits. Cost-sharing governmental employers, such as the University, are required to report a net OPEB liability, OPEB expense and OPEB-related assets and liabilities based on their proportionate share of the collective amounts for all government agencies in the plan. For these purposes amounts have been determined on the same basis as they are reported by KERS and TRS. The KERS and TRS financial statements are prepared using the accrual basis of accounting with benefits being recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value. All governments participating in the defined benefit OPEB plan also are required to disclose various information in the footnotes to the financial statements – see Note 14.

Statement 75 required retrospective application. The beginning net position for the year ended June 30, 2018 was adjusted to reflect the retrospective application. The adjustment resulted in a $32,141,103 reduction in beginning net position.

Nature of Operations

The 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 9,450. 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 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 except in the case of Facilities Management inventories which use an average cost method to determine value.

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 $1,037,348 and $1,051,729 for the years ended June 30, 2018 and 2017, 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/OPEB 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 deferred outflow for pension/OPEB contributions represent contributions made to the plan between the measurement date, which was the end of fiscal year 2017, of the pension/OPEB obligations and the end of fiscal year 2018.

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/OPEB 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 and accumulated depreciation 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 and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pension/OPEB, and pension/OPEB expense, information about the fiduciary net position of the Kentucky Employees’ Retirement System (KERS) and 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:

	2018	2017
Current accounts receivable:		
Student tuition and fees	$ 7,946,542	$ 8,438,342
Grants and contracts	1,735,708	1,768,773
Auxiliary fees	2,599,254	2,394,656
MSU Foundation	249,045	265,114
Employee computer and bicycle loans	13,030	5,205
Outside sales	484,405	522,067
Capital construction receivable – Richmond incident*	10,465,183	142
Allowance for doubtful accounts	(4,765,927)	(4,727,328)
Total current accounts receivable	$ 18,727,240	$ 8,666,971

*The University is required to recognize revenues for any known recoveries to impaired assets even if those recoveries have not yet taken place. This receivable represents the insurance recovery for the J.H. Richmond incident which will reimburse for expenses made to bring J.H. Richmond Hall back to its original condition prior to the incident.

3. Inventories

Inventories as of June 30 consisted of:

	2018	2017
University bookstore - resale	$ 1,411,102	$ 1,602,024
Physical plant - supplies	1,502,698	1,548,146
Food services - resale and supplies	156,572	159,038
Art supplies	55,269	50,380
CFSB concessions	16,268	12,920
Total inventories	$ 3,141,909	$ 3,372,508

4. Loans Receivable

Student loans made through the Federal Perkins Loan Program (Program) comprise substantially all of the loans receivable at June 30, 2018 and 2017. 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.

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, 2018 and 2017 was $253,715 and $242,170, respectively.

Loans receivable as of June 30 consisted of:

	2018	2017
Current loans receivable:		
University loan programs	$ 33,740	$ 58,395
Federal nursing program	88,480	83,809
Federal Perkins program	459,917	486,707
Total current loans receivable, net	582,137	628,911
Noncurrent loans receivable:		
University loan programs	14,686	19,673
Federal nursing program	376,745	358,204
Federal Perkins program	2,260,651	2,447,956
Total noncurrent loans receivable, net	2,652,082	2,825,833
Total loans receivable, net	$ 3,234,219	$ 3,454,744

5. Deposits, Investments and Investment Income

Deposits

At June 30, 2018 and 2017, the carrying amounts of the University's bank balances and deposits were $143,192,525 and $139,755,912, 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.

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.

Current and non-current cash and cash equivalents as of June 30 consisted of:

	2018	2017
Depository accounts:		
Local bank deposits, letter of credit in the University's name	$ 8,212,336	$ 6,942,857
Cash on hand	45,665	40,301
Foreign currency deposits	-	39,671
State Investment Pool - collateral required by KRS 41.240	134,934,524	132,733,083
Total deposits	$ 143,192,525	$ 139,755,912

Current and non-current cash and cash equivalents as presented in the statements of net position captions as of June 30 include:

	2018	2017
Cash and cash equivalents, current	$ 92,230,046	$ 89,167,632
Restricted cash and cash equivalents	50,962,479	50,588,280
Total deposits	$ 143,192,525	$ 139,755,912

Investments

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

		2018		2017
Money market funds restricted for debt service purposes	$	305,072	$	310,430
Restricted assets held by the Foundation		26,250,195		25,926,934
Total investments	$	26,555,267	$	26,237,364

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 MSU 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 MSU Foundation are invested primarily in an investment pool managed by the MSU Foundation and are carried at fair value.

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

	2018	2017
Percentage of pool invested in:		
Certificates of deposit and money market mutual funds	1%	2%
Mutual funds	63%	62%
Equity securities	3%	4%
Fixed income securities	32%	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:

	2018	2017
Assets held by the University:		
Interest income	$ 1,771,714	$ 833,447
Assets held by MSU Foundation:		
Investment income endowment funds	718,653	376,302
Net increase in fair value of endowment investments	701,265	2,078,707
Total investment income	$ 3,191,632	$ 3,288,456

6. Endowments

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

	2018	2017
Endowment assets, beginning of year	$ 21,973,233	$ 19,218,207
Investment return		
Net appreciation	705,241	2,080,381
Endowment restrictions released	(588,597)	—
Contributions increase	195,210	674,645
Endowment assets, end of year	$ 22,285,087	$ 21,973,233

7. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2018
Land	$ 9,920,222	$ 256,476	$ —	$ —	$ 10,176,698
Construction in progress	36,057,601	8,200,446	(30,965,499)	(7,028,198)	6,264,350
Museum and collectibles	692,546	2,191	—	—	694,737
Total capital assets not being depreciated	46,670,369	8,459,113	(30,965,499)	(7,028,198)	17,135,785
Buildings	341,536,804	—	30,613,000	—	372,149,804
Nonbuilding improvements	16,819,564	—	352,499	—	17,172,063
Equipment	32,329,496	3,605,156	—	(654,092)	35,280,560
Library holdings	11,221,448	51,728	—	(528,972)	10,744,204
Livestock	151,749	—	—	—	151,749
Software	1,932,019	—	—	—	1,932,019
Total other capital assets	403,991,080	3,656,884	30,965,499	(1,183,064)	437,430,399
Total capital assets before depreciation	450,661,449	12,115,997	—	(8,211,262)	454,566,184
Less accumulated depreciation:					
Buildings*	155,165,472	18,622,492	—	—	173,787,964
Improvements other than buildings	11,206,563	573,560	—	—	11,780,123
Equipment	23,922,959	1,996,516	—	(601,124)	25,318,351
Library holdings	8,108,293	399,459	—	(502,523)	8,005,229
Livestock	83,708	11,458	—	—	95,166
Software	1,932,018	—	—	—	1,932,018
Total accumulated depreciation	200,419,013	21,603,485	—	(1,103,647)	220,918,851
Capital assets, net	$ 250,242,436				$ 233,647,333

*Accumulated depreciation for buildings includes a $9,515,220 adjustment for the impairment of J.H. Richmond. This adjustment was based on the historic value of the restoration cost.

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

8. Accounts Payable

Accounts payable at June 30 consisted of:

	2018	2017
Current accounts payable:		
Vendors	$ 3,977,873	$ 7,182,082
Payroll benefits and withholdings	2,597,152	2,546,539
MSU Foundation	65,489	63,608
Loans	5,523	6,787
Total current accounts payable	$ 6,646,037	$ 9,799,016

9. University Health Self-Insurance Program

The University maintains a self-insurance program for employees' health insurance. For the fiscal year ended June 30, 2018, the University paid approximately 76% 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, 2018 and 2017 totaled $9,869,157 and $9,410,030, respectively. Stop loss and administrative fees are disclosed in the chart below. The University's stop-loss insurance limits its exposure for claims to $225,000 per individual for the fiscal year.

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

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

	2018	2017
Liability, beginning of year	$ 574,953	$ 627,097
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	12,977,937	11,570,617
Administrative and stop-loss fees	(1,104,067)	(1,127,790)
Claims paid	(11,824,532)	(10,494,971)
Liability, end of year	$ 624,291	$ 574,953

10. Unearned Revenue

Unearned revenue as of June 30 consisted of:

	2018	2017
Current unearned revenue:		
Prepaid tuition and fees	$ 2,415,902	$ 2,583,129
Grants and contracts	420,029	554,046
Auxiliary enterprises	14,510	28,419
Total current unearned revenue	$ 2,850,441	$ 3,165,594

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, 2018:

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year	Long-Term Portion
Bonds payable	$ 72,150,000	$ —	$ (3,860,000)	$ 68,290,000	$ 3,950,000	$ 64,340,000
Less bond discounts	(55,463)	—	4,622	(50,841)	(4,622)	(46,219)
Plus bond premiums	2,068,053	—	(120,762)	1,947,291	120,762	1,826,529
Bonds payable, net of discounts premiums	74,162,590	—	(3,976,140)	70,186,450	4,066,140	66,120,310
City of Murray payable	7,764,999	—	(374,999)	7,390,000	395,000	6,995,000
Master lease notes payable	346,620	—	(346,620)	—	—	—
Total bonds, notes and capital leases	$ 82,274,209	$ —	$ (4,697,759)	$ 77,576,450	$ 4,461,140	$ 73,115,310

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

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
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	4,210,000	450,000	4,660,000	2,062,736	6,722,736
2024-2028	23,920,000	2,445,000	26,365,000	7,714,995	34,079,995
2029-2033	17,470,000	2,810,000	20,280,000	3,482,613	23,762,613
2034-2036	6,600,000	—	6,600,000	330,400	6,930,400
Total	$ 68,290,000	$ 7,390,000	$ 75,680,000	$ 23,187,356	$ 98,867,356

Long-term liability activity for the year ended June 30, 2018 was as follows:

	Original Issue	Balance Due June 30, 2018	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2018-2019
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	$ —	$ 4,984	$ —
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	5,045,000	201,548	380,000
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	5,850,000	233,812	325,000
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	1,185,000	40,566	480,000
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	9,730,000	365,793	890,000
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	13,090,000	390,730	670,000
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	25,295,000	1,038,086	465,000
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	8,095,000	180,860	740,000
Total general receipts bonds payable	100,095,000	68,290,000	2,456,379	3,950,000
Bonds payable before discount	100,095,000	68,290,000	2,456,379	3,950,000
Less bond discount	—	(50,841)	—	(4,622)
Plus bond premium	—	1,947,291	—	120,762
Total bonds payable	100,095,000	70,186,450	2,456,379	4,066,140

	Original Issue	Balance Due June 30, 2018	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2018-2019
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	7,390,000	210,093	395,000
Master Lease Payable				
Campus energy performance upgrade - Master lease dated February 10, 2005, with interest of 3.94%; final principal payment due August 10, 2017	6,707,876	—	1,547	—
Total master lease payable	6,707,876	—	1,547	—
Less: Capitalized Interest	—	—	(1,037,348)	—
Total All Bond Issues, Notes Payable and Capital Leases	$ 116,052,876	$ 77,576,450	$ 1,630,671	$ 4,461,140

The revenue bond indentures require the University to maintain a reserve balance as a percentage of outstanding balances. As of June 30, 2018 and 2017, the sinking fund and reserve fund requirements have been funded as required.

12. Deposits

The deposits held as of June 30 consisted of:

	2018	2017
Current:		
Horse stall rentals	$ 18,285	$ 21,185
Racer card declining balances	15,922	32,929
Housing deposits	147,123	165,085
Agency account balances	94,265	95,200
Total current deposits	275,595	314,399
Noncurrent:		
Housing deposits	330,000	366,450
Total deposits	$ 605,595	$ 680,849

Noncurrent housing deposit additions were $88,950 and $136,800 for the years ended June 30, 2018 and 2017, respectively. Noncurrent housing deposit deductions were $125,400 and $135,900 for the years ended June 30, 2018 and 2017, respectively.

13. Unrestricted Net Position

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

	2018	2017
Unrestricted net position		
Allocated for:		
Departmental operations	$ 26,686,695	$ 27,911,057
Encumbrances	326,867	439,871
Board designated projects	12,957,700	10,899,378
Capital projects	2,115,672	5,246,316
Renovation and maintenance	11,034,770	10,008,866
Plant reserves	11,115,771	11,074,264
Working capital	11,247,321	11,418,803
Revenue contingency	2,290,105	2,293,200
General contingency	48,524,351	44,112,858
Self-insurance	624,291	574,953
Total unrestricted net position before pension/OPEB adjustments	126,923,543	123,979,566
Pension/OPEB current year adjustments, KERS non-hazardous	(95,925,318)	(84,685,305)
Pension/OPEB current year adjustments, KERS hazardous	(1,364,618)	(1,219,935)
Pension/OPEB current year adjustments, TRS	(161,345,618)	(180,125,998)
OPEB prior year adjustments, KERS non-hazardous	(17,030,754)	-
OPEB prior year adjustments, KERS hazardous	224,399	-
OPEB prior year adjustments, TRS	(15,334,748)	-
Total unrestricted net position	$ (163,853,114)	$ (142,051,672)

14. Pension Plans and Other Postemployment Benefits (OPEB)

a) General Information about the Pension/OPEB 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 but before 1/1/2014. 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.

KERS-nh , members on and after 1/1/2014. 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 not available.

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.

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 but before 1/1/2014. 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.

KERS-h, members on and after 1/1/2014. Benefits are available with completion of 25 years of service or attainment of age 60 and 5 years of service. Reduced benefits are not available.

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 KRS, 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 KRS'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 KRS 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 TRS 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.

To be eligible for medical benefits, the member must have retired either for service or disability. The TRS medical plan offers coverage to members under the age of 65 through the Kentucky Employees Health Plan (KEHP) administered by the Kentucky Department of Employee Insurance. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.

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, 2018, was 49.47% 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 $5,640,951 and $5,464,262 for the years ended June 30, 2018 and 2017, 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, 2018, was 23.70% 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 $171,214 and $166,621 for the years ended June 30, 2018 and 2017, respectively.

The University's overall contributions, which include pension, medical, and life insurance contributions, to KERS for the years ended June 30, 2018 and 2017 were $6,985,604 and $6,782,307, 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, 2018, 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 $5,481,388 and $5,473,315 for the years ended June 30, 2018 and 2017, respectively.

The University's overall contributions, which include pension, medical, and life insurance contributions, to TRS for the fiscal years ended June 30, 2018 and 2017 were $6,101,239 and $6,435,422, 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 $231,097,640 and $312,777,307 for the years ended June 30, 2018 and 2017, 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, 2017 and June 30, 2016 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, 2017, the University's proportion was 0.40417645% for TRS, 0.858544% for KERS-nh, and 0.38949% for KERS-h, and at June 30, 2016 the University's proportion was 0.698165% for TRS, 0.836194% for KERS-nh, and 0.396922% for KERS-h.

For the years ended June 30, 2018 and 2017, the University recognized the pension (benefit) expense of ($3,008,564) and $22,513,537, respectively. At June 30, 2018 and 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2018		June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 752,202	$ 3,155,792	$ 139,116	$ 4,076,765
Change in assumptions	29,080,563	7,929,103	30,220,688	434,937
Net difference between projected and actual earnings on investments	1,588,363	1,894,762	10,336,161	461,600
Change in proportionate share	3,651,094	59,503,138	1,980,619	2,061,411
Contributions subsequent to the measurement date	11,293,553	—	11,104,198	—
Total	$ 46,365,775	$ 72,482,795	$ 53,780,782	$ 7,034,713

In the years ended June 30, 2018 and 2017 deferred outflows of resources of $11,293,553 and $11,104,198, 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, 2018 will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	$ 16,037,748	$ 24,868,233
2020	13,567,675	23,908,244
2021	3,548,496	22,782,227
2022	1,918,303	924,091
	$ 35,072,222	$ 72,482,795

Actuarial assumptions. The total pension liability in the June 30, 2017 and 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	June 30, 2017		June 30, 2016	
	KERS	**TRS**	**KERS**	**TRS**
Inflation	2.3%	3.0%	3.25%	3.5%
Salary increases	0.00%	3.5% to 7.3%, including inflation	4.00%, including inflation	4.0% to 8.2%, including inflation
Investment rate of return	5.25%	7.50%	7.50%	7.50%

As of June 30, 2017 and 2016, 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, 2017 and 2016, 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 BB to 2025 with a setback of 1 year for females.

The actuarial assumptions used in the June 30, 2017 and 2016 valuations were based on the results of actuarial experience study for the period July 1, 2008 – June 30, 2013 for KERS and July 1, 2010 – June 30, 2015 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, 2017**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	17.5%	5.75%
International Equity	17.5%	7.38%
Global Bonds	10.0%	2.63%
Global Credit	17.0%	3.63%
Real Estate	5.0%	6.63%
Absolute Return	10.0%	5.63%
Real Return	10.0%	5.13%
Private Equity	10.0%	8.25%
Cash Equivalent	3.0%	1.88%
Total	100%	

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%	

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, 2017	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	42%	4.40%
Non U.S. Equity	20%	5.30%
Fixed Income	16%	1.50%
Additional Categories	9%	3.60%
Real Estate	5%	4.40%
Private Equity	6%	6.70%
Cash	2%	0.80%
Total	100%	

TRS:	June 30, 2016	
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, 2017) and Prior Measurement Date (June 30, 2016) were 5.25% and 6.75%, respectively, for nonhazardous and 6.25% and 7.50%, respectively, 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 5.25% for the year ending June 30, 2017 and 7.50% for the year ending June 30, 2016. 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 4.49% and 4.20%, 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, 2017		
	1% Decrease	Discount Rate	1% Increase
University's proportionate share - KERS-nh	$ 131,243,928	$ 114,944,761	$ 101,392,774
	4.25%	5.25%	6.25%
University's proportionate share - KERS-h	2,462,793	1,936,158	1,499,167
	5.25%	6.25%	7.25%
University's proportionate share - TRS	141,583,047	114,216,721	91,761,714
	3.49%	4.49%	5.49%

	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%

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.

c) OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The University reported a liability of $37,821,285 year ended June 30, 2018, for its proportionate shares of the net OPEB liability in the plans. The net OPEB liability for TRS and KERS plans were measured as of June 30, 2017and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date for all plans. The University's proportions of the net OPEB liabilities were based on projections of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the University's proportion was 0.443448% for TRS-medical, 0.97024% for TRS-life, 0.858544% for KERS-nh, and 0.38949% for KERS-h.

For the year ended June 30, 2018, the University recognized OPEB expense of $1,887,895. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ —	$ 30,314
Change in assumptions	3,143,508	—
Net difference between projected and actual earnings on investments	45,000	528,923
Change in proportionate share	—	163,273
Contributions subsequent to the measurement date	1,793,291	—
Total	$ 4,981,799	$ 722,510

In the year ended June 30, 2018 deferred outflows of resources of $1,793,291 related to OPEBs 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. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2018 will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	$ 782,485	$ 180,285
2020	782,485	180,284
2021	782,484	180,284
2022	782,484	180,284
Thereafter	58,570	1,373
	$ 3,188,508	$ 722,510

Actuarial assumptions. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	June 30, 2017	
	KERS	TRS
Inflation	2.3%	3.0%
Salary increases	4.00%	3.5% to 7.2%, including inflation
Investment rate of return	6.25%	8.00%(Med) 7.50%(Life)

As of June 30, 2017, 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, 2017, 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 BB to 2025 with a setback of 1 year for females.

The actuarial assumptions used in the June 30, 2017 valuations were based on the results of actuarial experience study for the period July 1, 2008 – June 30, 2013 for KERS and July 1, 2010 – June 30, 2015 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, 2017**	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash Equivalent	2.0%	1.88%
Total	100%	

For TRS the long-term expected rate of return on OPEB 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-Med	**June 30, 2017**	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	60.0%	5.10%
Fixed Income	9.0%	1.20%
Real Estate	4.5%	4.00%
Private Equity	5.5%	6.60%
High Yield	10.0%	4.30%
Other Additional Categories	10.0%	3.30%
Cash (LIBOR)	1.0%	0.50%
Total	100%	

TRS-Life

	June 30, 2017	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	37.4%	4.30%
U.S. Small Cap Equity	2.6%	4.80%
Developed Int'l Equity	15.8%	5.20%
Emerging Markets Equity	4.2%	5.40%
Fixed Income	16.0%	1.20%
Real Estate	6.0%	4.00%
Private Equity	7.0%	6.60%
High Yield	2.0%	4.30%
Other Additional Categories	7.0%	3.30%
Cash (LIBOR)	2.0%	0.50%
Total	100%	

Discount rate. For KERS the discount rates used to measure the total OPEB liability as of the Measurement Date (June 30, 2017) was 5.83% for nonhazardous and 5.87% 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 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

For TRS the discount rates used to measure the total OPEB liability as of the Measurement Date was 8.00% for medical and 7.50% for life. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. 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.

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

	June 30, 2017		
	1% Decrease	Discount Rate	1% Increase
University's proportionate share - KERS-nh	$ 25,454,056	$ 21,772,351	$ 18,713,336
	4.83%	5.83%	6.83%
University's proportionate share - KERS-h	286,092	23,490	(191,664)
	4.87%	5.87%	6.87%
University's proportionate share - TRS-medical	18,413,527	15,812,389	13,647,673
	7.00%	8.00%	9.00%
University's proportionate share - TRS-life	354,119	213,055	97,558
	6.50%	7.50%	8.50%

OPEB plan fiduciary net position. Detailed information about the OPEB 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, 2018 and 2017, the Foundation made payments of $2,827,770 and $2,851,027, respectively, on behalf of the University from restricted sources. Accounts receivable at June 30, 2018 and 2017, from the Foundation were $249,045 and $265,114, respectively. Accounts payable to the Foundation as of June 30, 2018 and 2017 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:

	2018	2017
Money market mutual funds	$ 1,738,348	$ 1,869,345
Certificates of deposit	—	743,958
Equity securities	4,108,341	4,444,073
Cash value of life insurance policies	246,916	236,926
Mutual funds	75,015,930	69,488,357
Asset-backed bonds	401,871	482,081
Mortgage-backed bonds	1,871,468	1,866,166
Government bonds	27,751,618	25,531,291
Municipal bonds	461,928	408,055
Corporate bonds	7,253,286	6,154,925
Annuities	—	338,445
	$ 118,849,706	$ 111,563,622

Total investment return is comprised of the following:

	2018	2017
Interest and dividend income	$ 1,888,511	$ 1,810,745
Realized gains on investments reported at fair value	2,366,282	581,548
Unrealized losses on investments reported at fair value	3,148,312	8,616,216
	$ 7,403,105	$ 11,008,509

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:

	2018	2017
Murray State University	$ 26,250,195	$ 25,926,934
Murray State University Alumni Association	1,207,232	1,200,638
Others	44,304	39,725
	$ 27,501,731	$ 27,167,297

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, 2018 and 2017, $1,131,067 and $1,184,832, 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, 2018 and 2017, cash, cash equivalents, and investments relative to charitable gift annuities and other liabilities discussed in the Foundation's Note 11 total $8,076,000 and $10,273,416, 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 $4,247,120 and $4,407,480 as of June 30, 2018 and 2017, respectively, which was calculated using discount rates ranging from 1.8% to 8.0%, and applicable mortality tables.

d) *Net Assets*

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

	2018	**2017**
Scholarships	$ 16,779,774	$ 14,800,943
Instruction and institutional support	9,206,506	12,068,298
Chairs and professorships	738,482	682,014
	$ 26,724,762	$ 27,551,255

Permanently restricted net assets at June 30 are restricted to:

	2018	2017
Investment in perpetuity, the income of which is expendable to support:		
Scholarships	$ 36,751,888	$ 31,194,546
Instruction and institutional support	10,707,098	10,439,390
Chairs and professorships	2,566,888	2,565,385
Operations of the Golf Course	1,342,737	1,342,202
Operating activities of the Foundation	480,449	473,253
	$ 51,849,060	$ 46,014,776

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

	2018	2017
Scholarships	$ 1,650,824	$ 1,497,125
Instruction and institutional support	1,228,254	1,425,607
	$ 2,879,078	$ 2,922,732

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. Effective June 30, 2018, Murray State withdrew from the Kentucky Personnel Cabinet's Workers' Compensation Program and entered into a full insurance contract with BrickStreet Insurance Company on July 1, 2018. This change has provided a higher level of institutional support for the safety and loss control management service.

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 $2,166,099 and $7,362,457 as of June 30, 2018 and 2017, 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, 2018:

- Cash equivalents with a value of $134,934,524 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 $305,072 held by US Bank in money market accounts; fair value hierarchy level 1.

- Restricted quasi-endowment and endowment investments with a value of $26,250,195 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, 2018					
	Natural Classification					
Fund Classification	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	$ 49,022,214	$ 6,899,102	$ 4,158	$ 493,798	$ —	$ 56,419,272
Research	1,293,261	1,067,699	—	54,737	—	2,415,697
Public service	4,866,652	1,280,651	388,359	34,717	—	6,570,379
Libraries	1,859,779	1,672,064	60	82,096	—	3,613,999
Academic support	4,324,343	1,876,034	57,366	81,583	—	6,339,326
Student services	10,331,710	5,436,611	12,385	122,232	661,032	16,563,970
Institutional support	19,534,900	(956,656)	429,183	87,450	—	19,094,877
Operations and maintenance	10,207,518	10,058,930	6,233,870	15,351	—	26,515,669
Financial aid	—	—	—	—	12,735,820	12,735,820
Depreciation	—	9,330,382	—	—	—	9,330,382
Auxiliary	9,311,819	12,044,366	2,834,209	66,403	—	24,256,797
Auxiliary depreciation	—	2,757,883	—	—	—	2,757,883
Total expenses	$ 110,752,196	$ 51,467,066	$ 9,959,590	$ 1,038,367	$ 13,396,852	$ 186,614,071

Fund Classification	Year Ended June 30, 2017 — Natural 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

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

	2018	2017
Assets		
Current assets	$ 899,978	$ 826,078
Noncurrent assets	1,786,542	1,846,489
Capital assets, net of accumulated depreciation	6,975,221	7,243,937
Total assets	9,661,741	9,916,504
Deferred outflows of resources		
Bond refunding loss	285,268	304,554
Total deferred outflows of resources	285,268	304,554
Liabilities		
Current liabilities	29,347	32,146
Noncurrent liabilities	7,389,999	7,764,999
Total liabilities	7,419,346	7,797,145
Net position		
Invested in capital assets, net of related debt and accumulated depreciation	(129,510)	(216,509)
Restricted		
Expendable capital	995,348	1,060,290
Expendable debt service	762,996	754,046
Unrestricted	898,829	826,086
Total net position	$ 2,527,663	$ 2,423,913

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

	2018	2017
Operating revenues	$ 91,197	$ 100,865
Operating expenses	(495,515)	(536,891)
Depreciation expense	(268,715)	(268,715)
Operating loss	(673,033)	(704,741)
Nonoperating revenues	776,783	874,651
Change in net position	103,750	169,910
Net position, beginning of year	2,423,913	2,254,003
Net position, end of year	$ 2,527,663	$ 2,423,913

Wellness Center - Condensed Statements of Cash Flows

	2018	2017
Cash flows from		
Operating activities	$ (505,218)	$ (510,283)
Noncapital financing activities	495,584	490,115
Capital and related financing activities	15,166	113,069
Investing activities	7,262	3,747
Net increase in cash	12,794	96,648
Cash, beginning of year	2,673,467	2,576,819
Cash, end of year	$ 2,686,261	$ 2,673,467

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

As of this date, June 30, 2018, the damages to J.H. Richmond are expected to cost $12,361,075 to restore the building to the condition it was in prior to the event.

Other claims related to personal property damage and bodily injury are on file with the Kentucky Claims Commission. The maximum amount/total award for all claims filed with the Kentucky Claims Commission is $400,000 which is within the limits of general liability insurance in effect at the time of the event. The cause of the explosion remains under investigation.

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 and OPEB Liabilities

KERS-Non-Hazardous Pension Plan

	2017	2016	2015	2014
University's proportion of the net pension liability	0.858544%	0.836194%	0.854037%	0.882259%
University's proportionate share of the net pension liability	$ 114,944,760	$ 95,321,852	$ 85,676,061	$ 79,154,689
University's covered-employee payroll	$ 13,757,275	$ 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	835.52%	745.43%	649.64%	568.74%
Plan fiduciary net position as a percentage of the total pension liability	13.00%	14.80%	18.83%	22.32%

KERS-Hazardous Pension Plan

	2017	2016	2015	2014
University's proportion of the net pension liability	0.389490%	0.396922%	0.388584%	0.405301%
University's proportionate share of the net pension liability	$ 1,936,158	$ 1,554,497	$ 1,332,707	$ 1,035,001
University's covered-employee payroll	$ 695,282	$ 585,712	$ 492,259	$ 523,146
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	278.47%	265.40%	270.73%	197.84%
Plan fiduciary net position as a percentage of the total pension liability	55.00%	57.41%	61.70%	68.74%

See Report of Independent Auditors

Proportionate Share Of The Net Pension and OPEB Liabilities *(Continued)*

KERS-Non-Hazardous OPEB Plan

		2017
University's proportion of the net OPEB liability		0.858544%
University's proportionate share of the net OPEB liability	$	21,772,351
University's covered-employee payroll	$	13,677,439
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		159.18%
Plan fiduciary net position as a percentage of the total OPEB liability		24.40%

KERS-Hazardous OPEB Plan

		2017
University's proportion of the net OPEB liability		0.389490%
University's proportionate share of the net OPEB liability	$	23,490
University's covered-employee payroll	$	666,367
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		3.53%
Plan fiduciary net position as a percentage of the total OPEB liability		98.80%

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

TRS Pension Plan

	2017	2016	2015	2014
University's proportion of the net pension liability	0.404176%	0.698165%	0.722622%	0.710400%
University's proportionate share of the net pension liability	$ 114,216,721	$ 215,900,958	$ 176,518,973	$ 153,391,029
University's covered-employee payroll	$ 13,804,356	$ 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	827.40%	912.07%	707.02%	627.11%
Plan fiduciary net position as a percentage of the total pension liability	39.83%	35.22%	42.49%	45.59%

TRS OPEB - Medical

	2017
University's proportion of the net OPEB liability	0.443448%
University's proportionate share of the net OPEB liability	$ 15,812,389
University's covered-employee payroll	$ 15,145,665
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	104.40%
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%

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

TRS OPEB - Life

		2017
University's proportion of the net OPEB liability		0.970240%
University's proportionate share of the net OPEB liability	$	213,055
University's covered-employee payroll	$	33,137,887
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		0.64%
Plan fiduciary net position as a percentage of the total OPEB liability		79.99%

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

See Report of Independent Auditors

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Schedules of Required Supplementary Information

Years ended June 30, 2017, 2016, 2015, and 2014

Schedules of Murray State University Contributions

KERS-Non-Hazardous Pension Plan

	2017	2016	2015	2014
Contractually required contribution	$ 5,341,635	$ 4,290,378	$ 4,420,027	$ 3,912,372
Contributions in relation to the contractually required contribution	(5,341,635)	(4,290,378)	(4,420,027)	(3,912,372)
Contribution deficiency	$ -	$ -	$ -	$ -
University's covered-employee payroll	$ 13,757,275	$ 12,787,487	$ 13,188,333	$ 13,917,604
Contributions as a percentage of covered-employee payroll	38.83%	33.55%	33.51%	28.11%

KERS-Hazardous Pension Plan

	2017	2016	2015	2014
Contractually required contribution	$ 136,435	$ 94,306	$ 115,000	$ 183,317
Contributions in relation to the contractually required contribution	(136,435)	(94,306)	(115,000)	(183,317)
Contribution deficiency	$ -	$ -	$ -	$ -
University's covered-employee payroll	$ 695,282	$ 585,712	$ 492,259	$ 523,146
Contributions as a percentage of covered-employee payroll	19.62%	16.10%	23.36%	35.04%

See Report of Independent Auditors

Schedules of Murray State University Contributions *(Continued)*

KERS-Non-Hazardous OPEB Plan

	2017
Contractually required contribution	$ 1,108,416
Contributions in relation to the contractually required contribution	(1,108,416)
Contribution deficiency	$ -
University's covered-employee payroll	$ 13,677,439
Contributions as a percentage of covered-employee payroll	8.10%

KERS-Hazardous OPEB Plan

	2017
Contractually required contribution	$ 17,734
Contributions in relation to the contractually required contribution	(17,734)
Contribution deficiency	$ -
University's covered-employee payroll	$ 666,367
Contributions as a percentage of covered-employee payroll	2.66%

Schedules of Murray State University Contributions *(Continued)*

TRS Pension Plan

	2017	2016	2015	2014
Contractually required contribution	$ 5,326,832	$ 5,555,229	$ 5,684,344	$ 5,519,075
Contributions in relation to the contractually required contribution	(5,326,832)	(5,555,229)	(5,684,344)	(5,519,075)
Contribution deficiency	$ -	$ -	$ -	$ -
University's covered-employee payroll	$ 13,804,356	$ 23,671,557	$ 24,966,648	$ 24,460,052
Contributions as a percentage of covered-employee payroll	38.59%	23.47%	22.77%	22.56%

TRS-Medical OPEB Plan

	2017
Contractually required contribution	$ 759,751
Contributions in relation to the contractually required contribution	(759,751)
Contribution deficiency	$ -
University's covered-employee payroll	$ 15,145,665
Contributions as a percentage of covered-employee payroll	5.02%

Schedules of Murray State University Contributions ***(Continued)***

TRS-Life OPEB Plan

		2017
Contractually required contribution	$	9,362
Contributions in relation to the contractually required contribution		(9,362)
Contribution deficiency	$	-
University's covered-employee payroll	$	33,137,887
Contributions as a percentage of covered-employee payroll		0.03%

There were no changes to benefit terms for the plans year ended June 30, 2017. Changes in assumptions did occur for the KERS and TRS plans as the result of a change in the discount rates, which changed from 6.75% and 4.20%, respectively, in plan year 2016 to 5.25% and 4.49%, respectively, in plan year 2017.

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

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DEAN DORTON ALLEN FORD, PLLC

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 years ended June 30, 2018 and 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 1, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits 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.

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 1, 2018
Lexington, Kentucky